One-person Company

Why in news?

In the Budget speech, Finance Minister announced measures to ease norms for setting up one-person companies.

What is a one-person company (OPCs)?

- It is a company that is formed by just one person as a shareholder in contrast to private companies which require minimum of two members to get going.
- This is helpful to the person wants to get into business through his sole proprietorship mode but they are considered as private companies only.

How many OPCs does India have?

- According to data by Monthly Information Bulletin on Corporate Sector, there are 34,235 OPCs out of a total number of about 1.3 million active companies in India, as on December 31, 2020.
- The number of OPCs was 2,238 (out of a total of about 1 million companies) as on March 31, 2015 & more than half of the OPCs are in business services.

How does single-person Company and sole proprietorship differ?

- In the eyes of law, single-person Company and sole proprietorship differ significantly.
- In single-person Company, the person and the company are considered separate legal entities whereas in sole proprietorship, the owner and the business are considered the same.

- This has an important implication when it comes to the liability of the individual member or owner.
- In a one-person company, the sole owner's liability is limited to that person's investment but in sole proprietorship set-up, the owner has unlimited liability.
- This announcement will encourage corporatisation of small businesses & will be useful for entrepreneurs to have this option when they decide to start a

business.

Does this concept exist earlier?

- In India, this concept was introduced in the Companies Act of 2013 based on the recommendations of **J.J. Irani Committee** Report on Company Law in 2005.
- It said that small companies can contribute significantly to the Indian economy but should not be burdened with high level of compliance as large public-listed companies.
- Hence such entity can be provided with a simpler regime like providing exemptions from procedural requirements, not requiring to conduct an annual general meeting.
- Also they do not require signatures of both its company secretary and director on its annual returns.
- This helps the single entrepreneur not to waste his time, energy and resources on procedural matters.

What are the changes announced in the budget for these companies?

- The 2014 rule states that OPCs would cease to have that status if its paid-up share capital exceeds Rs 50 lakh or its average turnover for the preceding three years exceeds Rs 2 crore.
- This condition was lifted in this budget.
- Earlier only an Indian citizen and an Indian resident could start a single-person company.
- Now it is proposed that residency limit for an Indian citizen to set up an OPC will be reduced from 182 days to 120 days & NRIs are now allowed to incorporate OPCs in India.
- These changes come along with the proposal to increase the threshold of capital base from Rs 50 lakh to Rs 2 crore & turnover from Rs 2 crore to Rs 20 crore for small companies.
- This means that these companies can have easy compliance requirements for longer time & will address the existing criticism that erstwhile rules governing OPCs are restrictive in nature.

Source: The Hindu

IAS PARLIAMENT

Information is Empowering

A Shankar IAS Academy Initiative