
RISE OF ONE PERSON COMPANIES (OPCs) AND SMALL COMPANIES POST-2021 AMENDMENTS: OPPORTUNITIES AND CHALLENGES IN INDIA

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ABSTRACT

The Companies Act, 2013 introduced One Person Companies (OPCs) and Small Companies to encourage entrepreneurship and promote formalization among micro-businesses. Initially, statutory restrictions limited their effectiveness. The Companies (Incorporation) Second Amendment Rules, 2021 removed many barriers, making OPCs and Small Companies more attractive to entrepreneurs by easing residency rules, allowing non-resident Indians (NRIs) to incorporate OPCs, eliminating capital and turnover thresholds, and simplifying conversion procedures. Small Companies also benefitted from increased capital and turnover limits and reduced compliance obligations.

This paper traces the evolution of OPCs and Small Companies after the 2021 reforms. Drawing from Ministry of Corporate Affairs (MCA) data and comparative legal analysis, it assesses their impact on Indian entrepreneurship, examines challenges in financing and governance, and situates Indian developments alongside the United States' single-member limited liability company (LLC) model. The paper concludes with recommendations to strengthen the legal framework and argues that OPCs and Small Companies can become significant drivers of India's start-up ecosystem if policy gaps are addressed.

Keywords: One Person Company, Small Company, Companies Act 2013, 2021 Amendments, MCA Data, Entrepreneurship

I. Introduction

The development of Indian company law reflects a constant balancing act between facilitating business growth and ensuring regulatory oversight. The Companies Act, 2013 replaced the earlier Companies Act, 1956 and introduced the concept of OPCs under Section 2(62). This allowed a single individual to establish a company while enjoying the benefits of corporate personality, including limited liability, perpetual succession, and separate legal status (1). The inspiration for OPCs is grounded in the principle of corporate personality as articulated in *Salomon v. Salomon & Co. Ltd.* (1896), which recognized the independence of a company from its members (2).

Globally, single-member companies had already been established in jurisdictions such as the United Kingdom, Singapore, and the United States, and the Dr. J.J. Irani Committee (2005) strongly recommended their adoption in India (3). However, the Indian framework imposed rigid restrictions. OPCs were confined to resident Indian citizens, defined as those staying for at least 182 days in India, and were capped at ₹50 lakh in paid-up capital and ₹2 crore in turnover (4). Similarly, Small Companies were defined with low thresholds, limiting their usefulness to a narrow set of enterprises.

The 2021 amendments transformed this situation. By reducing the residency requirement to 120 days, allowing NRIs to form OPCs, removing capital and turnover ceilings, and simplifying conversion rules, the law created greater space for OPCs to thrive (5). Small Companies likewise benefitted from raised financial thresholds, which were further enhanced in 2022, thereby reducing compliance for thousands of micro, small, and medium enterprises (MSMEs) (6).

II. Historical and Doctrinal Background

The OPC model has its roots in the doctrine of separate legal personality, firmly established in *Salomon v. Salomon* (2). As economies modernized, countries moved to recognize single-member corporate forms to facilitate small-scale business entry into the formal system. The European Union mandated recognition of single-member private limited liability companies in 1989 (7), while the United Kingdom recognized them in 1992 (8). The United States developed the single-member LLC model, providing entrepreneurs with both limited liability and the benefits of pass-through taxation (9).

In India, most small businesses historically operated as sole proprietorships, often outside the ambit of corporate regulation. The Irani Committee Report (2005) recognized this gap and argued that OPCs could serve as a bridge, bringing individual entrepreneurs into the corporate framework without imposing excessive compliance burdens (3). Similarly, Small Companies were introduced to ease compliance for enterprises of limited size and scale (4). The legal architecture for both entities was therefore designed with the goal of inclusivity and regulatory flexibility.

III. Statutory Framework and the 2021 Amendments

Under Section 2(62) of the Companies Act, an OPC is a private company with only one member (1). The pre-2021 framework restricted OPCs by imposing strict residency and financial thresholds (4). The 2021 reforms marked a turning point by reducing the residency requirement from 182 days to 120, opening incorporation to NRIs, eliminating capital and turnover restrictions, and enabling voluntary conversion into private or public companies without mandatory thresholds (5).

Small Companies, defined under Section 2(85), also witnessed a major liberalization. Initially, the definition was limited to companies with paid-up capital not exceeding ₹50 lakh and turnover not exceeding ₹2 crore (4). The 2021 reforms raised these thresholds to ₹2 crore and ₹20 crore, respectively, which were further increased in 2022 to ₹4 crore and ₹40 crore (6). The compliance framework for Small Companies is significantly lighter: they are exempt from preparing cash flow statements, require fewer board meetings, and face simplified filing and auditing requirements (10).

IV. MCA Data and Empirical Trends

Official statistics reflect the positive impact of the reforms. As of January 2025, India had 28.05 lakh registered companies, of which about 65 percent were active (11). During FY 2024–25 alone, 1.12 lakh new companies were registered, marking a year-on-year increase of nearly 29 percent (12).

OPCs, which numbered just 2,238 in 2015, grew rapidly to over 40,000 by 2021 (13). Post-2021, their growth has been most pronounced in sectors such as information technology, consulting, professional services, and real estate. Small Companies now account for more than 40 percent of active private companies in India, demonstrating their popularity among MSMEs

seeking formalization with reduced compliance obligations (14).

V. Opportunities Post-2021

The reforms opened new avenues for entrepreneurship. OPCs provided individual businesspersons with a credible and legally recognized platform to operate, enhancing their ability to enter into contracts, raise financing, and participate in the formal economy (15). The inclusion of NRIs within the framework has facilitated cross-border entrepreneurship, enabling members of the Indian diaspora to establish businesses in India (5). The removal of turnover and capital limits has allowed firms to scale organically, rather than being forced into premature conversion into private or public companies.

Small Companies have benefitted from sharply reduced compliance costs. Their simplified reporting requirements and exemption from certain corporate governance norms have allowed entrepreneurs to focus on business development rather than compliance (10). Both OPCs and Small Companies have also strengthened India's start-up ecosystem, particularly by giving recognition and legitimacy to ventures that begin on a small scale but aspire to expand (16).

VI. Challenges and Limitations

Despite their promise, OPCs and Small Companies face significant hurdles. Financing remains a key obstacle: banks and investors are often hesitant to lend to or invest in single-member companies due to concerns over governance and continuity (17). The compliance regime, while simplified, still requires mandatory audits and filing of returns, which can impose a disproportionate cost burden on very small firms (18).

The nominee requirement for OPCs, where a single shareholder must appoint a nominee to take over in case of death or incapacity, raises privacy and succession concerns (19). Taxation is another weakness. Unlike the United States, where LLCs enjoy pass-through taxation, OPCs are taxed at the corporate rate of 30 percent, which can be higher than individual tax rates (9). Finally, although NRIs can now form OPCs, foreign nationals without Indian citizenship remain excluded, limiting international capital inflow (20).

VII. Comparative International Perspectives: India and the United States

A comparison between India's OPC framework and the United States' single-member LLCs

highlights both progress and limitations. In the United States, single-member LLCs are extremely popular due to their flexibility. They combine limited liability with the option of pass-through taxation, meaning that business profits are taxed only once as part of the owner's personal income (9). In contrast, Indian OPCs are taxed at a flat corporate rate, eroding their financial efficiency for small businesses (21).

Governance structures also differ. US LLCs enjoy minimal reporting obligations, with requirements varying by state but generally much lighter than corporate formalities (22). Indian OPCs, despite being designed as simplified entities, are still subject to mandatory audits, annual filings, and the requirement to appoint a nominee (19), which increases both cost and complexity.

In terms of financing, US LLCs are widely recognized by banks, venture capitalists, and angel investors, while Indian OPCs often struggle to gain similar acceptance (17). On the other hand, India's 2021 reforms granting NRIs the ability to establish OPCs demonstrate a growing openness to global participation, something that mirrors the cross-border recognition enjoyed by US LLCs (5).

While India is regionally ahead of countries such as Bangladesh and Pakistan, which have adopted more restrictive single-member company models (23), it still lags behind the United States in providing tax benefits, investor confidence, and governance flexibility. The comparison suggests that for OPCs to reach their full potential, India must adopt reforms that move closer to the US model, particularly in taxation and financing.

VIII. Case Law Analysis

Indian courts have consistently reinforced the doctrine of separate legal personality, which underpins both OPCs and Small Companies. In *Salomon v. Salomon* (2), the principle of corporate independence was firmly laid down, influencing later Indian jurisprudence. In *LIC v. Escorts Ltd.* (1986), the Supreme Court reaffirmed that a company is distinct from its shareholders (24). Courts have also recognized exceptions: in *Skipper Construction v. DDA* (1996), the Supreme Court pierced the corporate veil to prevent misuse of the corporate form (25). More recently, cases such as *Balwinder Singh v. Union of India* (2019) and *ROC v. Finecape Pvt. Ltd.* (2020) have emphasized the need for compliance while supporting the broader policy of simplifying regulations for small entities (26).

IX. Policy Recommendations

Future reforms should focus on addressing financing and taxation hurdles. Introducing pass-through taxation for OPCs, similar to the US LLC framework, would make them more attractive to small entrepreneurs (9). A confidential, digital nominee framework managed by the MCA could alleviate privacy and succession concerns (19). Dedicated credit support schemes and alternative fundraising tools, such as regulated crowd-funding, would also ease the financing gap (17). Simplifying conversion procedures into larger corporate forms would help firms scale smoothly (5). Finally, improved data dissemination on OPC and Small Company performance would enable evidence-based policymaking and investor confidence (12).

X. Conclusion

The 2021 amendments have significantly strengthened the legal framework for OPCs and Small Companies, transforming them from restricted experiments into accessible vehicles for entrepreneurship. Their rapid growth demonstrates their value as instruments of formalization and business development. Yet, taxation, financing, and governance hurdles remain barriers to their full success. The comparison with the United States reveals that India has taken important steps but must still move closer to global best practices to unlock the full potential of these entities. If further reforms address these gaps, OPCs and Small Companies could evolve into central pillars of India's entrepreneurial ecosystem and play a transformative role in its economic development.

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