

# 6

## CHAPTER

# Different Forms of Business Organisations & its Registration

### Chapter Coverage

S. No.	Topic
6.1	Introduction
6.2	Sole Proprietorship
6.3	Partnership
6.4	Hindu Undivided Family (HUF)
6.5	Multi State Co-Operative Society (MSCS)

### Regulatory Framework Coverage

The Partnership Act, 1932.

Multi State Cooperative Societies Act, 2002 and Rules made thereunder.

### 6.1 Introduction

All businesses must adopt some legal configuration that defines the rights and liabilities of participants in the business's ownership, control, personal liability, life span, and financial structure. This decision will have long-term implications, so he has to select the form of ownership that is right for him.

In making a choice, he will want to take into account the following:

- ◆ His vision regarding the size and nature of the business.
- ◆ The level of control he wishes to have.
- ◆ The level of "structure" he is willing to deal with.
- ◆ The business's vulnerability to litigation.
- ◆ Tax implications of the different organizational structures.
- ◆ Expected profit (or loss) of the business.
- ◆ Whether or not he will need to re-invest earnings into the business.
- ◆ His need for access to cash out of the business for himself.

### 6.2 Sole Proprietorship

<b>Meaning of Sole Proprietorship</b>	<ul style="list-style-type: none"> <li>◆ Sole proprietorship is a form of business that is owned, managed and controlled by an individual.</li> <li>◆ Sole proprietorships own all the assets of the business.</li> <li>◆ In the eyes of the law and the public, the sole proprietor and the business are one and the same.</li> <li>◆ He has day-to-day responsibility for running the business.</li> <li>◆ He has to arrange capital for the business and he alone is responsible for its management.</li> </ul>
<b>Merits of Sole Proprietorship</b>	<ul style="list-style-type: none"> <li>◆ <b>Easy formation:</b> A sole proprietorship business is easy to form where no legal formality involved in setting up this type of organization. It is not governed by any specific law.</li> </ul>

	<ul style="list-style-type: none"> <li>◆ <b>Better Control:</b> In sole proprietary organisation, all the decisions relating to business operations are taken by one person, which makes functioning of business simple and easy.</li> <li>◆ <b>Sole beneficiary of profits:</b> The sole proprietor is the only person to whom the profits belong. There is a direct relation between effort and reward.</li> <li>◆ <b>Benefits of small-scale operations:</b> The sole proprietorship is generally organized for small-scale business.</li> <li>◆ <b>Inexpensive Management:</b> The sole proprietor does not appoint any specialists for various functions. He personally supervises various activities and can avoid wastage in the business.</li> </ul>
<b>Limitations of Sole Proprietorship</b>	<ul style="list-style-type: none"> <li>◆ <b>Limitation of management skills:</b> A sole proprietor may not be able to manage the business efficiently as he is not likely to have necessary skills regarding all aspects of the business.</li> <li>◆ <b>Limitation of Resources:</b> The sole proprietor of a business is generally at a disadvantage in raising sufficient capital. His own capital may be limited and his personal assets may also be insufficient for raising loans against their security resulting in reduction of scope of business growth.</li> <li>◆ <b>Unlimited liability:</b> The sole proprietor is personally liable for all business obligations. For payment of business debts, his personal property can also be used if the business assets are insufficient.</li> <li>◆ <b>Lack of continuity:</b> A sole proprietary organisation suffers from lack of continuity. If the proprietor is ill, this may cause temporary closure of business. If he dies the business may be permanently closed.</li> </ul>
<b>Procedure for Formation Sole Proprietorship Firm</b>	<ul style="list-style-type: none"> <li>◆ Sole Proprietor is formed, managed and controlled by one individual. No deed or agreement is required to constitute a Sole Proprietorship. However, in actual practice and keeping in mind the nature of business activity, registration may be required under the following enactments as prevailing in the respective States or of the Central Government, such as- <ul style="list-style-type: none"> <li>■ Shops and Commercial Establishments Act (State specific).</li> <li>■ Law relating to Professional Tax (State specific).</li> <li>■ Registration under Micro, Small and Medium Enterprises Development Act, 2006.</li> <li>■ Registration as a Small Scale Industry (State specific).</li> <li>■ GST Registration (with the launch of GST, only GSTIN will be used for Import-Export Code Number)</li> <li>■ Intellectual Property laws.</li> </ul> </li> </ul>

#### Questions For Practice

**Ques 1: Discuss procedure for formation of Sole Proprietorship Firm?**

*Hint: Refer Topic Procedure for Formation Sole Proprietorship Firm.*

**Ques 2: Discuss merits of Sole Proprietorship Firm?**

*Hint: Refer Topic merits of Sole Proprietorship Firm.*

**Ques 3: Discuss limitations of Sole Proprietorship Firm?**

*Hint: Refer topic limitations of Sole Proprietorship Firm.*

6.3 Partnership	
<b>Definition</b>	As per Section 4 of Indian Partnership Act, 1932 "Partnership" is the relation between persons who have agreed to share the profits of a business carried on by all or any of them acting for all. Persons who have entered into partnership with one another are called individually, "partners" and collectively "a firm", and the name under which their business is carried on is called the "firm-name".
<b>Features of Partnership</b>	<ul style="list-style-type: none"> <li>◆ <b>Existence of an agreement:</b> Partnership is formed on the basis of an agreement between two or more persons to carry on business. It does not arise out of the operation of law as in the case of joint Hindu family business. The terms and conditions of partnership are laid down in a document known as Partnership Deed.</li> <li>◆ <b>Engagement in business:</b> A partnership can be formed only on the basis of a business activity. Its business may include any trade, industry or profession.</li> <li>◆ <b>Sharing of profits and losses:</b> In a partnership firm, partners are entitled to share in the profits and are also to bear the losses, if any.</li> <li>◆ <b>Agency relationship:</b> The partnership business may be carried on by all or any of the partners acting for all. Each partner is a principal and so can act in his own right. At the same time, he can act on behalf of other partners as their agent. Every partner can bind the firm by his acts.</li> <li>◆ <b>Unlimited Liability:</b> The liability of partners is unlimited as in the case of sole proprietorship. In case some obligation arises then not only the partnership assets but also the private property of the partners can be taken for the payment of liabilities of the firm.</li> <li>◆ <b>Common Management:</b> Every partner has a right to take part in the running of the business. It is not necessary for all partners to participate in the day-to-day activities of the business but they are entitled to participate.</li> <li>◆ <b>Restriction on transferability of share:</b> No partner can transfer his share in partnership to any other person. If he wants to do so, he needs the consent of all other partners.</li> <li>◆ <b>Registration:</b> To form a partnership firm, it is not compulsory to register it. However, if the partners so decide, it may be registered with the Registrar of Firms.</li> <li>◆ <b>Duration:</b> The partnership firm continues at the pleasure of the partners. Legally a partnership comes to an end if any partner dies, retires or becomes insolvent. However, if the remaining partners agree to work together under the original firm's name, the firm will not be dissolved and will continue its business after settling the claim of the outgoing partner.</li> </ul>
<b>Types of Partnership</b>	<ul style="list-style-type: none"> <li>◆ <b>Partnership at-will:</b> Such a partnership exists on the will of the partners. That is, it can be brought to an end whenever any partner gives notice of his intention to do so.</li> <li>◆ <b>Particular partnership:</b> A particular partnership is formed for undertaking a particular venture. It comes to an end automatically with completion of the venture.</li> <li>◆ <b>Partnership for a fixed duration:</b> Such partnership is for a fixed period of times or any other duration like for 5 years or any other duration.</li> </ul>
<b>Few Important Concepts Under Partnership Act</b>	<ul style="list-style-type: none"> <li>◆ <b>As per Section 7 of Indian Partnership Act, 1932</b> where no provision is made by contract between the partners for the duration of their partnership, or for the determination of their partnership, the partnership is partnership at will.</li> <li>◆ <b>As per Section 8 of Indian Partnership Act, 1932</b> Particular partnership means a person may become a partner with another person in particular adventures or undertakings.</li> </ul>

	<p>◆ <b>Section 28 : Holding out:</b></p> <ol style="list-style-type: none"> <li>1. Anyone who by words spoken or written or by conduct represents himself or knowingly permits himself to be represented, to be a partner in a firm, is liable as a partner in that firm to anyone who has on the faith of any such representation given credit to the firm, whether the person representing himself or represented to be a partner does or does not know that the representation has reached the person so giving credit.</li> <li>2. Where after a partners death the business is continued in the old firm name, the continued use of that name or of the deceased partners name as a part thereof shall not of itself make his legal representative or his estate liable for any act of the firm done after his death.</li> </ol> <p>◆ <b>Section 39: Dissolution of a firm:</b> The dissolution of partnership between all the partners of a firm is called the dissolution of the firm.</p> <p>◆ <b>Insolvency and Bankruptcy of Partnership Firm:</b> The Insolvency and Bankruptcy of partnership firms where the amount of default is not less than one thousand rupees shall be governed by Insolvency and Bankruptcy Code, 2016.</p> <p>◆ <b>Minor admitted into the benefits of partnership:</b> A minor is a person who has not attained the age of 18 years. Since a minor is not capable of entering into a valid agreement, he cannot become partner of a firm. He may, however, be admitted to the benefits of an existing partnership.</p>
<b>Types of Partners</b>	<p>◆ <b>Active Partners:</b> Partners who take active part in the conduct of day-to-day business of the firm are called active partners. These partners carry on business on behalf of the other partners.</p> <p>◆ <b>Sleeping or dormant partners:</b> Sleeping or dormant partners are those who do not take active part in the management of the business. Such partners only contribute capital in the firm and are bound by the activities of other partners. However they share in the profits and losses of the business.</p> <p>◆ <b>Nominal Partners:</b> Nominal partners are those who do not have interest in the business but lend their name to the firm. They do not make any capital contribution and are not entitled to take part in management but are liable like other partners to third parties.</p> <p>◆ <b>Partners by holding out:</b> If a person by his words or conduct holds out to another that he is a partner. He will be prevented from denying that he is not a partner. The person becomes liable to third parties to pay the debts of the firm is known as a partner by holding out.</p>
<b>Merits of Partnership</b>	<p>◆ <b>Ease in Formation:</b> A partnership is very easy to form. All that is required is an agreement among the partners.</p> <p>◆ <b>Pooling of financial resources:</b> A partnership commands more financial resources compared to sole proprietorship. This helps in expanding business and earning more profits.</p> <p>◆ <b>Pooling of managerial stalls:</b> A partnership facilitates pooling of managerial skills of all its partners. This leads to greater efficiency in business operations.</p> <p>◆ <b>Balanced business decisions:</b> In a partnership firm, decisions are taken unanimously after considering all the major aspects of a problem. This ensures not only balanced business decisions but also removes difficulties in the smooth implementation of those decisions.</p> <p>◆ <b>Shared risks:</b> The risks of partnership business are shared by partners on a pre-determined basis. This encourages partners to undertake risky profitable business activities.</p>

<b>Limitations of Partnership</b>	<ul style="list-style-type: none"> <li>◆ <b>Uncertainty of existence:</b> The existence of a partnership firm is very uncertain. For instance, retirement, death, bankruptcy or lunacy of any partner can put an end to the partnership.</li> <li>◆ <b>Risks of implied authority:</b> The liability may arise not only from his own acts but also from the acts and mistakes of co-partners over whom he has no control.</li> <li>◆ <b>Risks of disharmony:</b> In partnership, since decisions are taken unanimously it is essential that all partners reconcile their views for the common good of the organisation.</li> <li>◆ <b>Difficulty in withdrawal from the firm:</b> Investment in a partnership can be easily made but cannot be easily withdrawn. The withdrawal of a partner's share requires the consent of all other partners.</li> <li>◆ <b>Lack of institutional confidence:</b> A partnership business does not enjoy much confidence of banks and financial institutions.</li> <li>◆ <b>Difficulties of expansion:</b> It is difficult for a partnership firm to undertake modernization of expansion of its operations.</li> </ul>
<b>Key Ingredients of Partnership Deed</b>	<ul style="list-style-type: none"> <li>◆ <b>Definitions and vital information:</b> The partnership deed normally carries the name of the business, the address of its principal place of business and a short summary of the nature of business the partners intend to operate.</li> <li>◆ <b>Investment:</b> The deed gives important financial details of the partnership, such as the amount of capital to be invested by each partner, the Profit /Loss sharing of each partner, the salaries to be paid to each partner and the method of distributing the business income.</li> <li>◆ <b>Accounting:</b> The partnership deed provides for the accepted method of accounting for the cash flow, profit and loss, and assets and liabilities of the business; it also defines the fiscal year to be used in accounting statements and how these statements will be distributed among the partners and other shareholders.</li> <li>◆ <b>Duties, powers and obligations of the partners:</b> The duties, powers and obligations of each partner may also be spelt out in the Partnership Deed. The Deed may also provide designate a partner as the Managing Partner who will be responsible for day to day management and conduct of the business.</li> <li>◆ <b>Withdrawals:</b> The document must also provide for actions to be taken in case of the voluntary withdrawal or death of a partner. In such a case, accounts will have to be drawn up to ascertain the assets, liabilities and the entitlement of each partner (including the outgoing partner).</li> <li>◆ <b>Expulsion:</b> If a partner is proving to be a hindrance or detriment to the business or loses legal rights in a bankruptcy or other court action, the other partners must have a method of modifying the partnership rights of or expelling him.</li> <li>◆ <b>Dissolution:</b> The partnership deed should also describe the methods by which the partnership and business will be dissolved and method of accounts settlement among the partners at the termination of the business.</li> <li>◆ <b>Arbitration:</b> A partnership deed must provide for the means of arbitration of disputes. The main goal of the deed is to avoid expensive litigation over details that have not been fully worked out in the signed agreement.</li> </ul>
<b>Partnership Firm</b>	<p><b>Partnership firms in India are governed by the Indian Partnership Act, 1932. While it is not compulsory to register your partnership firm as there are no penalties for non-registration, it is advisable since the following rights are denied to an unregistered firm:</b></p> <ul style="list-style-type: none"> <li>◆ A partner cannot file a suit in any court against the firm or other partners for the enforcement of any right arising from a contract or right conferred by the Partnership Act.</li> </ul>

	<ul style="list-style-type: none"> <li>◆ A right arising from a contract cannot be enforced in any Court by or on behalf of your firm against any third party. Further, the firm or any of its partners cannot claim a set off (<i>i.e.</i> mutual adjustment of debts owned by the disputant parties to one another) or other proceedings in a dispute with a third party.</li> </ul>
<b>Registration under Income Tax</b>	<p>It should be noted that registration with the Registrar of Firms is different from registration with the Income Taxation Department. It is mandatory for all firms to apply for registration with the Income Tax Department and have a PAN Card. After obtaining a PAN Card, the partnership firm is required to open a Current Account in the name of the partnership firm and to operate all its operations through this bank account.</p>

### QUESTIONS

**Ques 1:** Partnership can be formed according to the nature of agreement amongst partners. Explain.

*Hint: Refer Topic 6.3 Partnership.*

**Ques 2:** Paramvir & Associates, a firm of practicing professional consists of Ashok, Paramvir and Vir having one third share each in the firm. According to Ashok and Paramvir, the activities of Vir are not in the interest of the firm and thus want to expel Vir from the firm. Advice Ashok and Paramvir whether they can do so quoting the relevant provisions of the Indian Partnership Act, 1932.

*Hint: Refer Topic 6.3 Partnership.*

### Questions For Practice

**Ques 1:** Discuss Key Ingredients of Partnership Deed?

*Hint: Refer Topic Key Ingredients of Partnership Deed.*

**Ques 2:** Discuss Types of Partnership?

*Hint: Refer Topic Types of Partnership.*

**Ques 3:** Discuss Types of Partners?

*Hint: Refer Topic Types of Partners.*

**Ques 4:** Discuss Merits of Partnership?

*Hint: Refer Topic Merits of Partnership.*

**Ques 5:** Discuss Limitations of Partnership?

*Hint: Refer Topic Limitations of Partnership.*

### 6.4 Hindu Undivided Family (HUF)

<b>Meaning of Joint Hindu Family Business (HUF)</b>	<ul style="list-style-type: none"> <li>◆ The business of Joint Hindu Family is controlled under the Hindu Law instead of Partnership Act.</li> <li>◆ The membership in this form of business organisation can be acquired only by birth or by marriage to a male person who is already a member of Joint Hindu Family.</li> <li>◆ There are two schools of Hindu Law—one is Dayabhaga which is prevalent in Bengal and Assam and the other is Mitakshara prevalent in the rest of the country.</li> <li>◆ “Karta” in HUF: <ul style="list-style-type: none"> <li>■ The business of the Joint Hindu Family is controlled and managed by one person who is called ‘Karta’ or ‘Manager’.</li> <li>■ The Karta or manager works in consultation with other members of the family but ultimately he has a final say.</li> <li>■ The liability of Karta is unlimited while the liability of other members is limited to their shares in the business.</li> </ul> </li> </ul>
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<b>Characteristics of a Joint Hindu Family Business</b>	<ul style="list-style-type: none"> <li>◆ <b>Governed by Hindu Law:</b> The business of the Joint Hindu Family is controlled and managed under the Hindu law.</li> <li>◆ <b>Management:</b> All the affairs of a Joint Hindu Family are controlled and managed by one person who is known as 'Karta' or 'Manager'. The Karta is the senior most male member of the family. Only Karta is entitled to deal with outsiders but other members can deal with outsiders only with the permission of Karta.</li> <li>◆ <b>Membership by Birth:</b> The membership can be acquired only by birth of male child. Membership requires no consent /agreement.</li> <li>◆ <b>Liability:</b> The Karta is not only liable to the extent of his share in the business but his separate property is equally attachable and amount of debt can be recovered from his separate property. The liability of all other members is limited to their shares in the business.</li> <li>◆ <b>Permanent Existence:</b> The death, lunacy or insolvency of any member of the family does not affect the existence of the business of Joint Hindu Family.</li> <li>◆ <b>Implied Authority of Karta:</b> In a joint family firm, only Karta has the implied authority to contract debts and pledge the credit and property of the firm for the ordinary purpose of the businesses of the firm.</li> <li>◆ <b>Minor also a Partner:</b> In a partnership, minor cannot become co-partner though he may be admitted to the benefit of partnership. In a Joint Hindu Family firm minor is a partner.</li> <li>◆ <b>Dissolution:</b> Joint Hindu Family Business can be dissolved only at the will of all the members of the family. Any single member has no right to get the business dissolved.</li> </ul>
<b>Benefits of HUF</b>	<ul style="list-style-type: none"> <li>◆ <b>Easy to Start:</b> It is very easy to start the Joint Hindu Family Business. No legal formalities are required to be faced such as registration.</li> <li>◆ <b>Efficient Management:</b> The management of Joint Hindu Family Business is centralised in the hands of Karta of family. Karta takes all decisions and gets them implemented with the help of other member.</li> <li>◆ <b>Secrecy:</b> All decisions are taken by the 'Karta' himself. He is in a position to keep all the affairs to himself and maintains perfect secrecy in all matters.</li> <li>◆ <b>Prompt Decision:</b> The Karta is the only person who exercises control and direction over the business. He may not consult anyone in taking decisions. This ensures prompt or quick decisions.</li> <li>◆ <b>Economy:</b> The Karta of family spends money with great caution and economy and well- balance and maintain the business.</li> <li>◆ <b>Credit Facilities:</b> The credit facilities are more. One reason for this is that liability of the 'Karta' is unlimited. Karta is having personal relations with others which are also helpful in raising credit.</li> <li>◆ <b>Natural Love between Members:</b> It is the natural love and affection which the members are having for each other. It helps to run the business more efficiently and smoothly.</li> <li>◆ <b>Freedom regarding Selection of Business:</b> The Karta is at freedom to select any business of his choice. He has not to depend on others.</li> </ul>
<b>Formation of HUF</b>	<p>◆ <b>Step 1: Create a HUF Deed:</b> Preparation of deed on stamp paper declaring the formation of the HUF.</p> <p><b><i>Key issues to be noted in preparation of a HUF Deed are :</i></b></p> <ul style="list-style-type: none"> <li>■ <b>A HUF deed is a written formal document on a stamp paper specifying the name of Karta and Coparceners of HUF.</b></li> <li>■ <b>The eldest male member of HUF becomes Karta of HUF.</b></li> </ul>

	<ul style="list-style-type: none"> <li>■ <b>The name of members of HUF and the name of the HUF is also required to be stated in the HUF Deed at the time of creating of HUF.</b></li> <li>■ <b>The name of HUF is usually the name of the Karta followed by the word HUF e.g. Ram Kumar HUF.</b></li> <li>■ <b>HUF Deed also states the capital with which the HUF has been initiated. There are various sources through which capital can be introduced.</b></li> <li>■ <b>Declaration is also provided by each member of family where they declare the name of Karta and state that Karta has the authority of the accounts vested in his hand and holds the right to govern all transactions of the HUF accounts on behalf of the members.</b></li> <li>■ <b>It is recommended that the Deed should be notarised.</b></li> </ul> <ul style="list-style-type: none"> <li>◆ <b>Step 2: Register the Deed.</b></li> <li>◆ <b>Step 3: Obtain PAN:</b> Once the declaration deed is made, karta should apply for a permanent account number (PAN) for the HUF. This is mandatory because all financial transactions must carry PAN.</li> <li>◆ <b>Step 4: Open bank account:</b> Once PAN is allotted, open a bank account in the name of the HUF. It is also advisable to get some stationery printed for official communication. The HUF is now functional. Karta will have to invest in tax saving instruments and file tax returns on behalf of the HUF.</li> </ul>
<b>Tax Advantages of forming an HUF</b>	<p>While there are tax advantages of forming an HUF, the following matters merit consideration:</p> <ul style="list-style-type: none"> <li>◆ One person cannot form HUF. An HUF is formed by a family.</li> <li>◆ An HUF is automatically created at the time of marriage.</li> <li>◆ HUF consists of a common ancestor and all of his lineal descendants, including their wives and unmarried daughters after 1-9-2005, daughter married or unmarried, is a coparcener like a son.</li> <li>◆ Hindus, Buddhists, Jains and Sikhs can form HUFs.</li> <li>◆ HUF usually has assets which come as a gift, a will, or ancestral property, or property acquired from the sale of joint family property or property contributed to the common pool by members of HUF.</li> <li>◆ Once an HUF is formed it must be formally registered in its name. An HUF should have a legal deed. The deed shall contain details of HUF members and the business of the HUF. A PAN number and a bank account should be opened in the name of the HUF.</li> <li>◆ Use a capital asset to establish the corpus of the HUF. This can be ancestral property, assets gifted by relatives and friends, or received by the HUF through a will. If you give a personal asset to the HUF, the income will be clubbed with your own. Gifts of over 50,000 a year received by HUF will be taxable. The best way is for the HUF to receive assets as part of a will.</li> </ul>
<b>Key Points in creation of HUF and format of Deed for creation of HUF</b>	<ul style="list-style-type: none"> <li>◆ Under the Income-tax Act, an HUF is a separate entity for the purpose of income tax return.</li> <li>◆ The same tax slabs are applicable to HUF as to individual assessee.</li> <li>◆ One cannot transfer your own assets/money into HUF.</li> <li>◆ If one have ancestral property and earning some income from this property, then it is better to transfer this asset to HUF and save tax up to exemption limit applicable to individual.</li> </ul>

	<ul style="list-style-type: none"> <li>◆ One can transfer the money received on sale of ancestral property /assets into your HUF.</li> <li>◆ The income from property of HUF can be further invested in instruments such as shares, mutual funds, etc, and will be assessed under HUF.</li> <li>◆ Existence of property or multiple members is not a pre-requisite to create HUF. A family which does not own any property may still have the character of Hindu joint family. This jointness is understood in terms of faith and food. This is because a Hindu is born as a member of the joint family.</li> <li>◆ Any gifts received by the members of HUF (birthday, marriage, etc.) can be treated as assets of HUF.</li> <li>◆ The HUF is taxable as separate person under income tax hence one can save tax from basic exemption of Rs. 2.5 lakh. HUF will also gain from the tax slab structure of computing income tax.</li> <li>◆ Apart from basic exemption of Rs. 2.50 lakh, section 80C deduction up to Rs. 1.50 lakh is also available.</li> </ul>
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#### Questions For Practice

**Ques 1: Discuss formation of HUF?**

*Hint: Refer Topic Formation of HUF.*

**Ques 2: Discuss Key Points in creation of HUF and format of Deed for creation of HUF?**

*Hint: Refer Topic Key Points in creation of HUF and format of Deed for creation of HUF.*

**Ques 3: Discuss characteristics of a Joint Hindu Family Business?**

*Hint: Refer Topic characteristics of a Joint Hindu Family Business.*

**Ques 4: Discuss benefits of HUF ?**

*Hint: Refer Topic Benefits of HUF .*

#### 6.5 Multi State Co-Operative Society (MSCS)

<b>Meaning</b>	<ul style="list-style-type: none"> <li>◆ The Multi-State Cooperative Societies (MSCS) Act, enacted in 1984, was modified in 2002, in keeping with the spirit of the Model Cooperatives Act. Unlike the State Laws, which remained as a parallel legislation to co-exist with the earlier laws, the MSCS Act, 2002 replaced the earlier Act of 1984.</li> <li>◆ The Act provides for formation of both primary (with both individual and institutional members) and federal cooperatives (with only institutional membership).</li> </ul>
<b>Examples of Multi State Co-operative Societies</b>	<ul style="list-style-type: none"> <li>◆ Multi State Solar Cooperative Society.</li> <li>◆ Farming Cooperative Society.</li> <li>◆ Credit Cooperative Society.</li> <li>◆ Agriculture Cooperative Society.</li> <li>◆ Real Estate Cooperative Society.</li> <li>◆ Dairy Firm Cooperative Society.</li> <li>◆ Transport Cooperative Society and many more.</li> </ul>
<b>Benefits Of Multi State Co-Operative Society</b>	<ul style="list-style-type: none"> <li>◆ MSCS provides loans at reasonable rates of interest to the poor. This benefits them as they do not have to go to financiers who lend at high interest rates.</li> <li>◆ MSCS can function Pan India as they can start branches in different districts and states.</li> <li>◆ MSCS have low compliance costs.</li> <li>◆ Multi State Co-operative Credit Society belongs to its members who are at the same time the owners and the customers of their Society. This creates a sense of belonging and ownership among the members.</li> </ul>

<b>Formation of MSCS</b>	<ul style="list-style-type: none"> <li>◆ An application in Form -1 should be filed with the Central Registrar of Cooperative Societies, New Delhi along with the following enclosures:           <ul style="list-style-type: none"> <li>■ A certificate from the bank stating credit balance there in favour of the proposed multi-state co-operative society.</li> <li>■ A scheme explaining how the proposed multi state co-operative society has reasonable prospects of becoming a viable unit.</li> <li>■ Four copies of bye-laws in original.</li> <li>■ Proposed area of operation for registration shall initially be permitted for two contagious states only.</li> <li>■ List of at least 50 members from each state. The list has to be submitted in the format annexed with the Multi State Cooperative Societies Act, 2002 along with the copies of ID proofs of the members duly attested by Chief promoter.</li> <li>■ Certified copies of the resolutions passed by the proposed society along with the certified copy of the resolution of the promoters which shall specify the name and address of one of the applicant(s) to whom the Central Registrar may address correspondence under the rules before registration and dispatch or hand over registration documents.</li> <li>■ Contact number and e-mail address of the Chief Promoter or Society on cover page.</li> </ul> </li> <li>◆ For societies having objects related to thrift and credit and for multi-purpose societies, following additional documents are required to be submitted along with documents mentioned above:           <ul style="list-style-type: none"> <li>■ No Objection Certificate from the Registrar of Cooperative Societies of the States/U.T. where the area of operation of the society is proposed to be confined.</li> <li>■ A certificate to the effect that the credentials of the Chief Promoter/Promoters have been verified by the Registrar of Co-operative Societies of the state where the head office is proposed to be located.</li> <li>■ All documents to be submitted in original with the signatures of the Chief Promoter/Promoters on each page.</li> </ul> </li> </ul>
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**Note:** The mentioned application shall be signed by:-

- ◆ In the case of a multi-state Cooperative society of which all the members are individuals, by at least fifty persons from each of the states concerned.
- ◆ In case the members are Cooperative Societies, by duly authorised representatives on behalf of at least five such societies as are not registered in the same state.
- ◆ In case the members are other Multi-State Cooperative Societies and other Cooperative Societies, by duly authorised representatives of each of such societies; However not less than two of the co-operative societies referred to in this clause, shall be such as are not registered in the same State.

If the members are cooperative societies or multi-state Cooperative societies and individuals, by at least fifty persons being individuals from each of the two states or more and one Cooperative society each from two states or more or one Multi-state Cooperative society.

#### QUESTIONS

**Ques 1:** Prathik has studied about mass farming and is keen in uniting farmers in various states by forming a Multi State Co-operative Society. Brief Prathik on the documentary requirements for formation of Multi State Co-operative Society and the Authority with whom the application needs to be filed.

**Hint:** Refer Topic Formation of MSCS In Topic 6.5 MULTI STATE CO-OPERATIVE SOCIETY (MSCS).