

Lighter compliance burden, easier debt resolution for small companies

Synopsis

With a focus on ease of doing business, the government would take up decriminalisation of compoundable offences under the Limited Liability Partnership Act, Sitharaman said.



The minister also announced changes to the rules governing one-person companies (OPCs).

More companies are set to benefit from a lighter compliance burden as the finance minister has proposed to revise the definition of a small company under India's corporate laws.

Also, firms will find it easier to resolve their debt, and the mergers and acquisitions space will likely see increased activity, as **Nirmala**

Sitharaman said the government would introduce alternative methods of debt resolution including a special framework for micro, small and medium enterprises, along with measures to strengthen the **National Company Law Tribunals**.

While the minister didn't provide details of the alternative methods, the **corporate affairs ministry** had last month proposed a framework for pre-packaged insolvency resolution, which is expected to fast-track the process through out-of-court negotiations that will require a court approval only at the end.

As per the new definition, an organisation with a paid-up capital of up to Rs 2 crore and turnover of up to Rs 20 crore will qualify as a small company, as opposed to the current thresholds of Rs 50 lakh and Rs 10 crore. This change is expected to benefit some 200,000 companies.

With a focus on ease of doing business, the government would take up decriminalisation of compoundable offences under the Limited Liability Partnership Act, Sitharaman said. It has already done this for the Companies Act.

The minister also announced changes to the rules governing one-person companies (OPCs).

Under the existing rules, such companies with a paid-up capital of over Rs 50 lakh or turnover exceeding Rs 2 crore must convert to a normal company. The

budget has proposed to do away with these limits altogether, along with removing the restriction on non-resident Indians from incorporating such companies, a move which Sitharaman said was expected to benefit startups.

While this may enable one-person companies to scale up and enjoy simpler statutory compliances, the changes are unlikely to benefit startups much, said Ankit Singhi, partner at Corporate Professionals. "Startups need to raise funds by increasing the number of board members but OPCs cannot have more than one person on the board," Singhi said.

According to Nischal Arora, partner at Nangia & Co, the move will encourage small unorganised sector players to conduct their businesses through a legally set up entity.

The proposed changes to OPCs and the definition of small companies will require changes only to company rules and not an amendment to the law, Singhi said.

"The Companies Act prescribes a maximum paid up capital threshold of Rs 10 crore and a maximum turnover threshold of Rs 100 crore for small companies. The changed definition falls within this range and will not require changes to the law," he said.

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