



Tax alert: Small company thresholds: A major compliance relief for growing businesses

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Amendment of the definition of “Small Company” increases financial thresholds for paid-up capital and turnover, thereby expanding the scope of companies eligible for lesser compliances and regulatory exemptions.

MCA revises small company thresholds: A major compliance relief for growing businesses

- The Ministry of Corporate Affairs (“MCA”), vide Notification No. G.S.R. 880(E) dated 1 December 2025, has amended the definition of “Small Company” under section 2(85) of the Companies Act, 2013 (“the Act”) read with Rule 2(1)(t) of Companies (Specification of Definitions Details) Rule, 2014. The amendment increases the financial thresholds for paid-up capital and turnover, thereby expanding the scope of companies eligible for lesser compliances and regulatory exemptions.

| Particulars | Old limit | Revised limit |
|-----------------------|-----------|---------------|
| Paid-up share capital | 4 cr. | 10 cr. |
| Turnover | 40 cr. | 100 cr. |

Key Benefits for Small Companies

- Qualifying small companies benefit from several relaxations:
 - **Relaxed auditor requirements**
 - **Exemption from the detailed reporting under the Companies Auditor's Report Order (CARO, 2020):** The reporting requirements laid down under the Companies (Auditor's Report) Order, 2020 for matters to be included in an auditor's report, do not apply to a small company.
 - **Exemption from mandatory auditor rotation:** Section 139(2) of the Act mandates rotation of auditors after a specified period (Rule 5 of the Companies (Audit & Auditors) Rules, 2014). However, this requirement does not apply to small companies.
 - **Mandatory dematerialization of securities of private companies**

Based on a notification dated October 27, 2023, the requirement for dematerialization of securities was extended to private companies by inserting Rule 9B.

Existing companies may have completed this requirement since the due date (as extended) for dematerialization of securities, was 30 June 2025. However, new companies can avail the benefit of the expanded definition of small companies, in order to defer the requirement of dematerialization of securities.

- **Fast track Mergers**

Section 233 of the Companies Act, 2013 allows merger between small companies without the approval of the Tribunal. Expanding the definition of small companies will boost M&A to achieve commercial objectives in a timely manner.

- **Abridged format of annual return in Form MGT-7A**

MGT-7 is for all standard companies, while MGT-7A is an abridged, simplified version for One Person Companies (OPCs) and Small Companies.

- **Abridged format of Board's Report**

The Board's Report of OPCs and small companies is required to be prepared based on the standalone financial statement of the Company, which shall be an abridged form.

- **Exemption from Cash Flow Statement**

Cash flow statement is not mandatory for small companies.

- **Certain Forms need not be certified by practicing Chartered Accountants ["CA"]/ Company Secretary ["CS"]**

Small companies are exempt from the mandatory pre-certification by a practicing CA or CS for most routine e-forms filed with MCA.

- **Lower penalties for non-compliance**

If a penalty is payable by a small company for non-compliance with any of the provisions of the Act, then such company and its officer in default shall be liable to a penalty not more than one-half of the penalty specified in such provisions. But this is subject to a maximum of INR 2 lakhs in the case of a company and INR 1 lakh in the case of an officer who is in default.

- **Reduced fees for Incorporation and regular filing**

Small companies are given reduced fees for incorporation and routine statutory filings to lower compliance.

For example, if the nominal capital exceeds INR 10 lakh (but remains within the "small company" threshold), a significantly lower ROC fee applies compared to other companies:

INR 2,000 base fee (plus small incremental fees based on capital) instead of the much higher fee applicable to other companies (starting from INR 36,000 base fee).

- **Fewer board meetings per year**

Unlike other companies that need to hold four board meetings in a calendar year, a small company is needed to hold at least one meeting of the Board of Directors in each half of a calendar year and the gap between the two Board meetings must not be less than ninety days.

- **Exemption from reporting on adequacy of internal financial controls and its operating effectiveness in auditor's report**

Section 143(3)(i) of the Act requires auditors to report on whether the company has adequate internal financial controls with reference to financial statements in place and the operating effectiveness of such controls.

Notification No. G.S.R. 583(E) dated 13 June 2017 exempts auditors from reporting under section 143(3)(i) of the Act in case of small companies.



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