

Cabinet approves amendments to LLP Act; 12 offences to be decriminalised

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The Cabinet on Wednesday approved amendments to the Limited Liability Partnership (LLP) Act for decriminalising offences under the law as the government looks to improve ease of doing business and encourage start-ups.

In all, 12 offences are proposed to be decriminalised and one provision (Section 73) entailing criminal liability is to be omitted. The 12 decriminalised offences will then get shifted to an internal adjudication mechanism to help unclog criminal courts from routine cases.

The government has also approved creation of a class of small LLPs to encourage entrepreneurs. These LLPs will be subject to fewer compliances, reduced fee or additional fee, and smaller penalties in the event of default.

“LLPs are becoming popular among start-ups. An amendment is being proposed to the LLP Act for the first time,” said Finance minister Nirmala Sitharaman.

According to experts, lower compliance will incentivise unincorporated micro and small partnerships to convert into the organised structure of an LLP and derive its benefits.

Once the amendment for decriminalisation is approved, the total number of penal provisions in the Act will be reduced to 22, the number of compoundable offences will be only seven, the number of non-compoundable offences will be only three, and the number of defaults will be only 12, Sitharaman said.

She said this will help level the playing field for LLPs which otherwise compete against corporations that come under the Companies Act. “... we are bridging this gap. And making LLPs far more attractive and easy to handle... so that many of the start-ups today, which prefer the LLP model, can also feel equally given the ease of business opportunities,” Sitharaman said.

Union Minister Anurag Thakur said: “This boosts Atmanirbhar Bharat.”

The government will also introduce a new definition of small LLPs based on their turnover size and contributions by partners or proprietors. At present, there are relaxations for thresholds up to turnover size and partner’s contribution of Rs 40 lakh and Rs 25 lakh, respectively.

“Now, Rs 25 lakh will go to Rs 5 crore and Rs 40 lakh turnover size will now be treated as Rs 50 crore. So, even Rs 5 crore contribution and Rs 40 crore or Rs 50 crore turnover will be treated as a small LLP, which means we are expanding the scope of what can be a small LLP.

The corporate affairs ministry is also working towards setting up an e-adjudication platform as part of the new version of the MCA21 portal.