

## **Foreigners may get to set up LLPs in sectors open to FDI**

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The government may soon allow foreigners to set up limited liability partnerships in sectors where 100% foreign investment is allowed, taking a decisive step after much flip-flop over funding guidelines for this form of business organisation, favoured globally for its flexibility.

The department of industrial policy and promotion (DIPP), the nodal agency for foreign investment policy, has written to the finance ministry giving the broad contours of the proposed foreign investment framework for LLPs. It has suggested that foreign investment be allowed in LLPs with prior approval.

“This will give foreign investors flexibility to operate in a simpler environment with minimal compliances and yet be tax efficient,” said Akash Gupta, executive director of consulting firm PwC. LLPs share many of its features with normal partnerships, but partners will have reduced personal responsibility for its business debts as the partnership itself is responsible for such liabilities. A discussion paper is expected to be put up in public domain soon, said a government official privy to the discussions. This would be third in the series of discussion papers released by the DIPP. The earlier ones were on foreign investment in defence production and multi-brand retail.

DIPP had, after initial discussions earlier this year, taken a view against opening up this form of business organisation to foreigners. During those discussions, the Reserve Bank of India had favoured FDI up to 49% in LLPs in select sectors, while the finance ministry was in favour of a more liberal regime, but with prior approval.

As per the policy proposed by the DIPP, foreigners will not be allowed to set up LLPs in sectors such as real estate where conditions such as minimum capitalization and lock-in period are applicable. It also bars foreigners in sectors where FDI is prohibited or restricted with caps on investment.

Indian companies having foreign investments will not be eligible to make investments in LLPs. Similarly, LLPs having foreign investment will not be allowed to make downstream investments or raise overseas debt, said a senior government official.

LLPs incorporate the features of companies and partnerships. The liability of partners is limited to the extent of their stakes in the entity. It also has various advantages over present corporate structures. Unlike private limited companies where number of shareholders is limited to 50, an LLP can have unlimited number of partners. Compliances relating to meetings and maintenance of statutory records are not applicable for LLPs. Currently, FDI is not permitted in partnerships firms, but is allowed in companies depending on sectoral cap. FDI is allowed up to 100% in a number of sectors such as manufacturing through the automatic route. Sole proprietorship firms can get non-resident investment on a non repatriable basis. Globally, 100% foreign investment is permitted in LLPs though they are not allowed to undertake certain sectoral activities in some countries.