How to Structure Your Startup for Fundraising:

LLP vs Pvt. Co.

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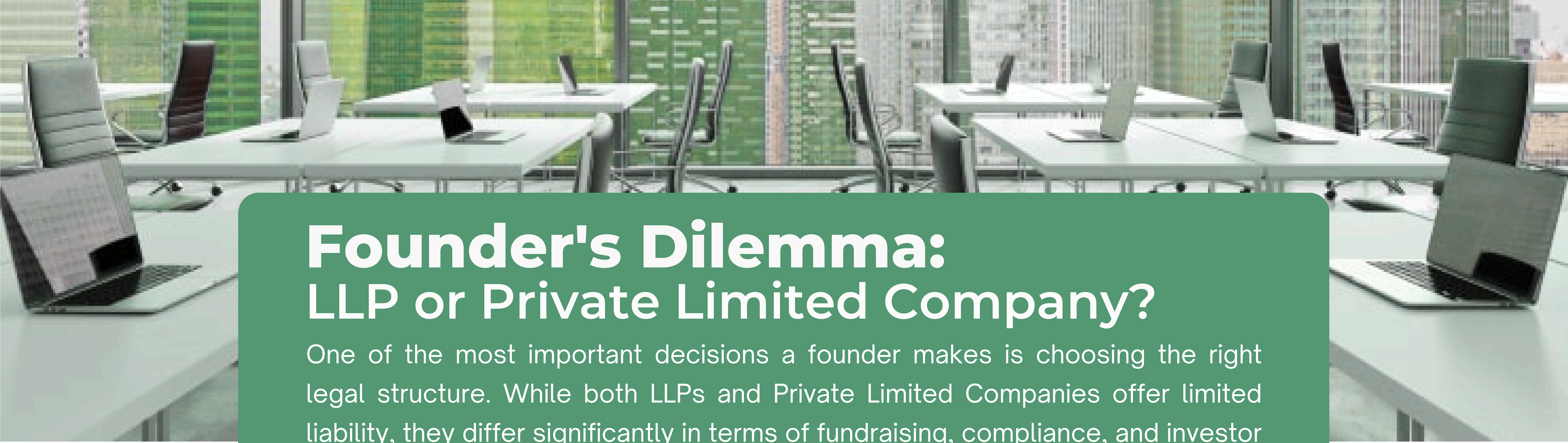

Founder's Dilemma:
LLP or Private Limited Company?

One of the most important decisions a founder makes is choosing the right legal structure. While both LLPs and Private Limited Companies offer limited liability, they differ significantly in terms of fundraising, compliance, and investor appeal. Learn the pros and cons of LLP vs Private Limited for startups looking to raise funds; Ideal for founders, CFOs, and advisors.

This presentation breaks it down—so you can choose a structure that not only protects your interests, but also attracts capital.

Key Differences

LLP

- Limited fundraising ability
- Less compliance
- Not investor-friendly

Pvt. Co.

- Share-based structure
- Preferred by VCs
- ESOP-friendly
- Tax benefits under 80-IAC

Key Differences

Feature	LLP (Limited Liability Partnership)	Pvt. Co. (Private Limited Company
Legal Recognition	Body Corporate (but not a Company)	Registered under Companies Act
Ownership Structure	Partners with defined ratio	Shareholders with equity ownership
Fundraising Capability	Limited – No equity shares	High – Can issue can issue equity and preference shares, with non-convertible redeemable preference shares being ideal to raise funds without diluting promoter control
VC/Investor Friendly	Rarely considered	Preferred structure
Compliance	Lower	Higher
Conversion Flexibility	Can convert to Pvt. Co.	Already in most suitable form

Why Pvt. Co. Wins for Fundraising:

Equity Issuance

Only Pvt Ltd companies can issue equity shares, ESOPs, and convertible instruments (like CCDs or CCPS) – tools essential for modern fundraising.

Allows investor exit options via share transfers

Share transfers are straightforward. In LLPs, capital redistribution is tough, and transfer of partnership rights is unattractive to investors.

Better for startup valuation mechanism and credibility

Valuation under Rule 11UA (for Section 56 & 50CA) is easily applicable in Pvt Ltd structures. Investors find it legally sound

ESOPs & Employee Equity

ESOPs cannot be issued by LLPs. A Pvt Ltd structure allows you to incentivise talent through equity participation.

Tax Benefits & Corporate Identity

A Pvt Ltd company can avail certain tax benefits (e.g. Section 80-IAC for startups) and offers a more credible corporate image.

When LLP Works

Professional services with no fundraising plan.

If you're running a professional services firm (law, architecture, consulting).

Small bootstrapped businesses.

If you're in a family-owned or bootstrapped venture that prioritises simplicity.

No External Funding Plans

If you don’t plan to raise funds or onboard external investors.

Converting LLP to Pvt. Co.

Good news: MCA allows conversion of LLP to Pvt Ltd under Section 366 of the Companies Act, though the process can be tedious and needs 2 directors, 2 shareholders, creditor approvals, updated filings.

- Approval of partners and creditors
- Minimum 2 directors and 2 shareholders
- Updated financial statements
- Stamp duty and ROC formalities

What if I Started as LLP but Now Want VC Funding?

You're not alone. Many startups initially register as LLPs for ease and lower compliance, but later convert to Pvt Ltd once fundraising becomes a priority.

No-Tax Transition: Seamless Shift from Company to LLP via Section 47(xiiib)

- Finance Act, 2010 introduced Section 47(xiiib), allowing tax-neutral conversion of certain companies into LLPs (subject to conditions).
- Section 47(xiiib) provides that the conversion of a private company or an unlisted public company into a Limited Liability Partnership (LLP) shall not be regarded as a “transfer” for the purposes of capital gains taxation, subject to the fulfillment of prescribed conditions.
- If any of these conditions are later violated, the earlier exemption is withdrawn and the deferred capital gains become taxable in the year of default, as per Section 47A(4).

Section 47(xiiib)

KEY CONDITIONS FOR TAX-FREE CONVERSION

- All assets and liabilities must transfer to the LLP.
- All shareholders must become partners in the same proportion.
- No consideration other than profit share/capital contribution allowed.
- Shareholders must hold at least 50% ownership in LLP for 5 years.
- Turnover must not exceed ₹60 lakhs in any of the last 3 years.
- Asset value must not exceed ₹5 crores in any of the last 3 years.
- Accumulated profits cannot be distributed for 3 years

Founder Tip:

Shifting from LLP to Company may seem compliance-heavy...

Yet, it opens doors to equity funding, scalability, and stronger market credibility.

THANK YOU

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Need help with structuring or conversion? Contact us today for end-to-end startup advisory support.