

**REGULATORY UPDATE**

**Relaxations for Small  
Companies**



## **MCA further widens the ambit of Small Companies to facilitate Ease of Doing Business**

### **Background**

- The Ministry of Corporate Affairs (MCA) has taken several measures in the recent past towards ease of operating and relaxation in doing business for the corporate. These included reclassifications of various provisions of the Companies Act, 2013, introducing the concepts of Fast track mergers, allowing the Companies to transact all the matters in the Board meetings via Video Conference, etc.
- Recently, MCA has amended the definition of Small Company to expand the criteria for relaxation from miscellaneous compliances available to small companies under Companies Act. This amendment has been notified vide notification dated 15<sup>th</sup> September 2022.

### **Amendment in Small Company Definition**

- **Previous thresholds criteria for Small Companies**  
Previously, definition of “small companies” under the Companies Act, 2013 was revised by increasing their thresholds for paid up capital from “not exceeding Rs 50 lakh” to “not exceeding Rs 2 crore” and turnover from “not exceeding Rs 2 crore” to “not exceeding Rs 20 crore”.
- **Revision in thresholds criteria for Small Companies**  
The definition has, now, been further updated by increasing such thresholds for paid up Capital from “not exceeding Rs. 2 crores” to “not exceeding Rs. 4 crores” and turnover from “not exceeding Rs. 20 crores” to “not exceeding Rs. 40 crores” (For F.Y. 2022-23, turnover as per profit & loss account for F.Y. 2021-22 will be considered).

- Thus, definition of small companies as per section 2(85) of Companies Act 2013, after aforesaid amendment is as follows:

Small company means a company, other than a public company:

- Paid up share capital of which does not exceed Rs. 4 crores and
- Turnover of which as per profit & loss account for the immediately preceding financial year does not exceed Rs. 40 Crores.

The concept of Small Company shall not be applicable for holding company or subsidiary company; Company registered under Section 8 and any Company or body corporate governed by any special act.

### **Relaxations available to Small Companies**

- Some of the benefits of reduction in compliance burden as a result of the revised definition for small companies are as under:
  - **Financial Reports:** Cash flow statements are no longer needed as part of financial statement.
  - **Annual Returns:** Advantage of preparing and filing an Abridged Annual Return (MGT-7A)
  - **Auditor's Rotation:** Mandatory rotation of auditor not required.
  - **IFC Reporting:** Reporting on the adequacy of the internal financial controls and its operating effectiveness in the auditor's report is not required to be provided by the auditor of small company.
  - **Board meetings:** Holding of only two board meetings in a year.
  - **Practicing Professional Certification not mandatory for Annual Return:** 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.
  - **CARO 2020:** Due to increase in thresholds in Paid-up share capital & turnover, more companies are now exempt from applicability of CARO 2020, as CARO 2020 is not applicable on small companies.

- **Penalties:** Lesser penalties for small companies under section 446B of the Companies Act 2013, Small Companies making any contravention of any offences punishable with penalties, shall be liable for half of the penalties applicable to normal companies and subject to maximum cap of Rs. 2 lacs for Companies and Rs 1 lac for officer in default.

The relevant notification issued by the Ministry of Corporate Affairs for amendment in definition of small company is available on the Ministry's website at the following link:

<https://www.mca.gov.in/bin/dms/getdocument?mds=tiMs9IFJ8xuPm%252B%252F0xc6fUw%253D%253D&type=open>

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