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## LLP in changing Business scenario

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*In the changing tide of businesses, the need for a streamlined partnership model arose that utilized all the benefits of the partnership act while doing away with the stringent guidelines of the same. In the current generation where there is an increase in entrepreneurial thoughts and younger generation starting own business, a traditional model of the company may not be suitable. Also, learning to incorporate a lifestyle with the pandemic there has been a surge in small-scale businesses and online businesses as well, but the formation of these businesses is different. In such a business, partners want to reap only what they saw, and they start with less capital investment. To meet all these demands, Limited Liability Partnership provides a better alternative than registering under the traditional companies act. Although there are a few loopholes and flaws of LLP, it has to be noted that these problems become a challenge only in certain scenarios. The structure of limited liability partnership is fairly new in India, but laws like this bring about inclusive growth in the economy and also help in the global competition by increasing the business sector and also helping the younger population to create employment and engage in unique ways of business. This study attempts to show how LLP accommodates the developing dynamics of a business. By analyzing the entrepreneurial and small-scale business trend this study also suggests the edge of choosing to register under an LLP model over the traditional company model.*

**Keywords:** *partnerships, startups, organizations, business.*

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## INTRODUCTION

Limited Liability Partnership<sup>1</sup> was enacted in the year 2008 and came into force in the year 2009. Before dwelling on the concept of a Limited Liability Partnership, it is of vital importance to analyze and understand the history of LLP. Learning the history of the subject matter will help in analyzing the important question of what was the need to bring about a hybrid business form like LLP. In India, businesses often operate as a company, sole proprietorships, or partnerships. But there was a lacuna in determining what businesses model suits best for small and medium enterprises, professional firms, or chartered accountants. Hence in the committee of Naresh Chandra, a report was released on “Regulation of Private Companies and Partnership”<sup>2</sup> and the Dr. J. J. Irani Committee report on ‘Company law.’<sup>3</sup> These reports helped in the emergence of the concept of a Limited Liability partnership. It is said to be an amalgamation of the good and beneficial segments of the partnership act and the companies act.

The need for the LLP act is as follows, due to the stringent rules of the partnership activities such as a limit on the maximum number of partners, 20, and most importantly having a joint liability, and the liability being an unlimited one, that is the personal property of the partners can also be used to satisfy and clear out the debts of the business, in addition to the capital contributed by the capacitors in the firm. This is one of the most significant reasons why there is very restricted growth in the partnership model of business. However, when it comes to the mode of LLP it does not have any of the restrictions carried out in the partnership. LLP has turned out to be a preponderate form of the corporation with its versatile legal structure and shield of limited liability to protect partners and blooming as an alternate hybrid corporate vehicle<sup>4</sup>. Furthermore, LLPs are also better than a joint-stock company. The basic difference

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<sup>1</sup>Limited Liability Partnership Act, 2008’ (*Ministry of Corporate Affairs*)

<<https://www.mca.gov.in/content/mca/global/en/acts-rules/llp-act-2008.html>> accessed 22 December 2021

<sup>2</sup>Regulation of Private Companies and Partnership- report by the committee’ (*Ministry of Corporate Affairs*)

<<https://www.mca.gov.in/content/mca/global/en/acts-rules/ebooks.html>> accessed 22 December 2021

<sup>3</sup>Ibid

<sup>4</sup> Kushi Rajanahalli, ‘ Limited Liability Partnership as a better alternative to Incorporation’ (*International Journal of Law Management & Humanities*, 2020) <<https://www.ijlmh.com/wp-content/uploads/Limited-Liability-Partnership-as-a-better-alternative-to-Incorporation.pdf>> accessed 22 December 2021

between the two is that of the internal governance structure. A company is governed by the statutory regulations of the Companies Act, 2013. Whereas an LLP it would mainly be a contractual agreement by partners, thereby leaving a lot of space for flexibility like a liability.

As the name suggests, the LLP mode of business ensures that all the partners are liable only to the extent of their contribution, and unlike partnership to pay off the company's debt an individual partner's assets cannot be touched upon. LLPs also enjoy more flexibility, absence of management- ownership divide, which is profound in the companies, and LLP also enjoys lesser compliance as compared to any of the other business models. Also, unlike a traditional partnership, LLP is centrally registered with a unique identity across the country. This benefits a business entity in many ways including the manner of credit and operations. This feature also helps in competitiveness in the market for small-scale enterprises and helps them establish thoroughly because of the unique identity provided. Furthermore, any entity under an LLP is registered through the ministry of corporate affairs, which increases the credibility of that business which further helps in determining its growth in the market. Due to its registration with the ministry of corporate affairs, the LLPs data are also publicly accessible to some extent. This is helpful to rely on the business entity for financial agencies or other external agencies like vendors.

As there is advancement in the businesses, the conditions of the market also change accordingly. So, there must exist a business model which accommodates these changes to ensure that there is continuous growth in the business economy. LLP form of the model ensures such growth. Owing to the pandemic and for a considerable amount of pre-pandemic as well, there has been a drastic change in the businesses which has established and a change can also be seen in transformation in the existing business as well. The rise in start-ups and entrepreneurship, a new generation of e-commerce business, an increased number of small and medium-sized businesses. LLP was enacted just to accommodate the scenarios which are mentioned above. The benefits of LLP ranging from limited liability or escaping tax liability to not having to undergo a general audit and expanding the business for different sectors increase the global competitiveness profoundly.

## SCOPE AND OBJECTIVES OF THE STUDY

The scope of the study is to examine the extent of necessities and the impact of LLPs in different business scenarios. Whereas the objective of this paper is twofold, firstly, it aims to shed light on the benefits of LLP, and secondly, it analyses the evolution and integration of LLP in the changing business situations.

## SIGNIFICANCE OF THE STUDY

This paper aims to put forward the thought that in the evolving trends of the market, forming an LLP entity would create an accountable environment for the business to function. Furthermore, the paper attempt to highlight the aspects of LLP which have played a pivotal role in shaping the trends of the market.

## LITERATURE REVIEW

Gopalakrishnan, R. (2004)<sup>5</sup>. SSI's: why not ask for a limited liability partnership? this literature examines and stresses the need to bring out legitimate reforms in the types of Limited Liability Partnership to help small scale business undertakings. The reviewed literature conveys that at the moment certain expert field which includes, chartered accountants and advocates, have established dominance in creating an LLP to tackle competition between their counterparts only, hence there is a need to regulate LLPs to suit the business scenarios of various fields like entrepreneurship.

Fletcher, Denise, Jane Frecknall-Hughes, and Dr. Stephen Williams (2013)<sup>6</sup>: Since many other countries had the structure of LLP even before India did, it is vital to analyze their market situation due to LLP. This part of the study examined the structural breakdown and distribution of LLPs in the United Kingdom. Furthermore, adding to the number of available benefits, this study, also explains the growth in the number of LLPs registered and also

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<sup>5</sup> *Ibid*

<sup>6</sup> Prof. Dennis Fletcher, Prof Jane Frecknall & Dr. Stephen Williams, 'Understanding Limited Liability Partnerships in the Small and Medium-sized Business Sector' (ICAEW) <<https://www.icaew.com/-/media/corporate/files/technical/research-and-academics/understanding-limited-liability-partnerships-in-the-small-and-medium-sized-business-sector.ashx?la=en>> accessed 22 December 2021

analyses the factors which help in determining the decision to adopt or not adopt the activity of business through an LLP.

(Bharat, 2013<sup>7</sup>): This literature has critically evaluated and assessed the Indian market and lays down how LLPs will benefit the Indian business situation. It put forwards that LLP act as a hybrid corporate business vehicle which is a blessing to the whole sector, and also stated that LLPs guarantee a flourishing and favorable future for the Indian business framework. Limited Liability Partnership, 2008, Indian law Journal<sup>8</sup>: This article focuses on obtaining conceptual clarity for the topic of limited liability partnership. Additionally, it also puts forward that The LLP will act as an engine of growth for the economic development of the country and would lead to the growth of professional services in the country. With the liberalization and globalization of the Indian economy, the LLP, as an alternate mode of carrying business, will encourage joint ventures and would make Indian service sectors globally competitive.

## RESEARCH METHODOLOGY

The current research is exploratory and analytical in approach. As the basis of research, primary and secondary data have been utilized. The primary data has been gathered by ministering a meticulous questionnaire and the secondary data has been garnered from different books, e-journals, and websites. The persisting literature has been referred to structure the questionnaire.

## RESEARCH QUESTIONS

1. What are the Benefits of LLPs in the Generation of Rising in Start-ups and Entrepreneurship?
2. What is the Need of LLPs in Global Competitiveness and Exclusive Growth?
3. How does LLP help in Improving the Ease of Doing Business in the Era of Competitiveness?

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<sup>7</sup> Arora & Bharat, 'Law Relating to Limited Liability Partnership and Its Impact on Business Environment' [2013] (*Inflibnet.ac.in*, 31 December 2013) <<https://shodhganga.inflibnet.ac.in/handle/10603/87542>> accessed 22 December 2021

<sup>8</sup> Limited Liability Partnership Act, 2008

#### 4. How are LLPs Changing the Business Structure Preference in the Market?

It is an irrefutable fact that there is a shift in the trends of the business, due to which there is a rise in the number of start-ups and small-scale business which has been set up. As mentioned earlier a suitable business model for such kind of business is the LLP form, hence this part of the research analyses the benefits of LLP in start-ups and entrepreneurship and how to help in the growth of the economy.

#### **BENEFITS OF LLPS IN ENTREPRENEURSHIP AND INCLUSIVE GROWTH OF THE ECONOMY**

When it comes to initiating a start-up, they usually do not have sufficient capital to get their business up and running. They have a very tight financial structure hence they probe into every possibility to keep unnecessary expenses out of the question<sup>9</sup>. Additionally, registering as an LLP for start-ups seems to be more profitable, unlike other business structures, as far as the magnitude of compliances is concerned. This section of the study focuses on analyzing the rise of start-ups, and the benefits of registering as an LLP for a start-up. The following benefits have been discussed:

- I. **Raise in start-ups Analytics**
- II. **Low capital needs**
- III. **Lesser Compliance**
- IV. **Tax Advantage**
- V. **Ease in Loans**
- VI. **No Requirement for Compulsory Audit**

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<sup>9</sup> Dr. P. Govindan, 'A study on growth of LLPs in India: an innovative vehicle for entrepreneurial drive' (*Research Gate*, 2019)  
<[https://www.researchgate.net/publication/333338380\\_A\\_Study\\_on\\_Growth\\_of\\_Limited\\_Liability\\_Partnerships\\_LLPs\\_in\\_India\\_-\\_An\\_Innovative\\_Vehicle\\_for\\_Entrepreneurial\\_Development](https://www.researchgate.net/publication/333338380_A_Study_on_Growth_of_Limited_Liability_Partnerships_LLPs_in_India_-_An_Innovative_Vehicle_for_Entrepreneurial_Development)> accessed 22 December 2021

## VII. **Attracts only Fewer Penalties**

A limited liability partnership (LLP) is a form of business organization that combines the advantages of a limited liability company with the flexibility of a partnership firm. Changes in partners do not affect the existence of this corporate body. It enables the partners to distinguish themselves from third-party firms and also own property in their names.<sup>10</sup> Although there are certain disadvantages of LLP like when most of the start-ups are self-funded with a restricted workforce which makes it difficult for the entity to maintain both the financial and operational records. As per Rule 24 of LLP rules<sup>11</sup>, an organization registered under it must maintain the records of finance and operations. And as opposed to a traditional company, when there is a need of raising capital, LLPs cannot raise funding and capital from the public. But most of these barriers are situational based only, meaning not all the LLPs face these issues. When registered under an LLP the pros outweigh the cons as there is lower risk and much more security as well. Hence, the issues mentioned above are more based on a case-to-case scenario rather than the general situations of the LLPs.

### 1) **Raise in Start-ups and LLPs Analytics**

Since the time the LLP act has been enacted, it gave rise to a lot of start-ups. Additionally, the change in the millennial generation's thinking also affected the increase of start-ups. More importantly, the entire workforce scenario drastically shifted due to the pandemic as well. And it has to be noted that most of the start-ups were started to avail the benefits under the LLP or converted into an LLP in the later stage of the business. The growth in the number of start-ups registered under an LLP is 6 times more than it was in the previous decade, since 2012<sup>12</sup>.

In the year 2016, a total of 26,977 were incorporated units and until February 2017, there were over 85,000 registered LLPs in India. Furthermore, the number of LLPs grew around 81

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<sup>10</sup> Devendra Jarwal, 'Limited Liability Partnerships: A business model to achieve entrepreneurial efficiency' (SSRN, 13 January 2021) <[https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=3726492](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3726492)> accessed 22 December 2021

<sup>11</sup> Limited Liability Partnership Act, 2008 (n 1)

<sup>12</sup> 'Number of Startups Recognized by DPIIT Goes up to Fifty Thousand' (Pib.gov.in, 03 January 2020) <<https://pib.gov.in/PressReleasePage.aspx?PRID=1724043>> accessed 23 December 2021

percent between the years 2014 and 2015<sup>13</sup>. Most economists say that the increase in the number of LLPs can be attributed to many reasons and one of the most important reasons can be the general rise in entrepreneurial trends. Small firms and professionals benefit from the LLP structure since it provides more flexibility while also lowering compliance expenses and tax responsibilities. Also, since the inception of the LLP Act, in the year 2014, 2,039 firms and companies converted into LLPs, which accounted for 9 percent of the total LLPs incorporate during that particular period<sup>14</sup>. Additionally, there also has been a significant improvement in the registration go fresh LLP entities. From 2014 through 2016 incorporation of new LLPs dominated with an overall contribution of 90 percent.<sup>15</sup> This has been the general trend of the rise in start-ups and LLPs since the enactment of the LLP act. This growth factor is most certainly due to the large-scale benefits LLP provides. The needs of the start-up in the market go hand in hand with the benefits available for an entity under a Limited Liability Partnership.

## 2) Low Capital Needs

As mentioned earlier, start-ups have a very tight budget to follow and are mostly self or family-funded. Hence, they always need to be on the lookout for cutting down expenses. That is where LLP comes into play, registering under LLP will require very little capital. And to carry out the business as well, there aren't as many formalities which have to be fulfilled, unlike the traditional companies. The first and foremost benefit is that it provides limited liability to its partners. Though personal Liability arises in case of wrongful acts or omissions, a partner is not personally liable for such acts or omissions of the other partner.

Additionally, LLP Business Structure also has the advantage of Internal Flexibility. LLP's internal structure, like those of a traditional partnership, can be organized according to mutual consent. In the scenario of LLP, there are no requirements for board meetings, resolutions, or

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<sup>13</sup>Total LLPs Registered' (*Mca.gov.in*2013) <<https://www.mca.gov.in/content/mca/global/en/data-and-reports/company-statistics/indian-foreign-companies-llps/llp.html>> accessed 23 December 2021

<sup>14</sup> *Ibid*

<sup>15</sup>James Manyika, Susan Lund, Jacques Bughin, Jonathan Woetzel, Kalin Stamenov, & Dhruv Dhingra, 'Digital Globalization: The New Era of Global Flows' (*McKinsey Digital*, 24 February 2016) <<https://www.mckinsey.com/business-functions/mckinsey-digital/our-insights/digital-globalization-the-new-era-of-global-flows>> accessed 23 December 2021

annual meetings. In the case of LLPs, there is also less paperwork, even though the establishment of a partnership agreement is not required, since the act provides for default provisions and clauses that can be mentioned in its schedule I. Furthermore, when compared to a firm, the has fewer filing requirements. Because an LLP is a separate legal entity, the entry or leave of partners has no bearing on its existence. Regardless of the change in partnership, the LLP's standing remains unchanged. To top up, the above section discusses the carrying out of the business under an LLP and how it is cost-efficient, the next section discusses how establishing an LLP itself cost less as compared to the traditional companies and partnership.

Registering under an LLP can give the business an edge over the other organizations in the market, as it is very cost-efficient. A person can register a traditional company for 18,000-20,000 rupees. However, after registration cost there arises yet another expenditure of complying with the procedural norms of the MCA, complying with this procedure alone can cause additional expense to the entity which can come up to 45,000 per year<sup>16</sup> furthermore, the company also has to undergo frequent audit tests, these rules and procedures require a lot of capital. As mentioned, there is already a stringent budget in place for a start-up organization, hence exceeding the budget only for registration is not said to be cost-efficient.

Whereas registering as an LLP can be much cheaper and efficient, it takes about 12,000-14,000 to register under LLP along with the cost to meet the MCA standard. Further, an additional expense like audit tests need not take place, unless the turnover of annual sales and paid-in capital exceeds the minimum threshold. From the above, you can see that you can set up and maintain an LLP at the cost of starting a privately owned business for the first year.

## **BENEFITS OF LLP IN THE CHANGING BUSINESS SCENARIO & THE NOTION OF HOW PEOPLE PERCEIVE LLP IN THE CURRENT BUSINESS TRENDS.**

### **1) Lesser Compliance**

Every business needs regulation from the government, although the principle of 'laissez-faire' has been judiciously followed, it does not mean that there should not exist any compliance.

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<sup>16</sup> Limited Liability Partnership Act, 2008, s 12

However, the extent of the requirement should be meticulously formulated. More compliance leads to more requirement of capital and requirement of more capital leads to more expenditure. This can be avoided to a certain magnitude when an entity registers under an LLP. Also, in the case of traditional companies and partnerships as per the regulations in the respective statutes, they have to submit at least 8-10 regulatory<sup>17</sup> statements and formality documents, but whereas an LLP faceless compliance burden as they only have to submit 2 regulatory statements that are, the annual return and statements of accounts and solvency. Hence there is lesser compliance and formalities, this feature also helps in ease of doing business and also promotes many companies to register or convert into an LLP.

## 2) Tax Advantages of LLP

As per section 40(b) of the LLP Act<sup>18</sup>, no dividend distribution tax has to be paid, which means that LLP is not liable to pay the tax on the income and share of its partners. This also helps in escaping the double taxation system where tax is levied on the income of partners as well as on the turnover of the entity itself. Also, the provision of 'deemed dividend' under income tax law does not apply to LLP. Subsequently, there are two modes of taxation in LLP, the French model and the other being UK and Singapore LLP model. In the French model, the LLP is treated as a fiscally transparent entity and merely the income of the partners is taxed and not the transparent entity Whereas, in the United Kingdom and Singapore LLP models, the practice is to be accorded similar treatment to an LLP as a partnership.<sup>19</sup>

India has opted to practice the LLP model in the United Kingdom and Singapore to equate LLP with a partnership in terms of tax treatment. Section 2 (23) (i) of the Income Tax Act<sup>20</sup> of 1961 suggests that LLPs should be treated as separate taxable entities. All partnership tax rules apply to the LLP with any necessary changes. Income tax is collected on the benefits of the

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<sup>17</sup> Companies Act, 2013

<sup>18</sup> Limited Liability Partnership Act, 2008 – PDF' (Mca.gov.in, 2013)

<<https://www.mca.gov.in/content/mca/global/en/acts-rules/llp-act-2008.html>> accessed 23 December 2021

<sup>19</sup> Rajanahalli K, 'Limited Liability Partnership as a Better Alternative to Incorporation' 3 International Journal of Law Management & Humanities <<https://www.ijlmh.com/wp-content/uploads/Limited-Liability-Partnership-as-a-better-alternative-to-Incorporation.pdf>> accessed 23 December 2021

<sup>20</sup> Income Tax Act, 1961

LLP, and those benefits are imposed on the hands of the LLP itself. Accomplices are excluded while computing the all-out pay of available investors under Article 10 of the Income Tax Act 1961. Other assessment impetuses accessible on the LLP incorporate some corporate duty exceptions, including assessed charge, profit appropriation expense, and elective least assessment. Likewise, the 2009-2010 spending plan has wiped out extra charges on organizations. Regardless of whether the LLP is non-occupant under the Information Technology Act 2000 (its administration is altogether outside India), it will be dependent upon the appropriate levies notwithstanding 30%.

### **3) Ease in Loans**

Another incentive to launch an LLP for small businesses and start-ups is to make it easier to create securities and thus get a loan. This is because when an LLP is incorporated, it is treated as a legal entity and is considered a legal entity separate from its partner. Banks or other financial institutions can enforce collateral while lending, as LLPs, can be sued as independent legal entities.

### **4) No requirements for compulsory audit**

Unlike limited liability companies that require audits regardless of equity capital, LLPs do not have such mandatory requirements. Only LLPs with sales of Rs. 400,000 or more, or contributions of Rs. 250,000 or more, must undergo an annual audit by the auditor. This is a major compliance benefit not only for SMEs but also for start-ups.

### **5) Attracts only fewer penalties**

Many private companies do not meet MCA standards. This can result in fines of up to 100,000 rupees per year. With the LLP, the cost is low and the chances of non-compliance are very low. This will allow the organization to get out of the penalty zone. Therefore, to start a business that is unlikely to raise money or pay ESPO to your employees, LLP may be the best bet<sup>21</sup>. This

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<sup>21</sup> 'Miscellaneous' (Mca.gov.in, 2013) <<https://www.mca.gov.in/content/mca/global/en/data-and-reports/reports/other-reports/miscellaneous.html>> accessed 23 December 2021

keeps initial costs as low as possible and allows you to focus on core competencies rather than on the ever-changing regulations of a limited liability company.

## HOW LLPS ARE ACCEPTED AND PERCEIVED

The benefits of the LLP in the changing business trend have been discussed above, so it is not time to analyze how the LLPs have been perceived by businessmen in the economy, based on a survey conducted<sup>22</sup> the following can be assessed.

**Prompt:** Is LLP a better form of a business structure compared to traditional partnerships and companies?

**Analysis:** LLP is a great alternative to traditional partnerships and businesses. Observations show that 89% of respondents agree that LLP is a better alternative to entrepreneurship, followed by 11% of those who do not know which type of business is better. 0% of respondents, that is, all respondents believe that LLP is not a better alternative to traditional partnerships and businesses.

## CHANGE IN BUSINESS TRENDS

Owing to these benefits, there has also been a trend in the entire business sector itself, the changes in the business preference are as follows: The service sector makes up the majority of LLP. In the current fiscal year, 43% of LLPs are business services, followed by transactions (12.6%).<sup>23</sup> The manufacturing market share is 9.3%. <sup>24</sup>Real estate, leasing, and construction account for 9.3% and 7.8%, respectively. Previously, LLPs were better suited to the service sector because of their lower capital requirements, as Indian law gives companies more opportunities to raise capital than LLPs. The change will allow LLPs to raise their FDI without

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<sup>22</sup>Prachi Suri, 'Limited Liability; Research Paper' (*Academia.edu*, 28 November 2016) <[https://www.academia.edu/30148241/Limited\\_Liability\\_Research\\_Paper](https://www.academia.edu/30148241/Limited_Liability_Research_Paper)> accessed 23 December 2021

<sup>23</sup>'Management report' (*Siemens Gamesa*) <<https://www.siemensgamesa.com/en-int/-/media/siemensgamesa/downloads/en/investors-and-shareholders/corporate-governance/general-shareholders-meetings/2021/2020-informe-de-gestion-consolidado-eng.pdf?la=en-bz&hash=ADBEF5159C84F98528C39986FC5AC4A168D44E52>> accessed 23 December 2021

<sup>24</sup>Chirashree Das Gupts, 'Globalisation, Corporate Legal Liability and Big Business Houses in India' (2010) 34 *Cambridge Journal of Economics* 895 <<https://www.jstor.org/stable/24231948>> accessed 23 December 2021

government approval (a sector where up to 100% foreign investment is allowed), and external commercial borrowing (ECB) will make it easier for LLPs to raise capital in the future.

## **CONCLUSION**

LLP is a perfect business structure for start-ups as far as the level of compliances and risks are concerned. It puts start-ups in a commendable position by averting tedious legal requirements and letting them stay isolated from ever-changing compliances. Furthermore, it saves the partners from the risk of losing personal assets under fiscal crisis. All in all, LLP seems to be a suitable business structure for start-ups that are low in capital and are incapable to address compliances. Choosing a business structure like LLP for start-ups is certainly a wise decision since it lures low set-up costs and fosters improved transparency. As mentioned earlier, the business sector continuously evolves, there is a lot of need to make some wiggle room to the changing trends in business, be it business becoming more technological and moving to e-commerce or the raise of small-scale business sectors, LLP offers a wide array of benefits and acts as the preferred business model for the same.