Analysis of difference between Liaison Office, Branch Office & Wholly Owned Subsidiary

Basis	Liaison Office [LO]	Branch Office [BO]	Wholly Owned Subsidiary (WOS)
Meaning	**A Liaison Office [also known as representative office] can undertake only liaison activities i.e. it can act as a channel of communication between Head Office aboard and parties in India. It is not allowed to undertake any business activity in India and cannot have any income in India.**	**Companies incorporate outside India and engaged in manufacturing or trading activities are allowed to setup Branch Offices with specific approval of the RBI. Normally, the Branch Office should be engaged in the activity of the Parent Company.**	An incorporated entity formed and registered under the Companies Act, 2013. It is a distinct legal entity, apart from its shareholders.
Constitution	1. An extension of the Head Office 2. It is a simple form of structure 3. No separate legal standing of its own	1. An extension of the Head Office with right to accrue income in India 2. It is a simple form of structure 3. No separate legal standing of its own	1. Company form of organization 2. Separate legal entity
Permitted Activities	1. Representing **in India** the parent company / group companies. 2. Promoting export / import from / to India. 3. Promoting technical/ financial collaborations between parent / group companies and companies in India. 4. Acting as a communication channel between the parent company and Indian companies.	1. Export/import of goods. 2. Rendering professional or consultancy services. 3. Carrying out research work, in areas in which the parent company is engaged. 4. Promoting technical or financial collaborations between Indian companies and parent or overseas group company. 5. Representing the parent company in India and acting as buying/ selling agent in India. 6. Rendering services in Information Technology and development of software in India. 7. Rendering technical support to the products supplied by parent/group companies. 8. Foreign airline/shipping company.	As per its 'main objects' stipulated in the Memorandum of Association subject to Indian regulations .
Criteria for set up	1. Parent Company should have a profit making track record during the immediately preceding three financial years in the home country. 2. Net Worth of the Parent Company not less than USD 50,000 or its equivalent.	1. Parent Company should have a profit making track record during the immediately preceding five financial years in the home country. 2. Net Worth of the Parent Company not less than USD 100,000 or its equivalent.	A private company is required to be incorporated with a minimum Authorised & paid up capital of Rupees 100,000 and minimum two subscribers. No requirement of track record of parent company as shareholder

Typical Terms of approval	1. Not to undertake any activity of a trading, commercial or industrial nature and not to enter into any business contracts in its own name without **RBI's** prior permission. 2. No commission/fees shall be charged or any other remuneration received / income earned by the office in India for the liaison activities/services rendered by it or otherwise in India. 3. The entire expenses of the office in India will be met exclusively out of the funds received from head office through normal banking channels. 4. The office in India shall not borrow or lend any money from/to any person in India without **RBI's** prior permission.	1. Not to expand its activities or undertake any new trading, commercial or industrial activity other than that is expressly approved by the RBI. 2. The entire expenses in India will be met either out of the funds received from head office through normal banking channels or through income generated by it in India. 3. The Branch Office will not accept any deposits in India 4. The commission earned by the Branch Office from parties abroad for any agency business will be repatriated to India through normal banking channels 5. Not to undertake any retail trading activity 6. A Branch Office is not allowed to carry out manufacturing or processing activities in India, directly or indirectly.	A private company is required to be incorporated with a minimum paid-up capital of INR 100,000 and minimum two subscribers. Broadly, it: i) restricts the right to transfer its shares ii) limits the number of its members (shareholders) to 200; iii) prohibits any invitation to the public to subscribe for any of its shares or debentures securities of the company and; The conditions will be different for Public Limited Companies.
Time limit of approval	Normally 3 years from the date of approval	Normally 3 years from the date of approval	Until the company decides to close down
Basic Registration	The following registrations / approvals will be required: 1. Profession Tax 2. Shops and Establishment Act Registration 3. PAN / TAN 4. ROC Registration 5. Importer Exporter Code	The following registrations / approvals will be required: 1. PAN / TAN 2. Service Tax 3. Profession Tax 4. Shops and Establishment Act Registration 5. Importer Exporter Code 6. VAT 7. ROC Registration	The following registrations / approvals will be required: 1. PAN / TAN 2. Service Tax 3. Profession Tax 4. Shops and Establishment Act Registration 5. Importer Exporter Code 6. VAT
Liabilities of parent company/Head office	Parent company's liability is unlimited for all acts and omission of LO	The liability of the Branch is unlimited. The assets of the parent company are at risk of attachment in case the liabilities of the branch exceeds its assets	The liability of the Parent company is limited to the extent of its shareholding in the WOS. The assets of the foreign company are not subject to any attachments
Permitted Incomes	The entire expenses of the LO in India will be met out of the funds received from Head Office through normal banking channels. There will not be any income of the LO	The entire expenses of the BO in India will be met either out of the funds received from Head Office through normal banking channels or through income generated by it	All income arising out of its business activities.

		in India.	
Indian Income Tax	Since there is no income accrual, there is no income tax. **LO is required to file information in Form 49C with the Income Tax Department.**	Since a branch office of a foreign company is taxed as a foreign company in India, it is taxed @ 41.2% or 42.23% if the taxable income exceeds INR 10,000,000 during any financial year (FY)	Any Indian company is taxed @ 30.90% or 33.99% if the taxable income exceeds INR 10,000,000 during any financial year (FY)
Payment of Dividend to Parent	**Cannot pay Dividend.**	**Dividend paid to Parent is tax free.**	**Dividend can be paid after payment of Dividend Distribution Tax @ 16.995%**
Management	LO is managed by Authorised Representative, resident in India (Country Manager)	BO is managed by Authorised Representative, resident in India (Country Manager)	Minimum two directors (can be foreign national, no need to be resident in India)
Audit **a. Statutory Audit**	Financials would be liable to Statutory Audit by a Chartered Accountant	Financials would be liable to Statutory Audit by a Chartered Accountant	Financials would be liable to Statutory Audit by a Chartered Accountant
b. Internal Audit	Not Applicable	Not Applicable	Companies having turnover of 200 crore rupees or more during the preceding financial year; or (ii) outstanding loans or borrowings from banks or public financial institutions exceeding 100 crore rupees or more at any point of time during the preceding financial year.
c. Tax Audit	Not Applicable	Applicable in case of Turnover exceeding Rs. 4 million. Non Compliance would result into a penalty @ 0.5 % of the total turnover or Rs. 0.1 million whichever is less.	Applicable in case of Turnover exceeding Rs. 4 million. Non Compliance would result into a penalty @ 0.5 % of the total turnover or Rs. 0.1 million whichever is less.
Transfer Pricing	Not Applicable	Applicable	Applicable
Annual Compliance **a. Filing**	1. Yearly filings include the filing of audited accounts of the LO, World Accounts with Registrar of Companies 2. Yearly submission of Activity Certificate with RBI **and AD Bank** **3. Filing Quarterly TDS returns** **4. Yearly filing of audited accounts of the LO with the Directorate of Income Tax, New Delhi**	1. Yearly filings include the filing of audited accounts of BO, World Accounts with Registrar of Companies 2. Yearly submission of Activity Certificate with RBI **and AD Bank** 3. Annual return with the Income Tax Department 4. Filing of Quarterly TDS returns	1. Yearly filing of financials and Annual Return with the Registrar of Companies. 2. Filing of Compliance Certificate if paid up capital exceeds INR 1 Million 3. Annual Compliance with Reserve Bank of India in case share are allotted to foreign Individual (Form FC-GPR Part A & Part B) 4. Annual return with the Income Tax Department 5. Filing of Quarterly TDS returns

	5. File Form 49 C with Income Tax Department	5. Filing of monthly Service Tax returns **6. Filing of VAT returns**	6. Filing of monthly Service Tax returns **7. Filing of VAT Returns**
b. Meeting	Not Applicable	Not Applicable	Board -4 meeting per year

Remittance of Profit to Parent company	None, except upon closure of LO	Profits can be freely repatriated to the Parent Company subject to payment of applicable taxes and complying with certain formalities.	1. By way of Dividend subject to Dividend Distribution Tax 2. By way of Royalty/ fees for technical services 3. By way of Management Fees 4. Related party transactions are subject to Transfer pricing Regulations.
Borrowing	Not allowed	The Branch Office is not allowed to borrow locally unless the prior approval of RBI is taken	1. There is no restriction on local borrowing. 2. External Commercial Borrowings are subject to guidelines issued by the RBI.