

Revision of threshold for small companies

The Ministry of Corporate Affairs ('MCA') has made an upward revision to the threshold limit for paid-up capital of small companies. Under the Companies Act, 2013, the definition of 'small companies' will now include those companies with a paid-up capital of 'not exceeding INR 4 crore' (instead of the erstwhile threshold of 'not exceeding INR 2 crore.'). Parallely the turnover limit is enhanced to 'not exceeding INR 40 crore' from the erstwhile INR 20 crore.'

As per the newly set limits, a small company will now mean a company, other than a public company, whose paid-up share capital does not exceed INR 4 crore and turnover does not exceed INR 40 crore.

Some of the benefits of reduction in compliance burden as a result of the revised definition for small companies are as under:

1. No need to prepare a cash flow statement as part of the financial statements.
2. Preparing and filing an abridged annual return.
3. Mandatory rotation of auditor not required.
4. An auditor of a small company is not required to report on the adequacy of the internal financial controls and its operating effectiveness in the auditor's report.
5. Holding only two board meetings in a year.
6. The annual return of the company can be signed by the company secretary, or where there is no company secretary, by a director of the company.
7. Lesser penalties.

Weblink <https://www.mca.gov.in/bin/dms/getdocument?mds=tiMs9lFJ8xuPm%252B%252Ffoxc6fUw%253D%253D&type=open>

Therefore

The Corporate Affairs Ministry has recently implemented several initiatives to make it easier for corporations to conduct business. These included extending fast-track mergers to start-ups, encouraging the incorporation of one-person companies ('OPCs'), decriminalising some aspects of the Companies Act of 2013 and the Limited Liability Partnerships Act ('LLP Act'), 2008, etc. Small companies are major contributors to the nation's growth and employment. They represent the innovative spirit and aspirations of the citizens. The government's step in enhancing the thresholds of a small company has ensured a more conducive business environment for the law-abiding companies, and reduction of compliance burden on them.