

PROPRIETORSHIP

When a business is owned and governed by one person, it is called a sole proprietorship business. Sole proprietorship is the most common type of business in India and it is used by most micro and small businesses operating in the unorganised sectors. For a Sole Proprietorship business, registration is not required as it is identified through alternate registrations, such as GST registrations. Proprietorships are simple to start and have minimal regulatory compliance requirements for operating. This entity is ideal for entrepreneurs who are getting into business for the first time and for small businesses with few clients.

❖ **Why Proprietorship?**

Let's peep into benefits associated with proprietorship business.

▪ **Ease of Setup**

A Sole Proprietorship is simple to begin. One needs to simply have a GST Registration in place. This business can be set up in 15 days with the help of a PAN card.

▪ **Minimum Compliance –**

Sole Proprietorships have minimum compliance requirements as they are identified with the proprietor himself by government and tax registrations. Therefore, their compliances are confined to monthly GST returns and yearly filing of income tax return.

▪ **Economical**

In comparison to LLPs, companies etc, proprietorship has minimum statutory compliance thereby saving cost and effort.

▪ **Easy to wind up**

Unlike corporate entities, where dissolution is a lengthy and costly process, proprietorship can be dissolved at the will of the proprietor.

❖ **Word of Caution**

Let's see the other side of the coin.

▪ **Unlimited Liability**

Liability of the proprietor is unlimited as such the proprietor is personally liable for the debts of the business. Unlike proprietorship, corporate entities offer protection to investors from personal liability.

▪ **Non-Transferability**

Since the proprietorship form of business does not have separate legal existence, all the licenses and registrations are taken in the name of the proprietor. As such, these cannot be transferred to any other person or entity.

- **Existence**

The existence of the sole proprietorship is tied to the proprietor hence it would cease to exist with the proprietor.

- **Limited Potential for Fund Raising and Growth**

A proprietorship cannot raise equity funds from angel investors, venture capital firms or Private Equity (PE) funds. Banks also tend to have restrictions on the amount of credit they can lend.

Taking into account above factors, proprietorship form of business are only suitable for small businesses and the unorganised sector with a limited period of existence.

- ❖ **Key Registrations**

Unlike others forms of business, there is no regulating statute for proprietorship business. Accordingly, there is no registering authority to incorporate the business. However, the following registrations are common place for a proprietorship business to operate:

- **PAN Registration**

PAN Card has become indispensable these days for any commercial purpose from opening a bank account to property transactions. Besides, PAN is the base document for other registrations like GST, TDS etc. Since the proprietorship business does not have legal existence, PAN will be taken in the name of the proprietor.

- **Trade License**

A certificate/license issued by Municipal authorities under the Shop & Establishment Act to operate business under the municipal jurisdiction

- **GST registration**

GST registration must be obtained from the respective states from which the proprietor is selling goods or services if the value of such sales crosses the GST turnover threshold limit for registration. In most states, GST registration is required for service providers having annual turnover of more than Rs.20 lakhs and in case of traders - annual turnover of more than Rs.40 lakhs.

- **MSME registration**

MSME or Udyog Aadhaar registration can be obtained in the name of the business to establish that the sole proprietorship is registered with the Ministry of Micro, Small and Medium Enterprises.

- **Import Export Code**

In case the proprietor intends to engage in import and export of goods and services, IE code is required to be obtained from Director General of Foreign Trade.

- **FSSAI registration**

In case the proprietor is engaged in business of food products, FSSAI registration must be obtained from the Food Safety and Standard Authority of India in the name of the proprietor.

- ❖ **Documents Required**

To start a Sole Proprietorship, the following documents are required

- ✓ Address and identity proof
- ✓ PAN card, KYC documents and
- ✓ Rental agreement or sales deed (in case of Shops & Establishment Act Registration)

- ❖ **Expected Delivery Time - 15 Days**