Jus Corpus Law Journal

Open Access Law Journal – Copyright © 2026 – ISSN 2582-7820

Editor-in-Chief – Prof. (Dr.) Rhishikesh Dave; Publisher – Ayush Pandey

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Expanding the Small Company Regime under the Corporate Laws (Amendment) Bill 2026

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Received 03 April 2026; *Accepted* 07 May 2026; *Published* 11 May 2026

India's Corporate Law (Amendment) Bill 2026 is fundamentally changing the way India regulates small companies. The new law creates a larger definition for small companies, as well as reducing the burden of compliance requirements for these businesses. This paper will outline how the Bill alters the guidelines for what constitutes a small company under the Companies Act 2013 by increasing the financial criteria for being eligible for classification as a small company, and providing certain limited exemptions from governance and penalty requirements. The amendment expands the limits for paid-up share capital and turnover and thus incorporates more companies into the small company regime. It has also reduced the number of mandatory board meetings that are required to be held by eliminating one meeting a year, as well as improving upon penalties because of its flexibility in the wording of penalties found in section 446B.[1] It is this discussion that will argue that these changes to corporate laws were created to further the government's overall objective of improving the ease of doing business by bringing corporate regulations more in line with how businesses in India operate. In addition, this discussion will evaluate whether these increased classifications are diluting the difference between truly small businesses and larger privately held companies. This analysis concludes with the comment that although implementing these reforms has enhanced proportionality in corporate regulations, their success will ultimately depend upon the manner in which they are implemented and regulated, as well as on how the regulations are drafted. The article concludes that the Bill represents a move toward a more flexible and

[1] Corporate Laws (Amendment) Bill 2026, cl 98

business-friendly regulatory framework, but one that must be balanced with the need to maintain accountability and governance standards.

Keywords: *company, amendment, corporate law, small company.*

INTRODUCTION: WHY THE 'SMALL COMPANY' CATEGORY MATTERS?

'Small Company' as an area needs to maintain its significance because of how it intersects with actual business practices and regulatory requirements/obligations. The Companies Act, 2013 defines a small company as a smaller business which should not have the same compliance burden as larger companies (i.e., larger investor base, more complex ownership structure & more governance requirements). In practice, small companies are subject to less stringent requirements/laws than larger companies in areas such as board composition, penalties for violations of certain laws, meeting requirements, etc. The Corporate Laws (Amendment) Bill 2026 expands the definition of 'small company' and provides further reduced compliance requirements for businesses that qualify as 'small companies' for tax purposes. The Statement of Objects and Reasons explains that the purpose of these proposed amendments is to improve the ease of doing business, ease of compliance for smaller companies, and offer a streamlined approach to governance and regulation. The importance of this policy direction is that company law is not only concerned with control; it is also concerned with calibration. A law that is overly stringent on small businesses creates a cost associated with growth, time, and/or management.

Conversely, a law that is overly liberal in its application will fail to create sufficient accountability in the marketplace. Ultimately, the value of the small company legislative framework is that it attempts to create a balance. The 2026 Bill will be significant because it does not just reiterate this important concept; it will expand the definition of 'small company' and provide reduced compliance for companies that qualify as 'small companies,' thereby allowing them to be governed in accordance with company law. The number of businesses that can take advantage of the simplified corporate governance model enacted under this Bill is expanded through the introduction of new legislation governing small companies. In addition, the introduction of new forms of corporate governance that are no longer rigidly

tied to the amount of revenue generated by a business provides much greater flexibility than the current rigidly controlled way of governing corporations.

EXISTING LEGAL POSITION BEFORE THE BILL

The previous definition of a small company (before the Bill) was presented in section 2(85) of the Companies Act[2]. Under this definition, a company is classified as small if it is not a public company and has two qualifying criteria. First, the company's paid-up capital may not exceed fifty lakh rupees (fifty lakh = 1,500,000) unless there are regulations creating higher amounts, but under no circumstances may that amount exceed ten crore rupees (ten crore = 100,000,000). Second, the company's turnover in the profit and loss statements prepared for the financial year immediately before it assesses whether it is a small company or not may exceed two crore rupees (2 crore = 200,000,000) unless regulations create higher amounts, but under no circumstances may that amount exceed one hundred crore rupees (100 crore = 1,000,000,000). Second, those companies that qualify as small companies were differentiated from 'small' through their structural exclusion from the corporations governed by section 8 of the Companies Act, subsidiary companies, holding companies and business enterprises governed by separate Acts.

The existing framework was a deliberate legislative choice. The legislature did not intend for the term 'small' to just provide a descriptive label for a business; instead, it explicitly tied that label to quantitative thresholds and structural exclusions. This was important because the benefits of being a small company have always been intended for businesses that exist at an actual limit to scale and continue to do so.

Examples of entities like a holding company, a wholly owned subsidiary, or even (in some cases), a Section 8 company usually do not have a simple private operating business framework for operational governance, even though their balance sheets may reflect a reasonable level of assets and liabilities. In the past, the law used both the size and structure of an entity to determine the threshold for relaxation of the 'pre-Bill' laws. While the historical thresholds provided a very definitive line for legal enforcement (i.e., restricting activities), each of these thresholds could become arbitrarily low over time, and many businesses grow

[2] Companies Act 2013, s 2(85)

at very rapid rates. As a result of rapid growth, an entity that was previously classified as small in economic terms may convert to being outside of their legal definition of 'small' before they have reached the level of having internally complex governance. A large percentage of businesses have experienced the tension of this evolution, resulting in periodic revisions of the way in which to categorise entities. The 2016 Bill is an attempt to alleviate some of this tension by extending the thresholds as opposed to developing a new category.

WHAT DOES THE BILL CHANGE?

The most notable change in the Bill is the revised financial thresholds in section 2(85) of the Bill. These changes raise the maximum paid-up share capital threshold from ten crores to twenty crores and increase the maximum turnover threshold from one hundred crores to two hundred crores[3]. The legislature has not simply provided limited benefits to smaller businesses; it has effectively doubled the limits of who can be classified as a small business under the Small Business Regime (e.g., companies classified as medium and large may have been viewed as traditional private businesses but may also now be eligible to be classified as small businesses with associated benefits). There is, therefore, a multiplier impact of the increase in the threshold because it expands the number of companies that fit into this category while simultaneously giving rise to additional obligations for all companies that will be classified under this small-business threshold. The purpose of the new legislation, as expressed in the object clause of the Bill, is explicitly to promote ease of compliance by small businesses and to enhance overall corporate regulation. Subsequently, the increase in the small business threshold can be read as part of a broader legislative style. The Bill represents more than just a single amendment to the existing law; rather, it forms part of a much larger suite of enactments that relate to procedural decriminalisation, simplified compliance processes and enhanced corporate governance. In the new, larger definition of small companies, there are actually more small companies that will qualify for less governance oversight, and that new definition of small companies creates a wider pool of companies that qualify for lighter treatment.

[3] Corporate Laws (Amendment) Bill 2026, cl 18

BOARD-MEETING RELAXATION

An example of this is the reduction in mandatory board meetings as stipulated in subsection 173 of the Bill. The amended Act states that one-person companies, small companies and dormant companies can have just one board meeting in a calendar year instead of at least one meeting in the first half of the year, and at least one meeting in the second half of the year. Under the previous Act, there had to be at least a 90-day gap between the two meetings[4]. This now means that the number of mandatory board meetings for these three types of companies will be reduced from two annually to one. This is a reduction in governance burden that will make a meaningful difference in corporate governance for these companies. In the case of a larger company, the Board is usually involved throughout the year in the development of strategic plans, raising debt/equity finance, managing risk, and providing oversight pertaining to management. In the case of a small company, the cost of complying with the formal Board requirements may be greater than the value derived from holding more than one meeting each year, especially when the owner and manager of the company are typically the same individual. The Bill modifies many provisions for these types of entities, especially regarding auditor relationships with small companies. In particular, auditors will no longer have the requirement to be registered with the relevant regulatory body as an individual (as specified in the Bill). Instead, they will be able to work with small company auditors as part of their company's registration.

PENALTY RELAXATION UNDER SECTION 446B

Furthermore, the Bill provides for the ability of small companies to conduct certain activities, such as holding meetings via electronic means, to save time and money. Finally, small company directors will be permitted to vote and approve certain director-related actions through video or audio conferencing. This Bill modifies this calculation by providing that a penalty may be one-half of the stated penalty or some other percentage not to exceed one-half, as established by the Central Government. While the changes are subtle, they are significant. The current law has a fixed penalty.[5] The Bill provides the Central Government with the flexibility to establish a percentage less than one-half, which provides a more nuanced approach to enforcement and reduces the penalty for the first infraction. For small

[4] Companies Act 2013, s 173(5)
[5] Companies Act 2013, s 446B

businesses, as not every violation constitutes the same degree of harm, using the same method of calculating the penalty does not yield the desired results. A minor procedural violation, as well as a more serious violation of non-compliance, may not justify an identical penalty level purely through the lens of a small business. Therefore, the Bill moves from a single penalty to a two-tiered penalty system. These provisions demonstrate that the reform is not merely definitional; if the law only provided that the limitation would be broadened, yet did not provide for changes to the penalty system, then the practical benefits that derive from the change in threshold would still be very limited. Instead, the Bill provides for a greater limit coupled with a more lenient monetary penalty and therefore creates a more unified small business regime. According to the law, there will be more companies recognised by law as small companies if there's also a measure in place to ensure the consequences of compliance are fair and reasonable compared to the size of the company.

POLICY JUSTIFICATION

While the policy behind the Bill is quite clear, an economic perspective is given to the Liberal Government's intent. The Government intends for company legislation to facilitate business, not to impose a burden on smaller companies with forms and formalities that are typically found with larger corporate entities. The Objects and Reasons of the Bill outline how it will promote ease of doing business, ease of living for corporate entities, decriminalise more provisions, and provide for easier compliance for one-person companies, small companies, start-up companies, and producer companies[6]. It is also legislative intent to provide for further exemptions for small companies. On an economic basis, therefore, a higher small company threshold provides three opportunities for the companies. First, it allows companies with less operational success, despite larger-than-anticipated turnover or capital growth, to have less friction in terms of filing and governance. Second, it allows for greater alignment of the legal category with that of the actual nature of the businesses operating in the sector, particularly sectors that have high growth due to. Thirdly, it enables regulators to focus more resources on larger companies, which are historically known to have stricter board oversight and have more extensive compliance obligations; hence, it provides benefits in terms of compliance efficiency for these large companies. Therefore, the rationale for this reform is to achieve the stated purpose of the Bill, of improving regulatory compliance

[6] Corporate Laws (Amendment) Bill 2026, cl 58

efficiency and rationalising the compliance obligations of companies through enhancing their operational efficiency; this is not merely a theoretical benefit; it is defined in the Bill.

The reform is also consistent with the overall philosophy of the Bill, which moves compliance defaults that apply to certain companies from the use of criminal sanctions to the use of less punitive civil sanctions and simplified compliance processes for those companies. Thus, the overall trend is indicative of a legislative philosophy of proportionality. Rather than require all companies to have the same governance structure, the Bill attempts to tailor governance requirements to the specific circumstances of each company. Accordingly, the small company reform is not simply an independent concession, but is part of a larger corporate law restructuring.

CRITICAL ANALYSIS

A reform that is viewed as fairly pro-business, no doubt, has a negative side. The first question to ask about the new threshold for determining whether a company qualifies as a small company is whether it is based too broadly on the definition of small company. For example, an entity with an aggregate paid-up share capital of 20 crore rupees and a turnover of 200 crore rupees is not always viewed as a small company by all people. Rather, a large number of small entities that fall within the definition of small companies may be able to operate at substantially high volumes and have significant cash flows and well-developed management systems. The first issue is whether or not these larger private corporations would create a legal classification that has an excessive amount of elasticity if they are exempt from the same compliance requirements as the smaller private companies. If this occurs, the distinction between actual small companies and the larger private companies only considered ‘small’ because of the expanded thresholds, will become weaker. The second issue is fairness. Should companies that are just over the previous thresholds be granted equal leniency as companies that are significantly below the previous thresholds? Many think that if a business attains a certain financial size, that business should take on a higher burden in terms of governance because its employees, shareholders, and business partners are more likely to experience harm if that company does not comply with laws and regulations. This may create the appearance of overgenerous treatment (especially from the small-company perspective) through an expanded definition of small businesses; however, this may actually be an overinclusion of large businesses into the same small-business

regime. The next issue for the policy makers will be to provide relief that is targeted and not a blanket grant of relief to mid-size private corporations. The third issue is how the provisions contained in the Bill will be implemented. The manner in which section 446B is drafted provides the Central Government with the ability to set the percentage for any penalties at up to 50%, which is positive from an implementation perspective, but ultimately, the degree of accuracy of the final regime will be primarily dictated by the quality of the subordinate legislation. A proper, well-calibrated notification would provide useful and reasonable relief. Improper calibration of the rule could produce unclear benefits. The annual meeting rule presents a similar challenge, since effective governance is determined, in practice, based on the manner in which companies exercise their authority to convene and the level of internal discipline maintained by companies between meetings; the annual meeting provides efficiency if and only if companies exercise their authority properly. A neutral reading suggests that the Bill addresses a significant issue. The prior regulatory framework defined the boundary for small companies too narrowly, thereby resulting in the smallness of the category for many companies occurring after significant growth in size or capital. The expanded thresholds provided by the Bill, combined with a decreased frequency of board meetings and softer penalties, create a more realistic environment for compliance. Therefore, it is not a question of whether the need for relief is appropriate; it is a matter of whether the new boundary has been established adequately. The final answer is more dependent on the subsequent execution of the enabling legislation than it is on the language that is developed by the new law.

CONCLUSION

The upcoming 2026 amendment to the corporate laws makes significant changes to the small company classification that allow for greater compliance relief by broadening the following metrics: the capital and turnover level thresholds, a relaxation of the requirements surrounding Board of Directors Meetings, and the refinement of the penalties associated with Section 446(b). This Action ultimately creates an environment in India that fosters further movement toward applying proportionality in terms of both the way Indian companies operate as well as the manner in which they are regulated.

The success of this Action will depend on how effectively it is implemented in terms of its use of proportionality and direct relief for those companies that most need it. If the capital

and turnover thresholds are made too broad (i.e., still cover the majority of smaller company types) and the implementation of the rules is made too broad (i.e., many companies would qualify for the exempt regulation based on the implementation of the rules), the categorisations established in the Action could lose their intended precision. As evidence, the language, structure, and intent of the forthcoming legislation indicate that while the Action does not withdraw regulation within the small-company category, it is working to create regulation that is smart, light, and appropriate to the respective sizes of the organisations being regulated. For this reason, the forthcoming amendments for smaller companies require careful consideration because they may represent one of the most significant examples of corporate law being able to respond in ways that are consistent with business growth/desire for efficiency while maintaining overall compliance through regulation.