

## Summary

### Choosing the Right Legal Structure

In today's fast changing business world, it becomes imperative for you to have an understanding of the legal structures available for incorporating various businesses. At the same time, you also need to be updated on any change in the rules and regulations pertaining to your entity. Hence, a timely review is required.

#### Common Legal Mistakes

Usually, it happens that in the rush for growing your business, you end up ignoring some common legal issues that cost you heavy on time and money. Here are some common mistakes that can be avoided:

1. **Ambiguity in terms of agreement** – An element of ambiguity in the terms of agreement between multiple shareholders may lead to consequences like co-founders leaving the organisation, differences on the rights and responsibilities, etc.
2. **Infringement of IP rights** – In case of infringing upon someone else's IP rights, your business ends up facing immense damage to its goodwill, consequently leading to heavy monetary penalties and wastage of time in resolving the same.
3. **Non-disclosure of privacy policies** – If you have an online presence, it is necessary to put the terms and conditions along with relevant privacy policies up on your website. This is a must to build user confidence as well as to protect you from legal lawsuits by consumers in case of a dispute.
4. **Appointment of inept legal counsel** – Wrong selection of lawyer makes it difficult for firms to troubleshoot legal hurdles in their journey. This also leads to extra costs especially when the lawyer is unable to deal with legal lawsuits.
5. **Formation of wrong entity** – Selection of a wrong legal structure leads to trouble for entrepreneurs, either in the form of higher tax liability for the firm, recourse on personal liability of the owner in case of non-fulfilment of the company's debt, etc.

Entrepreneurs should try and address these problems from day one itself in order to prevent these mistakes from becoming big, complex and costly enough to avoid later.

## Types of Legal Structure

Under the Indian legal system, there are essentially four types of legal components that are available. Each has its own set of outcomes:

- **Sole Proprietorship** - A business run by one individual with no distinction being drawn between the individual and the business. You are in business easily and have minimal filings and compliance requirements. Talking about its pitfalls, the individual is personally responsible for all the businesses' liabilities. It is also non-scalable given that it appears less professional when compared to other forms of entities.
- **General Partnership** - Relevant when there is more than one founder. While the time required for being operational is relatively less, similar to a sole proprietorship, you run the risk of unlimited liability here. A Partnership Deed is signed by the partners to create a General Partnership.
- **Private Limited Company** - Efficient and widely used, this type offers greater accountability because of mandatory registration and books to be maintained. Through a company, you can also seek investments against shares. Employees can avail stock options, and there is no unlimited liability to worry about.
- **Limited Liability Company** – A hybrid entity created out of both a company and a partnership, this entity has a restricted liability clause to support the founders of the company. It is also administratively easier to manage as compared to a company.

## Entity Registration Process

Knowing about the structure is essential, but the story doesn't end there. Once you decide on the structure which you want to go with, there is a whole chain of processes to be followed in order to create the entity. Here are a few steps with regards to each type of entity:

### Sole Proprietorship

- No Formal registration required
- Decide on the name of the entity
- Open a bank account

### General Partnership

- Create a partnership deed
- Include capital contribution and profit sharing ratio
- Include the duties & power of partners
- Incorporate the nature and place of business
- Register the deed, if required

### Private Limited Company

- Obtain Director Identification Number (DIN) Obtain Digital Signature Certificate (DSC)
- File name with the Registrar of Companies (RoC) Draft Memorandum of Association (MOA)
- Draft Article of Association (AOA) Submit all the documents to RoC

### Limited Liability Partnership

- Obtain Director Identification Number (DIN)
- Obtain Digital Signature Certificate (DSC)

## How to Choose a Base Location

The journey of any entrepreneur is full of challenges. So it's important to steer clear of some of them by identifying some key issues upfront. Namely, where should you set up shop? The following factors should be considered when taking that decision:

- **Client Location:** Try to establish your office, where your clients are located. However, if you're setting up an online business, then client location doesn't really matter.
- **Skilled Employee Base:** As you need to hire and retain a great pool of employees who would execute the work for you, it would be helpful if your location allows you easy access to them.
- **Need of Overseas Setup:** Setting up overseas offers you comparatively greater ease of doing business and access to global capital. This may be beneficial depending on the scale of operations and nature of business.

## How to Select a Legal Expert

Selecting a legal expert is indeed a daunting task for every entrepreneur. You would typically have a bunch of questions for your lawyer before deciding on the One. It could be questions regarding their knowledge level about your industry, the level of their experience, the complexity of legal issues handled by them before, etc. As a reference point, you may start off by taking referrals from friends and peers.

## You should be able to:

- Select a legal structure on the basis of its features for your business
- Understand the registration process of these entities
- Choose a base location for your business venture
- Hire an appropriate lawyer for your firm