

## **New threshold limits of 'capital' and 'turnover' for small companies**

On September 15, 2022, the Ministry of Corporate Affairs notified the Companies (Specification of Definition Details) Amendment Rules, 2022 amending the definition of 'small company' under the Companies Act, 2013 ("**Companies Act**"). By this amendment, the maximum threshold of the paid-up capital of a small company is now increased to INR 4,00,00,000 (Indian Rupees four crores) from INR 2,00,00,000 (Indian Rupees two crores) while the threshold for turnover is increased to INR 40,00,00,000 (Indian Rupees forty crores) from INR 20,00,00,000 (Indian Rupees twenty crores).

With the increase in the threshold limits of both the 'paid-up capital' and the 'turnover', now more companies will fall within the ambit of small companies. Consequently, more companies will be able to take the benefits of exemptions that are extended to small companies by the Companies Act, which are not available to other kinds of companies. These benefits and exemptions are in terms of compliance requirements as under:

1. Only 2 (two) board meetings in a financial year are required to be held (instead of 4 (four) board meetings for other companies);
2. The annual return can be signed by either a company secretary or a company director;
3. No cash flow statement is needed as a part of the financial statement;
4. No requirement of mandatory rotation of auditor;
5. Only abridged form of annual return has to be filed; and
6. Liable for lesser penalties.

### **JSA Comment**

The Companies Act had introduced the concept of small companies to provide certain benefits and exemptions to small businesses operating as private limited companies. With these increased limits of both the paid-up capital and turnover a larger number of companies will fall within its ambit. Such companies can avail relaxation from many compliance requirements. It facilitates ease of doing business in India, specifically for start-ups and other companies engaged in small businesses.

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**This Prism has been prepared by:**



**Lalit Kumar**  
Partner



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