
DESIGNING A LEGAL-COMPLIANCE ROADMAP FOR MSME & STARTUP FOUNDERS IN INDIA: A SIMPLIFIED FOUNDER'S MANUAL FOR NON-LAW PROFESSIONALS

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ABSTRACT

Why do Indian startups keep failing for legal reasons even as the government enacts one regulatory simplification after another? This article takes that question seriously. Using a doctrinal research method anchored in primary legislation and supplemented by institutional datasets including the Economic Survey 2025-26, the 333rd Parliamentary Standing Committee Report (March 2026), and TeamLease RegTech's compliance survey it argues that the answer lies not in the quality of India's reformed regulatory framework but in the persistent gap between what the law says and what founders actually do. That gap is examined across five fault lines: the evolving constitutional architecture of enterprise rights; the 2026 fiscal transition under the Income Tax Act 2025 and Section 43B(h); the structural deformity of the Missing Middle; the internal governance vacuum created by missing founders' agreements and unassigned intellectual property; and the salary and social security disruptions triggered by the four Labour Codes effective November 2025. Against each fault line, the article proposes a concrete corrective within a broader Governance by Design philosophy the argument that legal compliance is most effective when built into the founding architecture of a venture rather than retrofitted under investor pressure or regulatory compulsion. The article concludes that in the 2026 compliance environment, legal hygiene is not a tax on entrepreneurship but its most under-appreciated competitive moat.

Keywords: MSME compliance; startup governance; Section 43B(h); Missing Middle; Founders' Agreement; IP assignment; Labour Codes 2025; Policy-Practice Gap; Governance by Design; Article 19(1)(g).

I. Introduction

The numbers from 2025 are arresting. Roughly 11,223 Indian startups shut down over the course of that year a third more than the previous year and of these closures, nearly one in five was attributable primarily to regulatory or legal failure rather than to a bad product or a shrinking market. Seven ventures folded within twelve months of receiving their certificates of incorporation, a figure that was one in 2024. Read alongside the broader statistic that India's MSMEs contribute 31.1 per cent of GDP and generate nearly half the country's merchandise exports, these numbers reveal a sector doing exceptional things at the macro level while haemorrhaging enterprises at the micro level for reasons that are, in principle, entirely preventable.^{1 2 3}

The standard account blames complexity. That account is partly right. A manufacturing micro-enterprise operating from a single address in one state carries nearly 998 distinct compliance obligations and meeting them costs between thirteen and seventeen lakh rupees annually a figure that, for a firm turning over two crore rupees, represents close to nine per cent of gross revenue spent on paperwork rather than production. But complexity alone does not explain the pattern. India's reform record over the past decade is substantive: 47,000-plus compliance simplifications, a new income tax code that strips six decades of accretions down to 536 sections, and a decriminalisation statute that replaces jail terms with civil fines across 784 provisions of 79 central acts. The complexity is reducing. The failures are not.⁴

The better explanation is a structural mismatch between the sophistication of India's reformed legal architecture and the legal literacy of the people it governs. When the state migrates to proof-based digital compliance mandatory web filings, automated GST reconciliation, real-time penalty generation it implicitly assumes that the regulated party has the tools and the knowledge to operate in that environment. Most MSME founders, who are engineers, commerce graduates, farmers' children, and first-generation entrepreneurs, do not. The result is what this article calls the Policy-Practice Gap: a widening distance between what the statute books permit and protect, and what actually reaches the micro-enterprise in Meerut or the food-tech startup in Mysuru.

¹Ministry of Finance, Economic Survey 2025-26 (Government of India, 2026) pp. 143-148.

²DPIIT, Annual Report 2025-26 (Ministry of Commerce & Industry, 2026) p. 14.

³Deutsche, India Startup Reckoning 2025 (Deutsche.dk, 2026) pp. 8-12.

⁴TeamLease RegTech, India Regulatory Compliance Outlook 2025-26 (2025) pp. 12-16.

The article's response to this gap is the Governance by Design framework an argument that legal compliance generates its highest returns when it is treated as founding architecture rather than as annual maintenance. A venture that begins with the right entity structure, a properly executed founders' agreement, formal intellectual property assignment, Udyam registration, and an automated compliance calendar is not merely ticking boxes; it is constructing the infrastructure that attracts investors, unlocks credit, and survives regulatory scrutiny. The sections that follow develop this argument across the five fault lines identified above.

II. Constitutional and Theoretical Context

A. The Right to Trade and Its Limits

Entrepreneurship in India has a constitutional address. Article 19(1)(g) guarantees every citizen the right to practise any profession, or to carry on any occupation, trade, or business. The Supreme Court established in *Maneka Gandhi v. Union of India* (1978) that restrictions on this right and there are many must clear a demanding standard: they must be just, fair, and reasonable in both substance and procedure, and cannot be arbitrary. The practical upshot for the regulatory obligations that this article analyses GST registration, labour code compliance, data protection filings is that their constitutional validity is not in serious doubt. Each bears a rational relationship to a legitimate public interest. But the Maneka standard also requires that those obligations be administered fairly, that penalties be proportionate, and that regulated parties be given a genuine opportunity to comply before being penalised.⁵

A less cited but operationally important corollary was established in *Excel Wear v. Union of India* (1979): the freedom to carry on a business necessarily includes the freedom to close it. In 2026, this principle constrains the aggressive use of the Section 248 strike-off mechanism. Over 2.38 lakh companies have been removed from the Companies Register in recent years for failure to file annual returns for two consecutive years. Courts have consistently held that this process requires procedurally fair notice and a genuine opportunity to respond. For the non-law founder who misses two consecutive annual returns not out of evasion but out of ignorance the strike-off outcome (dissolution, frozen bank accounts, five-year director disqualification) fails this proportionality standard unless the prescribed notice process has

⁵Article 19(1)(g), Constitution of India, 1950; *Maneka Gandhi v. Union of India*, AIR 1978 SC 597.

been scrupulously followed.

B. Three Frameworks for Understanding the Gap

Three theoretical frameworks illuminate different dimensions of the Policy-Practice Gap. De Soto's dead capital thesis, developed in *The Mystery of Capital*, argues that assets held outside the formal legal system cannot be leveraged they cannot serve as collateral, cannot support enforceable contracts, and cannot attract investment. India's unregistered MSMEs are the precise domestic instantiation of this thesis. The 35 per cent of small businesses that have not registered on Udyam or GST portals are algorithmically invisible to the Unified Lending Interface, to the Credit Guarantee Trust for Micro and Small Enterprises, and to institutional procurement platforms. Their capital real, often substantial is dead. Registration converts it. The GST filing history and UPI transaction record of a registered enterprise become the credit-scoring input for collateral-free working capital loans under the ULI. De Soto's argument, transposed to the 2026 Indian context, suggests that the act of legal registration is not regulatory submission but economic self-activation.⁶

Schumpeter's creative destruction framework illuminates the Missing Middle problem from a different angle. If innovative firms are the engines of productivity growth, their failure to scale because scaling triggers compliance costs that consume the surplus needed to fund further innovation constitutes a structural suppression of the economy's growth potential. The Missing Middle is not merely an unfortunate distributional outcome; it is a misallocation of entrepreneurial energy with measurable GDP consequences. Finally, Responsive Regulation theory, developed by Ayres and Braithwaite, provides the normative framework for evaluating the Jan Vishwas reforms. Their central argument is that regulatory compliance is best achieved not through uniform punitive enforcement but through a graduated pyramid that begins with education and persuasion, escalates to civil penalties, and reserves criminal prosecution for deliberate and repeated wrongdoing. The Inspector-cum-Facilitator introduced across all four Labour Codes an officer whose primary statutory function is advisory, and who issues improvement notices before penalties is this theory made institutional.⁷

⁶Hernando de Soto, *The Mystery of Capital* (Basic Books, 2000) pp. 6-15.

⁷Ian Ayres and John Braithwaite, *Responsive Regulation* (Oxford University Press, 1992) p. 35.

III. The Fiscal Transition of 2025-26

A. The Income Tax Act 2025: What Changes and What Does Not

The Income Tax Act 2025 replaces, with effect from 1 April 2026, a statute that had been amended so many times since 1961 that it had become, in the words of the Standing Committee on Finance, a labyrinth of cross-references, provisos, and explanations that rewarded tax professionals while penalising the self-reliant taxpayer. The structural reorganisation 536 sections in 23 thematic chapters, down from over 800 sections spread without obvious logic across the old Act is genuine and significant. The unified Tax Year concept, which eliminates the Previous Year / Assessment Year distinction that confused financial planning, is a practical improvement that reduces the administrative double-entry burden for founders managing MCA filings alongside tax returns. The extension of the faceless assessment regime to essentially all cases remove the scope for the localised discretion that historically made tax compliance expensive in ways that never appeared on the invoice.⁸

What the new Act does not change is the standard of data integrity that the compliance environment demands. Faceless assessment does not mean lenient assessment; it means automated assessment. The Annual Information Statement now aggregates data from GST filings, banking transactions, UPI settlement records, securities holdings, and foreign remittances into a comprehensive financial portrait of every registered taxpayer. Any discrepancy between what a founder reports and what the AIS records triggers an automated inquiry without a human officer exercising discretion and without the informal resolution that previously smoothed over minor inconsistencies. For the non-law founder who manages accounts through a spreadsheet updated quarterly, this is a regime change with real teeth.

B. Section 43B(h): A Statutory Sword That Few Have Drawn

The insertion of clause (h) into Section 43B of the Income Tax Act effective from Assessment Year 2024-25 and carried into the 2025 Act is the most operationally consequential tax provision for the MSME sector in recent memory. Its mechanism is simple: amounts owed by any buyer to a registered Micro or Small enterprise must be paid within the timelines prescribed by Section 15 of the MSMED Act (15 days where no written agreement exists; a

⁸Income Tax Act, 2025 (effective 1 April 2026); Income Tax Act, 1961, s. 43B(h) (inserted by Finance Act, 2023).

maximum of 45 days where one does) to be deductible as a business expense in that year. An unpaid amount sitting on the balance sheet on 31 March is disallowed added back to taxable income and only becomes deductible in the year of actual payment. On a fifty-lakh payable at a 25 per cent corporate tax rate, the disallowance generates a twelve-and-a-half lakh tax liability on money that has not been received.⁹

Despite this substantial financial incentive, the Economic Survey 2025-26 records over eight lakh crore rupees locked in delayed MSME payments, with average payment cycles running to 120 days well beyond the 45-day statutory maximum. The explanation is not ignorance of the provision on the buyer's side; large corporate procurement teams have integrated Udyam certificate verification into onboarding processes and calibrated payment alerts accordingly. It is power asymmetry on the seller's side. A micro-enterprise that supplies to a single large buyer a common configuration in India's industrial supply chains cannot credibly threaten to invoke its MSEFC rights without risking the relationship that generates 70 per cent of its revenue. The legal protection exists; the bargaining position to use it often does not. Addressing this structural asymmetry requires complementary interventions mandatory TReDS enrollment for large buyers, ULI-backed invoice discounting at the MSME level that lie beyond the tax statute but that the statute's enactment has at least made urgent.

C. The DPDP Act 2023 and GST 2.0: Two Further Compliance Frontiers

Two further developments of the 2025-26 cycle deserve attention from the startup founder. The Digital Personal Data Protection Act 2023 whose Draft Rules were notified in 2025 imposes a consent-based data processing framework on every entity that collects personal data from Indian users, regardless of size or sector. A food-delivery startup, a telemedicine platform, and a B2B SaaS firm all qualify as Data Fiduciaries with identical baseline obligations: purpose-specific consent at every data collection point, clear-language privacy notices, documented breach notification procedures, and mechanisms to honour user requests for data access, correction, and erasure. The penalties for non-compliance reach up to two hundred and fifty crore rupees for failure to implement reasonable security safeguards a figure that makes the DPDP Act the single largest financial risk in the compliance portfolio of any data-intensive early-stage venture.¹⁰

⁹MSMED Act, 2006, s. 15 (15 days without agreement; maximum 45 days with written agreement).

¹⁰Digital Personal Data Protection Act, 2023, ss. 4-8; penalty up to Rs. 250 crore under s. 33.

On the indirect tax side, the introduction of the Invoice Management System by the GSTN in late 2025 has transformed GST from a monthly filing obligation into a weekly data management discipline. Every supplier invoice uploaded to the GSTN must be actioned accepted, rejected, or deferred by the buyer before it can generate an Input Tax Credit claim. This real-time matching eliminates the post-period reconciliation window that previously allowed businesses to catch and correct data errors before the return was filed. For the startup managing its books through a combination of Tally, Excel, and memory, this environment generates automated demand notices faster than the accountant can respond to them.

IV. The Missing Middle and the Credit Visibility Deficit

The statistics on MSME size distribution in India are, on reflection, extraordinary. Of the 7.61 crore enterprises registered on the Udyam portal as of March 2026, 7.56 crore 99.3 per cent sit in the Micro category. The number that have reached Medium status stands at 36,816: fewer enterprises than there are PIN codes in India. This is not a snapshot of a young ecosystem finding its feet; many of these Micro enterprises have been operating for a decade or more. It is a snapshot of a structural trap.¹¹

The trap has a name in the economic literature the Missing Middle and its mechanism is the Compliance Cliff. When a Micro enterprise crosses the turnover threshold into the Small category, it faces a materially different compliance environment: mandatory statutory audit, higher labour law obligations, more complex GST reporting. The founder who runs the numbers compliance costs against the incremental commercial benefit of formal scaling often concludes that staying Micro is more profitable. Some deliberately under-invoice. Others split operations across related entities. The result is a deliberate and rational suppression of economic activity that, at the aggregate level, subtracts measurably from national productivity growth.

The credit dimension of the Missing Middle is equally structural. Traditional bank lending has always been collateral based. An industrial term loan from a public sector bank requires immovable property as primary security an asset that 81 per cent of MSME proprietorships simply do not hold. The Unified Lending Interface, which draws on GST filings, UPI transaction data, and Aadhaar-verified KYC to generate a dynamic credit score for

¹¹Parliamentary Standing Committee on Industry, 333rd Report on Demands for Grants (2026-27) of the Ministry of MSME (Rajya Sabha, March 2026) paras. 4-7.

enterprises without physical assets, represents the first serious attempt to break this dependency. But the ULI's algorithm only works on enterprises that have a digital footprint and the 35 per cent of small businesses that have not registered on any government portal leave no such footprint. They are, in the language of the interface designers, algorithmically invisible: real enterprises, real transactions, real economic value, none of which the formal credit system can see or reach.

Table 1: Key Regulatory Reforms and Compliance Implications (2025-26)

Domain	Reform (2025-26)	Statutory Basis	Practical Impact on Founders
Direct Tax	ITA 2025 SIMPLE	Income Tax Act, 2025	Unified Tax Year; 536 sections (down from 800+)
MSME Payments	S. 43B(h) disallowance	ITA 1961 / ITA 2025	Tax penalty on buyer for delayed MSME dues
GST	Invoice Management System	CGST Rules, 2025	Weekly real-time ITC reconciliation required
Labour	Four Codes (Nov 2025)	COW / CSS / IRC / OSH	50% wage rule; gig worker social security
Liability	Decriminalisation	Jan Vishwas Act, 2026	784 provisions: prison replaced by civil fines
Data	DPDP Act Rules 2025	DPDP Act, 2023	Consent-based processing; penalty up to Rs.250 Cr

The 333rd Report of the Parliamentary Standing Committee on Industry, submitted to the Rajya Sabha in March 2026, made these structural problems vivid. The committee found that five of eight major MSME budget commitments from the previous fiscal year remained unimplemented among them the customised credit card with a five-lakh limit for micro-enterprises and the ten-thousand-crore SME Growth Fund. Its most pointed recommendation was the creation of a Corporate Mitra cadre: accredited para-professional compliance facilitators, trained by the ICAI and ICSI, deployed at Udyog Sathi help desks in Tier-II and

Tier-III cities at government-subsidised fees. The logic is straightforward: a provision that requires a lawyer to operationalise is, for most micro-enterprise founders, a provision that does not exist.

V. Internal Governance: Founders' Agreements, Director Liability, and IP

A. The Governance Vacuum in Early-Stage Ventures

Between 18 and 23 per cent of startup failures are attributed to co-founder conflict and internal governance breakdown a figure that is routinely cited and routinely ignored at the point in a venture's life when it is most actionable: incorporation. The typical early-stage startup begins as a friendship or a university project. The founding team has a shared vision and an implicit understanding of who does what. What it rarely has is a written agreement on how equity vests, what happens when a co-founder wants to leave, who holds the casting vote on a board deadlock, or who owns the code that was written on a personal laptop before the company was incorporated. These are not edge cases; they are predictable events in the life of every multi-founder company. Deferring their documentation until a term sheet arrives is not pragmatism it is the deferral of a governance crisis.¹²

The article recommends that every multi-founder startup execute a comprehensive Founders' Agreement at incorporation, not after. The agreement should include, at minimum: a four-year equity vesting schedule with a one-year cliff, ensuring that no founding equity becomes irrevocable until twelve months of full-time contribution have been made; a company repurchase option allowing the venture to buy back unvested shares at par value when a founder departs, preventing the cap table contamination of a minor shareholding held by a person no longer contributing; a Reserved Matters clause requiring unanimous consent for decisions that are existential for the company (new share issuances, disposal of core assets, changes to the principal business line); explicit role definitions with named compliance responsibilities; and Good Leaver / Bad Leaver provisions that distinguish between the founder who leaves because of illness and the one who leaves because of fraud, and price their respective exits accordingly.

B. Director Liability in 2025-26: Judicial Clarifications

The Supreme Court's companion decisions in *Sanjay Dutt & Ors. v. State of Haryana*

¹²IAEME, 'The Ground Reality of Startup India and the Legal and Compliance Challenges Faced by Startups' (2026) 13(1) Journal of Management 77, 82.

and Anil Khandelwal v. M/s Phoenix India, both handed down in 2025, have substantially clarified the personal liability exposure of company directors under India's quasi-criminal regulatory statutes the Environment Protection Act, the Legal Metrology Act, the Food Safety and Standards Act, and their analogues. The Court held in both cases that establishing a director's criminal liability for a company's violation requires two things: a specific statutory provision imposing vicarious liability on directors, and direct evidence that the individual concerned was the directing mind and will of the company with respect to the specific act or omission in question. The casual averment that a named person was a director at the relevant time is not enough. This is a significant and welcome clarification for the startup ecosystem, where the threat of director prosecution for corporate regulatory failures had begun to deter experienced professionals from accepting board positions in early-stage companies.¹³

The practical governance implication is equally significant. By documenting, in the Founders' Agreement and in board minutes, which director carries operational responsibility for which compliance domain GST to the CFO, labour law to the COO, data protection to the CTO the board creates a contemporaneous record of its governance architecture that can be produced in enforcement proceedings to demonstrate that the prosecuted director was not the directing mind and will for the specific failure alleged. This is not a shield for genuine wrongdoing; it is an accurate representation of how a well-governed company actually functions.

C. The IP Title Defect: A Funding Killer That Is Entirely Avoidable

Section 17 of the Copyright Act 1957 is one of those statutory provisions that most founders have never read and that causes more funding failures than almost any other rule in Indian commercial law. It provides that copyright in any work vests, from the moment of creation, in the individual who created it. The only exception is work created in the course of employment under a contract of service and by definition, the co-founder who built the prototype before the company was incorporated was not employed by a company that did not yet exist. The legal consequence is that the software, the algorithm, the brand design, and the proprietary dataset that constitute the startup's entire enterprise value may belong, as a matter of law, to the co-founders as natural persons rather than to the company that will be valued and

¹³Sanjay Dutt & Ors. v. State of Haryana, (2025) SC; Anil Khandelwal v. M/s Phoenix India, (2025) SC.

funded.¹⁴

Research documents that approximately 31 per cent of venture funding rounds that collapse at the due diligence stage do so because of IP ownership defects of precisely this kind. In one case on record, a Singapore-based institutional investor reduced its offered valuation by fifteen per cent around seventy-five lakh rupees because a 52-day delay attributable to IP housekeeping was characterised as a governance risk. The corrective is simple but must be executed before the company does anything else: an IP Assignment Deed, covering all pre-incorporation work product, all work created during the founders' association with the company, and all contractor and freelance deliverables through work-for-hire provisions, executed simultaneously with the Founders' Agreement and filed as part of the company's constitutional documents. The DPIIT's SIPP scheme makes the associated patent and trademark filings affordable an 80 per cent rebate on patent fees and a 50 per cent rebate on trademark fees for recognised startups removing the financial barrier to early IP protection that previously justified deferral.¹⁵

VI. The Labour Code Reforms: Operational Implications for Startup Founders

The four Labour Codes the Code on Wages 2019, the Industrial Relations Code 2020, the Code on Social Security 2020, and the Occupational Safety, Health and Working Conditions Code 2020 became effective across all major states on 21 November 2025, ending a five-year transitional limbo that had left employers uncertain whether to apply the new or the old rules. Their collective ambition is to replace 29 overlapping central statutes with a coherent, internally consistent regulatory framework. Whether they achieve that ambition is a question for a longer study. What this article addresses is their immediate operational impact on early-stage companies.¹⁶

A. The 50 Per Cent Wage Rule and Its Balance Sheet Consequences

The Code on Wages 2019 introduces a standardised definition of wages in Section 2(y) and, with it, a 50 per cent compliance rule with significant payroll consequences. Under this rule, the sum of all allowances excluded from the wages definition housing rent allowance,

¹⁴Copyright Act, 1957, s. 17; Virtual Auditor, India Startup Compliance Report 2026 (2026) p. 22.

¹⁵DPIIT, Startup Intellectual Property Protection (SIPP) Scheme Guidelines (2024).

¹⁶Code on Wages, 2019, s. 2(y); Randstad India, Impact of New Labour Codes on Salary and Take-Home Pay (2026).

conveyance allowance, meal coupons, special allowances cannot exceed 50 per cent of total gross remuneration. If it does, the excess is treated as wages for the purpose of calculating statutory contributions to the Provident Fund and for gratuity. Indian startups, following a common industry practice, had routinely structured compensation with a basic salary of 20 to 30 per cent of CTC, with the balance paid as tax-advantaged allowances. That structure is now non-compliant. For a company with 50 employees on an average CTC of fifteen lakh rupees annually, restructuring to comply with the 50 per cent rule can increase the annual payroll cost by twenty to forty lakh rupees a material impact that must be incorporated into financial projections before the 21 November compliance date is treated as already passed.

B. The Gig Economy Gets a Legal Identity

The Code on Social Security 2020 makes its most important contribution in Chapter IX, where gig workers and platform workers previously invisible to Indian labour law receive statutory recognition for the first time. Aggregator platforms that deploy these workers are required to contribute between one and two per cent of their annual turnover to a government-administered Social Security Fund, which will finance insurance, health, and maternity benefits for registered workers. For a startup operating in the platform economy, this contribution is a new cost that must be modelled into unit economics. It is also a signal that the state's posture toward platform labour is hardening, and that more prescriptive obligations on minimum earnings, algorithmic transparency, grievance redressal are likely to follow in the next legislative cycle.¹⁷

C. The 300-Worker Threshold: Removing a Decades-Old Barrier to Scale

The single most significant labour reform for the scaling startup is the increase, under Section 77 of the Industrial Relations Code 2020, of the threshold for prior government permission for layoffs, retrenchment, and closure from 100 workers to 300 workers. The old 100-worker threshold had operated for decades as one of the most powerful growth suppressants in the Indian economy: employers approaching the threshold would systematically outsource, contract labour, or leave productivity on the table rather than hire their hundredth formal employee. The increase to 300 does not make retrenchment cost-free the statutory retrenchment compensation of 15 days' wages per year of service still applies, and

¹⁷Code on Social Security, 2020, ss. 113-114.

the Worker Re-skilling Fund requires an additional contribution of 15 days' wages per retrenched worker but it removes the permission barrier that made workforce adjustment a political rather than a commercial decision for the majority of growth-stage Indian startups.¹⁸

VII. Governance by Design: A Strategic Roadmap

A. The Compliance Calendar as Operational Infrastructure

The most consistently underestimated risk in the MSME compliance environment is not the complexity of any individual obligation but the cumulative effect of missing several simultaneously. The MCA's automated penalty system is unforgiving: Form AOC-4 (financial statements) and Form MGT-7 (annual return) each attract penalties of one hundred rupees per day with no statutory cap. Two consecutive years of non-filing triggers the Section 248 strike-off process, resulting in dissolution of the company, freezing of bank accounts, and five-year director disqualification consequences that arrive not with advance warning from a field inspector but as the automated output of a server. Over 2.38 lakh companies experienced this outcome in recent years. The preventive architecture is straightforward: a cloud-based compliance platform, at an annual subscription cost of fifty thousand to two lakh rupees depending on company size, that tracks every filing deadline, sends automated reminders, and reconciles GST data weekly rather than monthly. The return on that investment, measured against the cost of a single missed filing, is immediate.¹⁹

The essential annual milestones for a Private Limited Company are: Form MSME-1 for outstanding vendor dues (30 April); Form DPT-3 for deposits non-filing penalty up to ten crore rupees (30 June); Form 16 issuance to employees (15 June); Director KYC in Form DIR-3 KYC five thousand rupees flat penalty per deactivated DIN, and the Annual General Meeting (30 September); Form AOC-4 for financial statements (30 October); Form MGT-7 or MGT-7A Annual Return (29 November); and the Annual GST Return in GSTR-9 (31 December). This calendar is not complex. It simply requires someone to own it.

B. The Three-Phase Architecture of a Compliant Venture

The Governance by Design roadmap operates in three phases calibrated to the venture's

¹⁸Industrial Relations Code, 2020, s. 77.

¹⁹Companies Act, 2013, s. 248; Ministry of Corporate Affairs, Strike-Off Statistics (MCA Portal, 2026).

lifecycle. **Phase one, at incorporation**, covers the minimum viable legal architecture: Private Limited Company structure (not LLP, if institutional funding is anticipated); Founders' Agreement with four-year vesting and one-year cliff, executed simultaneously with incorporation; IP Assignment covering all pre-existing and future work product; Udyam registration within thirty days; and Form INC-20A within 180 days. These actions take a working week and a professional fee of thirty to fifty thousand rupees. Their absence, discovered at the term sheet stage, costs multiples of that in valuation haircuts and round delays.

Phase two, in years two and three, institutionalises compliance through technology and process. It involves restructuring salary packages to the 50 per cent wage rule, implementing an integrated cloud payroll and accounting system, conducting the first formal legal audit of the company's IP documentation and ROC filing history, and applying for SIPP benefits if the company's technology carries a patentable innovation. A key priority in this phase is the preparation of a Data Room the organised repository of corporate documents that due diligence requires before the fundraise, not during it. The legal audit that uncovers a missing IP Assignment or a two-year gap in board minutes during a live term sheet negotiation is a governance failure whose cost is measured in lost valuation and investor confidence.

Phase three, from year four, addresses the compliance architecture of a scaling company approaching the thresholds that trigger additional obligations: FEMA compliance as foreign investment materialises, transfer pricing documentation for transactions with associated enterprises, mandatory board committee formation under the Companies Act, and ESG reporting frameworks that are increasingly required by institutional investors even before a company reaches the listed stage. This phase also encompasses the preparation legal, financial, and cultural for a potential IPO, GIFT City listing, or international acquisition, each of which subjects the company's compliance history to a level of scrutiny that only a genuinely well-maintained record can survive.

VIII. Conclusion

The central argument of this article is not that Indian law has become simple. It has not. But it has become more rational, more proportionate, and in many respects more founder-friendly than at any point in the post-independence period. The Income Tax Act 2025 is genuinely cleaner than its predecessor. The Jan Vishwas reforms genuinely reduce the threat of criminal prosecution for procedural failures. The Responsive Regulation philosophy

embedded in the Labour Codes genuinely shifts the inspector's default posture from enforcement to facilitation. These are real gains, and they deserve recognition.²⁰

What has not improved and what this article argues is the more urgent reform priority is the translation of statutory improvement into founder-level awareness and action. The Policy-Practice Gap documented here is not primarily a problem of bad law; it is a problem of legal infrastructure. The country has built a sophisticated highway and then failed to put up road signs legible to the people who need to use it. The Corporate Mitra scheme, if operationalised at scale, could serve as the missing signage. The SIPP scheme reduces the cost of IP protection to the point where deferral is no longer financially rational. The ULI has begun to break the tyranny of collateral-based credit. But all of these instruments reach only enterprises that have first taken the step of formal registration and thirty-five per cent of small businesses have not.

The Governance by Design framework proposed here is, ultimately, an argument about timing. The legal decisions that most determine whether a startup survives investor due diligence, regulatory scrutiny, and co-founder conflict are made in the first ninety days of the company's corporate life before the product has been launched, before the first investor meeting, and usually before the founding team has thought seriously about law at all. Moving those decisions forward, into the architecture of the venture rather than the crisis of the funding round, is what Governance by Design means in practice. The non-law founder who does this is not being cautious at the expense of speed. They are building the infrastructure that makes speed sustainable.

²⁰Jan Vishwas (Amendment of Provisions) Act, 2026.

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