

## **Analysis: One person company under the Companies Bill**

Under the existing company law regime, a private limited company is required to have a minimum of two shareholders and two directors. The new Companies Bill (passed by both the houses of the Parliament) has introduced the concept of a “one person company” (OPC). This concept, though already prevalent in the UK and several countries of the European Union, was first recommended in India by an expert committee in 2005 and was subsequently inserted in the Companies Bill so as to provide an option to persons operating under the sole proprietorship model to operate as a company. Let’s look at the prominent features of the OPC model under the Companies Bill:

**(a)** An OPC model can operate with a minimum of one shareholder and one director as against the general minimum requirement of two shareholders and directors for a private limited company. The cornerstone of an OPC is that a person can independently carry out business under the company structure and such an amendment achieves the desired objective.

**(b)** The sole shareholder incorporating an OPC is required to appoint a nominee (with such nominee’s written consent) who would take charge of the company in case of the shareholder’s death. Further, such a nominee may be changed any time in the manner prescribed under the Companies Bill.

**(c)** From a procedural point of view, the Companies Bill grants certain relaxations to OPC which are not otherwise available to a private limited company. For instance, an OPC is not mandated to convene an annual general meeting, extraordinary general meeting and other board meetings subject to certain conditions. Moreover, reporting requirements with the Registrar of Companies also appear to have been toned down for an OPC.

**(d)** It is noteworthy that it is mandatory for an OPC to clearly specify that it is a one person company for all purposes. Such a step will ensure that all persons dealing with the OPC are aware of its corporate status and in turn foster better transparency.

In view of the above mentioned features of the OPC, the concept of OPC in the Companies Bill indeed looks promising. However, the success of this concept would be correctly gauged only after its implementation. Additionally, from a taxation point of view, the concept of OPC may not appeal to smaller proprietorships since the base rate of tax of a company is quite steep (30% approx) and may result in a higher incidence of taxation for the smaller sole ventures.

*(Business Standard)*