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Govt doubles paid-up capital limit of ‘small companies’

Move to widen the base of small firms and reduce their compliance burden

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The threshold of paid-up capital of such firms has been raised to Rs 4 crore and turnover to Rs 40 crore, according to a notification by the ministry of corporate affairs.

The government has doubled the thresholds of paid-up capital and turnover for “small companies”, a move that will reduce the compliance burden of a larger number of entities that would now qualify for this tag and enable them to enjoy certain assorted benefits.

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The decision means the new entrants in the "small companies" club don't need to prepare cash flow statement as part of their financial statement, something that is mandatory for a larger company. These firms will be required to hold just two board meetings a year. They will have the advantage of preparing and filing abridged annual returns, and mandatory rotation of their auditors isn't required. An auditor of a small company is not required to report on the adequacy of the internal financial controls and its operating effectiveness. Moreover, the penalties for late compliance of certain norms will be less severe.

Anil Bhardwaj, secretary general of the Federation of Indian Micro and Small & Medium Enterprises hailed the move. "As these thresholds were set more than a decade back an update was needed to accommodate inflation. MSME definition also has been steeply revised upwards. The investment in plant and machinery of a small enterprise under the Micro, Small and Medium Enterprises Development Act, which was up to Rs 2 crore, has been revised to Rs 5 crore."

Vijay Kalantri, chairman of the MVIRDC World Trade Center in Mumbai, said the government decision will reduce the cost of doing business for many medium sized enterprises who are working on thin margins, especially at this time of rising input cost and disruption in supply-chains that are posing existential challenge to small enterprises. "This is also a much needed relief for exporters who are competing with low cost jurisdictions such as Bangladesh and Vietnam in textile and leather sectors," Kalantri said.

Earlier, the 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". These limits have now been further revised up.

The latest decision is part of the broader government plan to ensure greater ease of doing business and reduce the cost of firms, especially the small and medium ones. It has already extended fast-track merger facility to start-ups, incentivise the incorporation of one-person companies, etc.

The government had earlier tweaked the definition of MSMEs on the basis of both investment and turnover, which enabled a larger number of firms to qualify as MSMEs and tap various benefits.

It raised the annual turnover limit for a medium enterprise to Rs 250 crore from Rs 100 crore. Similarly, the investment limit to qualify as a medium enterprise was raised to Rs 50 crore from Rs 20 crore.

In a statement, the corporate affairs ministry said: "Small companies represent the entrepreneurial aspirations and innovation capabilities of lakhs of citizens and contribute to growth and employment in a significant manner."