

BUDGET 2021: SINGLE-PERSON COMPANIES CAN BE SET UP TO BOOST STARTUP INCORPORATION

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Industry & Services Sector incl. MSMEs and PSUs

BENGALURU : Finance minister Nirmala Sitharaman on Monday said the government will incentivize the incorporation of One Person Company (OPC) by allowing such companies to grow without any restrictions. This, she said, would boost ease of doing business. OPCs will henceforth be allowed to convert into any other type of company at any time and will not face any restriction on either paid-up capital or turnover.

The government also reduced the residency limit for Indian citizens to set up an OPC from 182 days to 120 days, allowing even non-resident Indians (NRIs) to incorporate OPCs in the country.

To reduce the compliance burden on smaller firms, the [budget](#) also proposed to revise their definition under the Companies Act 2013, increasing their threshold for paid-up capital and turnover.

"I propose to revise the definition under the Companies Act, 2013 for Small Companies by increasing their thresholds for paid-up capital from 'not exceeding 50 lakh' to 'not exceeding 2 crore' and turnover from 'not exceeding 2 crore' to 'not exceeding 20 crore'," Sitharaman said in her budget speech.

The move is expected to benefit more than 200,000 companies in easing their compliance requirements, she said. "The biggest advantage of an OPC is that its identity is distinct from that of its owner and therefore the owner will not be sued—only the company will. Another advantage is limited liability, where personal assets of the shareholders and directors remain protected in case of a default. Unlike a sole proprietorship, OPCs can raise equity funding and are eligible for government schemes," said Ankur Bansal, co-founder, BlackSoil, a venture debt provider.

The move to incentivize OPCs and reduce the residency limit is expected to provide broader investment opportunities for venture funds, while providing leverage to incorporate firms.

India improved its position in the Ease of Doing Business (EoDB) ranking to 63 in 2020 from 77 in 2018 as per the World Bank's 'Doing Business' report.

"Incorporation of one person company allowed without any restriction on paid up limit is a welcome move for startups as two directors were necessary at a minimum," said Anup Jain, managing partner, Orios Venture Partners.

The finance minister also proposed to extend the tax holiday for startups along with capital gains exemption by a year till 31 March 2022.

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