



Deregistering LLP firms

What is the issue?

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- In its drive against generation of black money and money laundering, government has now turned its focus on Limited Liability Partnership (LLPs) firms.
- LLPs could be used for tax evasion and money laundering.
- The government is thus in the process of identifying and deregistering inactive LLP firms.

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What is an LLP?

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- A limited liability partnership (LLP) is a partnership in which some or all partners (depending on the jurisdiction) have limited liabilities.
- In an LLP, each partner is not responsible or liable for another partner's misconduct or negligence.
- This is an important difference from the traditional unlimited partnership in which each partner has joint and several liability.

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What are the recent developments?

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- The trend of converting existing companies into LLPs and creation of new LLPs spiked after the Companies Act, 2013, came into effect.
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- Also, according to the Ministry of Corporate Affairs data in recent months there is a rise in **new LLPs getting registered**.
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Why are LLPs preferred?

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- LLPs are preferred mainly to avoid the higher compliance requirements with a traditional firm.
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- On a yearly basis, an LLP is only required to file an annual return, and a statement of account and solvency.
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- All other filings are event-based such as change in LLP partners, retirement, resignation, change of address, etc.
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- All these makes it easier at operational level.
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- Moreover, recent de-monetisation of high-value currency notes has also given a fillip to LLPs.
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- Also, obtaining government approval is not a requirement to convert certain companies into LLPs.
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- In recent years, the government and the Reserve Bank of India have also liberalised norms for allowing FDIs in LLPs, while allowing the appointment of foreign partners.
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- A recent RBI amendment has allowed LLPs to avail of external commercial borrowing (ECB), including masala bonds.
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What are the deregistering provisions?

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- As per Section 75 of **Limited Liability Partnership Act, 2008**, the Registrar of Companies (**RoC**) can suo moto take action if an LLP does not

carry out any business for a period of two years or more.

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- The RoC can also **deregister** the LLP if it is not satisfied with the reasons given by the firm for its inactivity.

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- An **LLP can also apply** for deregistration if it has not carried out business for a period of one year or more.

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- In case of an active LLP, winding-up can be initiated voluntarily or by a tribunal only.

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Source: Business Standard

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