Forms of Business Entities Pakistan

There are four types of businesses each with its own legal structure and rules. These are as under:

Sole Proprietorships, Un-Registered Partnerships, Limited Liability Partnership (LLP) registered from SECP, and Limited Company or Limited Liability Company (PVT Ltd in Pakistan). Before starting business, entrepreneurs should carefully decide which type of business structure is best suited to their type of business.

Here is quick overview of these four basic types of businesses to help entrepreneurs make one of their most important decisions.

Business Types	**Sole Proprietor**	**Partnership**	**Limited Liability Company (Private Limited and Public Limited)**
How many members required to form	Only One	From 2 to maximum up to 20 partner	Pvt. Ltd: 1 to 50 Public Ltd: No limit
Procedure to form	Registration with Federal Board of Revenue (FBR)	Registration with Registrar of Firms	Registration with Securities & Exchange Commission of Pakistan (SECP)
Periodic compliance with authorities	Annual Tax Return	Annual Tax Return of all Partners and Firm	1:Periodic SECP filings 2:Periodic FBR Filings
Personal liability	Not limited	Not limited	Yes
Transfer of interest	No	Allowed, But Partners have to visit in Person.	Allowed
Duration	Until withdrawal or death of owner	At Will	Unlimited
Tax Implementation	Yes	Yes	Yes Corporate Tax Apply
Ability to raise capital	not as separate entity	Yes, from partners only	Yes

What is a Sole Proprietorship?

Sole proprietorship is a business run by an individual. There is no separate legal entity. The owner takes all of the profits and / or losses of the business. The business taxes are paid by the owner through his or her personal income tax return. The noticeable disadvantage of this business structure is that there is unlimited liability of the owner and in case of lawsuits and other debts, the owner is personally held liable.

What is a Partnership Firm?

Partnership is an association of two or more persons who have mutually decided to carry out **business** activities jointly and share its profits as well as losses.
The **partnership** agreement may be written or oral.

Persons who have entered into partnership with one another to carry on a business are individually called "**Partners**"; collectively called as a "**Partnership Firm**"; and the name under which their business is carried on is called the "**Firm Name"**. Salient features are as under.

Essential elements of partnership may be narrated as under:

1. **Contractual Relationship:** Contract is necessary for partnership. Partnership does not arise from status, operation of law or inheritance. Partnership agreement may be written or oral. It is better that the agreement is in written form to settle the disputes.
2. **Number of Partners:** At **least two people** are necessary to constitute a partnership. A partnership consisting of more than 10 persons for a banking business and more than 20 persons for any other business would be considered as illegal.
3. **Agent:** In partnership every partner act as an agent of another partner.
4. **Existence of Business:** Partnership is a business unit and a business is always for profit. It must not include club or charitable trusts, set up for welfare.
5. **Cooperation:** In partnership mutual cooperation and mutual confidence is an important factor. Partnership cannot take place with cooperation.
6. **Dissolution:** Partnership is a temporary form of business. It is dissolved if a partner leaves, dies or declared bankrupt.
7. **Legal Entity:** If partnership is not registered, it has no legal entity.
8. **Management:** In partnership all the partners can take part or participate in the activitie s of business management. Sometimes, only a few persons are allowed to manage the business affairs.
9. **Earning and sharing profit:** Only that business is considered as partnership, which is established to earn profit. Profits are shared according to already decided ratios.
10. **Share in Capital:** According to the agreement, every partner contributes his share ofcapital. Some partners provide only skills and ability to become a partner of business and earn profit.
11. **Restriction on the Transfer of Share:** In partnership no partner can transfer his shares or rights to another person, without the consent of all partners.

12. **Unlimited Liability:** In partnership the liability of each partner is unlimited. In case of loss, the private property of the partners is also used up to pay the business debts.

Private Limited Company Registration

A Private Limited Company offers limited liability and legal protection to its shareholders. A Private Limited Company in Pakistan lies somewhere between a partnership firm and a widely owned public company. It can be registered with a minimum of two people. A person can be both a director and shareholder in a Private Limited Company.

The liability of the members of a Private Limited Company (PLC) is limited to the number of shares held by them. A Private Limited Company in Pakistan can begin with operations after getting the Certificate of Incorporation. A PLC can be incorporated within 15 working days.

Advantages of Limited Liability Companies

The basic features and advantages to carry out the business through a company registered in Pakistan are as under:-

1. **Distinct Legal Entity**: A Company registered is separate from its shareholders/ directors. It has its own legal entity. It can borrow money and invests funds, own property, sue and be sued, enter into contracts etc.
2. **Limited Liability**: Company Incorporated gives the privilege of limited liability to its members up to a maximum of their investment in shares in that company. Debts of company are the debts of the company and not of the people running the company or owning shares in it. Personal property of the shareholders can not be attached for the recovery of debts.
3. **Transferability of Ownership of Shares**; A private limited company provides clear and convenient legal framework for the transferability of interest (shares). It means that the process of transfer of shares in a company registered in Pakistan is easy and transparent.
4. **Perpetual Succession** One of the major advantages of a Company registered in Pakistan is its Perpetual Succession. In contrast to partnership, the death of one or more or even of all the members does not affect its legal status and do not end the company.
5. **Funds Easy to Raise**: Preference by the financial sector in extending the financial assistance to documented and organized form of incorporated business.
6. **Accountability and Responsibility**: Every Private Limited Company prepare its proper books of accounts and get them audited.
7. **Establish Credibility**: Having an incorporated business would give any business more credibility among potential customers, vendors, partners and employees.
8. **Legal and Organizational Framework**: The company must function within the limits prescribed through its Memorandum and Article of association and regulates its existence through a set of bylaws mentioned in.