Starting a Business in India: Structure, Registrations, Contracts and Compliance

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Figure 1. Seals, registers and a laptop: forming a business in India now happens largely online.

Plenty of Indian businesses run for years on a handshake, a bank account and a hurried GST number. The trouble shows up later: a partner leaves with the clients, an investor won't fund a firm, a rival registers the brand first, or a notice arrives over a return nobody knew was due. Most of this can be avoided in the first few weeks, when the important choices are still cheap. This guide takes them in order: structure, registrations, contracts, brand and the yearly filing cycle.

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Step one: choose the right structure

The legal form you pick decides who is personally liable for the business's debts, how much paperwork you will carry, and whether you can raise outside money. There are five realistic options.

- **Sole proprietorship.** The business and the owner are legally the same person. There is no separate incorporation; the business runs on the owner's PAN, plus whatever tax and local registrations its activity needs. It is the simplest and cheapest form, but liability is unlimited, so business debts can be recovered from personal assets.
- **Partnership firm.** This is governed by the Indian Partnership Act, 1932. Partners share profits as their deed says, and each is jointly liable for the firm's debts without limit. Registering with the Registrar of Firms is optional on paper but important in practice. Under section 69, an unregistered firm cannot file a suit to enforce a contractual right against a third party, and a partner of an unregistered firm cannot sue the firm or the other partners on such rights, except to dissolve the firm or settle accounts.[1]
- **Limited Liability Partnership (LLP).** This is a body corporate under the LLP Act, 2008. It has the flexibility of a partnership, and a partner's liability is limited to their agreed contribution. It needs at least two designated partners and files annual returns with the Registrar of Companies. It suits professional practices and closely held ventures.
- **One Person Company (OPC).** This is a company under the Companies Act, 2013 with a single member, who must be a natural person and an Indian citizen. It gives a solo founder limited liability and corporate status, but it carries company-law compliance.
- **Private limited company.** This is the standard form for anything that plans to raise equity. It needs at least two members and two directors, and it can issue shares and set up employee stock option plans. It also has the heaviest compliance: board meetings, statutory registers, an annual general meeting, audited accounts and annual filings.

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Structure	Owner's liability	Compliance burden	Set-up cost	Raising equity
Sole proprietorship	Unlimited	Lowest: tax and local registrations only	Lowest	Not possible as such
Partnership firm	Unlimited, joint and several	Low; registration of firm advisable	Low	Only by admitting partners
LLP	Limited to agreed contribution	Moderate: annual Form 11 and Form 8	Moderate	Possible but uncommon; no shares
One Person Company	Limited to shares	Company-law filings, lighter in parts	Moderate	Must convert to raise wider equity
Private limited company	Limited to shares	Highest: board, AGM, audit, annual returns	Highest	Designed for it: shares, ESOPs, investors

In practice, a consultant or small trader often starts as a proprietor, professionals pooling a practice usually do better with an LLP, and a business expecting angel or venture money should usually incorporate as a private limited company from the start. Structure also affects tax, so take a chartered accountant's advice as well as a lawyer's.

Step two: the registrations

PAN and TAN

Every entity other than a proprietorship needs its own PAN; companies and LLPs usually receive PAN and TAN through the incorporation process on the Ministry of Corporate Affairs portal. You need a TAN (Tax Deduction and Collection Account Number) as soon as the business has to deduct or collect tax at source, for example on rent, salaries or professional fees. Note that the Income-tax Act, 2025 replaced the 1961 Act with effect from 1 April 2026. Income earned from that date falls under the new Act and its "tax year" concept, so check that your templates and advice refer to the current law.[2]

GST registration: when it becomes compulsory

The rule is in section 22 of the CGST Act, 2017. A supplier must register in the State from which it makes taxable supplies once its aggregate turnover in a financial year exceeds ₹20 lakh. The limit is ₹10 lakh in the special category States.[3] Following GST Council decisions, the limits currently work like this:[4]

- **Suppliers of services, or of both goods and services:** ₹20 lakh, and ₹10 lakh in Manipur, Mizoram, Nagaland and Tripura.
- **Suppliers dealing exclusively in goods:** ₹40 lakh in most States, and ₹20 lakh in Arunachal Pradesh, Manipur, Meghalaya, Mizoram, Nagaland, Puducherry, Sikkim, Telangana, Tripura and Uttarakhand.

"Aggregate turnover" is calculated on an all-India basis across every business registered under the same PAN. Once you cross the limit, you must apply for registration within thirty days.

Section 24 overrides these limits for certain cases. Registration is compulsory regardless of turnover for anyone making an inter-State taxable supply, casual taxable persons, persons liable to pay tax under reverse charge, agents supplying on behalf of others, e-commerce operators who must collect tax at source, and sellers who supply through such operators, among others. In practice, notifications soften two of these:

- **Inter-State services:** suppliers of services whose turnover is within the threshold do not need to register just because they make inter-State supplies.[?]
- **Selling goods online:** since 1 October 2023, a small seller of goods on an e-commerce platform can trade without GST registration if four conditions are met. Turnover must stay under the threshold, all sales must be within one State, the seller must make no inter-State supply, and the seller must first obtain an enrolment number on the GST portal using their PAN.[5] Anyone who sells goods across State lines through a marketplace must register.

Voluntary registration is open to businesses below the threshold. It allows input tax credit and suits business clients who expect a GSTIN, but returns then become mandatory even in quiet months. Whether to apply is a commercial choice; whether and from when registration is granted is for the GST authorities.

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Udyam registration for MSMEs

Udyam registration is the government's identity for micro, small and medium enterprises. It is filed online on the official Udyam portal, it is based on self-declaration, and **the government charges no fee for it**.[6] An enterprise is classified on combined investment and turnover limits under the notification of 21 March 2025, in force since 1 April 2025:[7]

- **Micro:** investment in plant and machinery or equipment up to ₹2.5 crore and turnover up to ₹10 crore.
- **Small:** investment up to ₹25 crore and turnover up to ₹100 crore.
- **Medium:** investment up to ₹125 crore and turnover up to ₹500 crore.

Banks rely on the certificate to classify loans under priority sector lending. Micro and small suppliers can use the delayed-payment protections of the MSMED Act, 2006: buyers must pay within the agreed period, which cannot exceed 45 days from acceptance, and late payment carries compound interest at three times the RBI bank rate, recoverable through the MSE Facilitation Council. Registered small enterprises also pay the concessional trademark filing fee described below.

Shops and establishments, and professional tax

Most States require shops, offices and commercial establishments to register (or, in some States, simply give intimation) under their own Shops and Establishments Act, usually with the labour department or municipality. The law governs working hours, holidays and employee records, banks often ask for the certificate, and procedure varies by State.

Professional tax is a State levy on professions, trades, callings and employments. The Constitution caps it at ₹2,500 per person per year (Article 276). States including Maharashtra, Karnataka and West Bengal levy it, and others do not. Where it applies, employers must enrol, deduct it from salaries and pay it over, and the business may also owe tax on its own enrolment.

Step three: the contracts that hold the business together

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- **Founders' agreement or partnership deed.** The document most new businesses skip. It should cover contributions, profit sharing, decision-making, vesting of founder equity, assignment of intellectual property to the business, exits, and dispute resolution (an arbitration clause can save years). In a company, the shareholders' agreement should match the articles of association.
- **Non-disclosure agreements.** Use them before sharing business plans, source code or client lists with prospective partners, vendors or employees. Keep them specific about what counts as confidential and how long the duty lasts. Note that section 27 of the Indian Contract Act, 1872 makes agreements in restraint of trade void, so broad non-compete clauses that apply after the relationship ends are generally unenforceable. Confidentiality and non-solicitation clauses are on firmer ground.
- **Client and vendor contracts.** Set out scope, payment terms and late-payment interest, ownership of deliverables, warranties, a liability cap, termination, governing law and dispute resolution. Pay the State's stamp duty, or the document may not be admissible in evidence.

Step four: protect the name

The business name you register with the Registrar of Companies or the Registrar of Firms does not give you exclusive rights in a brand. A trademark registration under the Trade Marks Act, 1999 does. Applications are made on Form TM-A to the Trade Marks Registry, usually online through the IP India portal. Goods and services are divided into 45 classes under the Nice Classification: classes 1 to 34 cover goods and 35 to 45 cover services. You pay a fee for each class. The e-filing fee is ₹4,500 per class for individuals, startups and small enterprises, and ₹9,000 per class for other applicants.[8] A registration lasts ten years and can be renewed.

Search the register first and file early: brand disputes often turn on who used or applied first. You may use the ™ symbol on any mark you claim as yours, whether or not you have applied. The ® symbol is only for marks that are actually registered. Representing an unregistered mark as registered is prohibited by section 107 and now carries a monetary penalty.

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Step five: a high-level compliance calendar

The exact dates depend on your structure, your GST filing scheme and your State. This is the general pattern:

When	What	Who
By the 7th of each month	Deposit tax deducted at source for the previous month (30 April for March)	Any business deducting TDS
11th and 20th of each month	GSTR-1 (outward supplies) and GSTR-3B (summary return and tax payment); a quarterly scheme is available to eligible smaller taxpayers	GST-registered businesses
Quarterly	TDS returns	Deductors
30 May	LLP annual return (Form 11)	LLPs
30 September	Annual general meeting (within six months of the year end)	Companies
Within 30 and 60 days of the AGM	Financial statements (AOC-4) and annual return (MGT-7)	Companies
30 October	Statement of Account and Solvency (Form 8)[9]	LLPs
31 July to 30 November	Income-tax returns, depending on the category of taxpayer and whether an audit applies	All
31 December	GST annual return, where applicable	GST-registered businesses
Per State rules	Professional tax and shops and establishments renewals or returns	Where applicable

Late filing brings additional fees, interest or penalties, and persistent default can lead to disqualified directors or a struck-off entity. A shared calendar owned by one named person is the simplest safeguard.

How Vakil Dial can help

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Vakil Dial's Professional & Business Consultancy division is built for founders and small businesses working through these decisions. Through Vakil Dial, you can:

- **Talk through your structure** with a verified professional from its network before you incorporate or sign anything.
- **Have key documents drafted or reviewed:** partnership deeds, LLP and shareholders' agreements, NDAs, and client and vendor contracts.
- **Get guidance on trademark filings** and the recurring compliance that follows registration.

For two common first steps there is online assistance. GST Registration help covers preparing and submitting your application; the decision and its timing rest with the GST authorities. MSME (Udyam) Registration assistance costs ₹499 inclusive of GST. Udyam registration on the official portal itself carries no government fee, so the ₹499 pays for Vakil Dial's help in getting your details and classification right. Vakil Dial is a private legal services platform, not a government agency.

If you are not sure where to start, describe your situation on the Free Legal Advice page. Sending an enquiry is free and commits you to nothing; the Vakil Dial team reviews it, replies, and explains any paid service first if one would help. You can follow your matter in "My Conversations" after signing in. To understand a concept first, such as what "aggregate turnover" means, ask MAATRA, Vakil Dial's intelligent legal-information persona, which explains law and procedure in general terms.

This is general legal information, not legal advice; every matter depends on its facts.

Conflicts of interest

This guide is published by Vakil Dial, which offers the services it describes.

Notes

1. The Indian Partnership Act, 1932 (India Code) https://www.indiacode.nic.in/bitstream/123456789/13660/1/indian_partnership_act_1932.pdf
2. CBDT press release, "Income-tax Act, 2025 comes into force from 1st April, 2026" https://www.incometaxindia.gov.in/documents/d/guest/press-release-income-tax-act-2025-comes-

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3. Central Goods and Services Tax Act, 2017, section 22 (CBIC tax information portal) https://taxinformation.cbic.gov.in/content/html/tax_repository/gst/acts/2017_CGST_act/active/chapter6/section2
4. CBIC, "GST: An Update" (threshold limits and registration exemptions) https://cbic-gst.gov.in/pdf/01062019-GST-An-Update.pdf
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