

Ease of doing business: 'Small company' limits relaxed further

Synopsis

Small companies are not required to include cash flow statements in their financial reports, need hold only two board meetings a year as opposed to at least four for others, and do not have to rotate auditors every five years.



The government has doubled the paid-up capital and turnover eligibility thresholds for [small companies](#), which will help more businesses and startups get access to the lighter compliance regime for such entities under the [Companies Act, 2013](#).

According to a Ministry of Corporate Affairs ([MCA](#)) notification, any company with a paid-up capital up to ₹4 crore and turnover as much as ₹40 crore would be considered a small company.

This is the second revision in just 18 months-the limit was raised to ₹2 crore and ₹20 crore, respectively, on April 1. Small companies are not required to include cash flow statements in their financial reports, need hold only two board meetings a year as opposed to at least four for others, and do not have to rotate auditors every five years. They can file abridged annual returns and these can be signed by the company secretary or a director of the company. Most of the statutory documents of small companies needn't be signed by a practicing professional such as a chartered accountant.

Experts said the earlier increase in 2021 did not benefit many companies as the thresholds were very low, especially the paid-up capital criteria.

Besides that, in the post-Covid rush, several small startups received funding from private equity and other investors, taking their paid-up capital higher even though their business was still small, pushing them out of the small company category.

Lenient Compliance Regime

The doubled limit should allow a much larger number of companies to be considered small companies for light-touch compliance.

"The idea of the government seems to increase the pool of small companies by 10-20% and the higher thresholds will allow several startups to avail the lenient regime," said Sanket Jain, partner, Pioneer Legal.

'Small Co' Tag Eligibility		
	Revenue	Turnover
Until 2021	<50 lakh	<2 cr
2021 to now	<2 cr	<20 cr
New thresholds	<4 cr	<40 cr

Figures in ₹

Advantages for small cos	
No mandatory auditor rotation	No need for cashflow statement as part of financial statement
Most compliance based on self-certification	Lesser penalties

The measures are part of the Centre's efforts to make the compliance regime easier for companies. Last year, the government decriminalised several Companies Act violations, thereby providing a more lenient regime.

"There are several exemptions for small companies under the Companies Act--most importantly, lesser penalties in case of non-compliance," said Gaurav Pingle, a practicing company secretary.

"Due to the increase in the monetary limits for defining a small company, the requirement of pre-certification of practicing professionals for certain forms will be reduced for such companies. Instead, a self-certification would be sufficient."

The move is aimed at helping create a better business environment.

"Small companies represent the entrepreneurial aspirations and innovation capabilities of lakhs of citizens and contribute to growth and employment in a significant manner," the MCA said in a press release. "The government has always been committed to taking measures which create a more conducive business environment for law-abiding companies, including reduction of compliance burden on such companies."

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