

Newsflash

Companies (Specification of definition details) Amendment Rules, 2022

Introduction

The Companies Act, 2013 (“**Act**”) sets out the definition of a ‘*small company*’, which provides certain thresholds for paid-up capital and turnover. The purpose of this definition was dispensation of certain compliances under the Act.

The Ministry of Corporate Affairs (“**MCA**”) amended the definition to enable more companies to avail of the benefits by such companies being considered a ‘*small company*’ and thereby dispensing with certain additional compliances.

Comparison of the definition

The previous definition under the Act read with Companies (Specification of definition details) Rules, 2014 (“**Rules**”) stated that a small company is a company other than a public company, whose:

- (i) paid-up share capital **did not exceed** Rs. 50,00,000 or Rs. 2,00,00,000 (with a higher threshold limit of Rs. 10,00,00,000); **and**
- (ii) turnover of which as per profit and loss account for the immediately preceding financial year **does not exceed** Rs. 2,00,00,000 or Rs. 20,00,00,000 (with a higher threshold limit of Rs. 100,00,00,000)

Now, vide the amendment, MCA has enhanced the paid-up capital base and the turnover threshold for the companies to be classified as small companies whose:

- (i) paid-up share capital **does not exceed** Rs. 50,00,000 or Rs. 4,00,00,000 (with a higher threshold limit of Rs.10,00,00,000); **and**
- (ii) turnover of which as per profit and loss account for the immediately preceding financial year **does not exceed** Rs. 2,00,00,000 or Rs. 40,00,00,000 (with a higher threshold limit of Rs.100,00,00,000)

In view of the above amendment some of the benefits that will now be available to additional companies which would be small companies (from 15 September 2022) are as under:

1. The company will not be required to include the cash flow statement as part of financial statement.
2. The annual return can be signed by the company secretary, or where there is no company secretary, by the director of the company.

3. The company has to merely hold at least one Board meeting, in each half of a calendar year and the gap between the two meetings to not be less than ninety days, as opposed to minimum requirement of four meetings.
4. The company can directly apply to the Central Government through the Regional Director for any merger or amalgamation, without making an application to the National Company Law Tribunal for the same.
5. The company will be subject to lesser penalties than the usual ones.
6. The company can file an abridged director's report, instead of the director's report.
7. The auditor is not required to report on the adequacy of the internal financial controls and its operating effectiveness in the auditor's report.
8. The mandatory requirement of rotation of auditors will not be applicable.

Conclusion

The amendment to the definition of the small companies under the Companies Act, 2013 will bring more companies within the ambit of a '*small company*', making them eligible to get the benefits of a small company provided under the Companies Act 2013, and thereby reducing the compliance burden with a view to facilitate their capability to focus on enhancement of their business.

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