VOLUME 7 | ISSUE 2

INTERNATIONAL JOURNAL OF ADVANCED LEGAL RESEARCH

ONE PERSON COMPANY: LEGAL FRAMEWORK, ADVANTAGES AND CHALLENGES IN INDIA

- Niyati Vishwakarma[1] & Dr. Aditya Jain

ABSTRACT

The introduction of the One Person Company (OPC) structure under Section 2(62) of the Indian Companies Act, 2013 represented a watershed moment in Indian corporate jurisprudence. Historically, single entrepreneurs seeking to establish a corporate vehicle with restricted responsibility were shackled by legal fictions, such as nominal co-shareholders in private limited companies or the unlimited personal exposure basic in sole proprietorship. Recommended initially by the Dr. J.J. Irani Committee in 2005, the OPC framework was pictured as a hybrid corporate process designed to democratize business incorporation, build financial inclusion, and reward micro, small, and medium enterprises (MSMEs). This research paper comprehensively is finding the legal framework regulating OPCs in India, assessing structural mechanics, statutory exemptions, procedural flexibilities, and statutory protections. It further is investigating the realistic merits offered to modern solo entrepreneurs, encompassing perpetual succession, seamless credit accessibility, and reduced administrative burdens. Working in legislative changes up to the Companies (Incorporation) Second Amendment Rules, 2021, the study is concluding with key policy recommendations aimed at improving the OPC ecosystem to help India's expanding entrepreneurial field. In fact, nowadays, the paper critically is tackling maintaining deep-rooted roadblocks, such as taxation disparities under the Income Tax Act, 1961, institutional credit hesitancy among commercial banks, rigidities in sole-nominee requirements, and potential operational blockages during the management transitions.

Keywords: One Person Company, Companies Act 2013, Sole Proprietorship, Corporate Governance, JJ Irani Committee, MSME, Corporate Law India.

[1] Student at Jagannath University, Jaipur

© 2026 International Journal of Advanced Legal Research

I. INTRODUCTION AND HISTORICAL GENESIS

Modern corporate jurisprudence must continuously strike a delicate balance between building person entrepreneurial initiative and preserving institutional guards designed to protect market creditors, widespread steadiness, and public revenues, in many respects. Under Section 12 of the 1956 Act, forming a private restricted company required a minimum of two members, to a significant degree and seven for a public company.[2] Constructed mostly to oversee major manufacturing enterprises, state-owned elements, and classic family-controlled conglomerates, the 1956 statutory method operated on a rigid law, such as that incorporation needed collective association. For over half a century following independence, Indian commercial activity was regulated, under the statutory architecture of the Companies Act, 1956.[3]

For single entrepreneurs, technical consultants, software developers, and autonomous creators, this mandatory multi-member rule created major concrete hurdles. A person seeking corporate status and limited liability protection was legally forced to locate a second member. This gave rise to the practice of recruiting 'dummy' or nominal shareholders, frequently family members, domestic employees, or casual acquaintances, who held symbolic equity (often a person share) purely to fulfill statutory needs[4], on the whole. Even as this practice met formal registration requirements, it introduced important legal and operational risks, and statutory rights could (in actual operation) be claimed by nominal shareholders, interfere in business management during the personal disagreements, or complicate asset succession upon death, creating governance gridlock for small businesses.

The primary alternative to incorporation was, after all, the unorganized sole proprietorship, while sole proprietorships offered total managerial independence and freedom from statutory corporate reporting, they lacked an autonomous legal identity. Under Indian widespread law, a sole proprietorship is legally indistinguishable from its owner.[5] In turn, then, unlimited personal financial liability was borne by the sole proprietor. Indeed, all commercial obligations, trade debts, and legal responsibilities could (at least in theory) be satisfied directly from the proprietor's personal assets, savings and real estate. What's more, this

[2]Companies Act, 1956, S. 12.
[3]Companies Act, 1956, No. 1 of 1956, Acts of Parliament, 1956 (India).
[4]Dr. J.J. Irani Committee, Report of the Expert Committee on Company Law, Ministry of Corporate Affairs, Government of India, Para 15.1 (May 31, 2005).
[5]Avtar Singh, Company Law 12-15 (17th ed., Eastern Book Company 2018).

© 2026 International Journal of Advanced Legal Research

unlimited financial exposure discouraged risk-averse entrepreneurs, restricted capital investment, and constrained business credit to personal financial standing, in actual application.

Following economic liberalization in 1991, India experienced rapid expansion in knowledge-based industries, software engineering, professional services, and technology startups. These ventures were, more correctly, often launched by person innovators who needed formal corporate statusand limited liability protection without the administrative burdens of multi-member corporate architectures. And thus, seeing this structural gap, the Ministry of Corporate Affairs (MCA) made up the Dr. J.J. Irani Committee on Company Law in December 2004, in real-world scenarios. In its landmark May 2005 report maybe, the Committee formally supported introducing the One Person Company (OPC) framework into Indian company law,[6] in the main.

The Irani Committee stressed that small-scale enterprises and person entrepreneurs contribute considerably to national economic output, innovation, and job creation, on the whole, and needing solo innovators to find nominal co-shareholders forced unnecessary transaction costs and legal risks. The Committee knew that single-member corporate vehicles were already well established in major global legal systems, covering the United Kingdom (introduced via the Companies Single Member Private Limited Companies Regulations 1992 and included into Section 7 of the UK Companies Act 2006)[7], the United States (via Single-Member Limited Liability Companies under the state LLC statutes)[8], and Singapore (under Section 17(1) of the Singapore Companies Act, Cap. 50)[9]. Blending the OPC structure into Indian law was designed to spark formalization, democratize corporate access, and protect small entrepreneurs.

These statutory recommendations ended in the enactment of the Companies Act, 2013[10]. In fact, section 2(62) established the One Person Company as a separate legal category, offering single entrepreneurs with a tailored vehicle combining corporate personality with condensed single-member managerial control, in the main.

[6]Dr. J.J. Irani Committee, supra note 3, Para 15.2.
[7]UK Companies Act 2006, c. 46, S. 7 (United Kingdom).
[8]Uniform Limited Liability Company Act (ULLCA) § 201 (United States).
[9]Singapore Companies Act, Cap 50, S. 17(1) (Singapore).
[10]Companies Act, 2013, No. 18, Acts of Parliament, 2013 (India).

© 2026 International Journal of Advanced Legal Research

II. STATUTORY LEGAL FRAMEWORK GOVERNING OPCs

Section 2(62) of the Companies Act, 2013 defines a One Person Company as 'a company which is personifying as a member'[11]. As, a finding, broad rules applicable to private restricted companies use to OPCs unless express statutory exemptions are granted by the Act or, through the rules announced by the Ministry of Corporate Affairs, all things considered. Statutorily, an OPC is structured as a specialized private limited company.

A. Eligibility Criteria, Residency Standards, and the 2021 Regulatory Amendments

To make sure corporate integrity and prevent illicit capital flows probably, the initial statutory rules forced strict eligibility guidelines, in practice. Under Rule 3 of the Companies (Incorporation) Rules, 2014, only anatural person who was an Indian citizen and resident in India was eligible to include an OPC or act as a nominee[12], in many respects. 'Resident in India' was appointed as a person who resided in India for at least 182 days during the coming before calendar year, on the whole. Indeed, what's more, artificial juridical elements, such as corporate bodies, foreign companies, constrained liability partnerships, or trusts, were expressly prohibited from including an OPC or getting its shares.

What they created was barriers for global Indian entrepreneurs, Non-Resident Indians (NRIs), and expanding businesses, while these initial restrictions guaranteed regulatory oversight. To tackle these shortcomings and raise ease of doing business, the Ministry of Corporate Affairs issued the Companies (Incorporation) Second Amendment Rules, 2021 (effective April 1, 2021)[13]. This update introduced three major structural changes:

1. **Inclusion of Non-Resident Indians (NRIs):** NRI entrepreneurs holding Indian passports are now expressly permitted to incorporate OPCs in India, encouraging international capital investment and technological transfer.
2. **Lower Residency Requirement:** The physical stay requirement in India to establish resident status was lowered from 182 days to 120 days during the preceding financial year, easing operational conditions for global professionals.

[11]Companies Act, 2013, S. 2(62).
[12]Companies (Incorporation) Rules, 2014, Rule 3, Ministry of Corporate Affairs, Gazette of India (2014).
[13]Companies (Incorporation) Second Amendment Rules, 2021, Notification G.S.R. 91(E), Ministry of Corporate Affairs (Feb 1, 2021).

© 2026 International Journal of Advanced Legal Research

3. **Removal of Mandatory Conversion Ceilings**: Previously, Rule 6 mandated that an OPC must convert into a classic private or public restricted company if its paid-up share capital exceeded INR 50 Lakhs or its average annual turnover exceeded INR 2 Crores over three consecutive financial years. These conversion caps were wholly removed by the 2021 Amendment, allowing OPCs to scale without forced restructuring.

B. Mandatory Nominee Framework and Perpetual Succession Mechanics

A foundational tenet of corporate personality is, as a matter of fact, perpetual succession perhaps, the idea that a company exists independently of changes in its membership. In a single-member entity, the death or physical incapacity of the sole member provides a risk of sudden management interruption, on the whole. To preserve perpetual succession, Section 3(1)(c) commands that the Note of Association (MoA) of an OPC must state the name of a nominee who, in the event of the subscriber's death or incapacity, shall become the member of the company[14].

Particular documentation is being needed by the statutory nominee process. A replacement must be nominated within the fifteen days by the sole member and file formal detect with the Registrar of Companies (RoC) in Form INC-4[15]in such cases, in actual application. The legal right is kept by the nominee to withdraw consent by writtenly notifying to the sole member and the company. In fact, the nominee must offer prior written consent in Form INC-3 during the incorporation[16]. Analogously, the sole member may change the named nominee at any time by notifying to the company and turning in Form INC-4 to the RoC. More critically, Section 3(1) corroborates that changing a nominee doesn't constitute an update to the company's Memo of Association, simplifying procedural filings.

C. Board Governance, Administrative Relaxations, and Statutory Exemptions Under Section 122

Section 149(1) of the Act needs an OPC to direct. In turn, the maximum director limit is currently fifteen, matching classic private companies. And the sole member can serve as the

[14]Companies Act, 2013, S. 3(1)(c).
[15]Companies (Incorporation) Rules, 2014, Rule 4(4).
[16]Companies (Incorporation) Rules, 2014, Rule 4(1).

© 2026 International Journal of Advanced Legal Research

sole director[17]. To prevent administrative compliance designed for multi-member corporations from burdening single-member entities, Section 122 offers precise statutory exemptions[18]:

- **Exemption from General Meetings**: Under Section 96, OPCs are, more exactly, likely exempt from holding Annual General Meetings (AGMs). Business items needing shareholder approval under Section 100 to Section 111 are normally entered into the minute book and signed by the sole member, effectuating upon signature, in many respects.
- **Relaxed Board Meeting Frequencies**: Under Section 173(5), an OPC with a single director is, more precisely, exempt from board meeting requirements, in the main. For OPCs with several directors, at least one board meeting must be held in each half of a calendar year, offered the gap between two meetings isn't less than ninety days, in real-world scenarios.
- **Financial Statement Exemptions:** Under Section 2(40), OPC financial statements aren't needed to encompass Cash Flow Statements, in many respects. And under Section 134(1), financial statements need the signature of only one director.
- **Simplified Annual Returns:** Under Section 92(1), the annual return (Form MGT-7A) can be signed by a person company secretary or, if none is mainly appointed, solely by the single director, in real-world scenarios.

Table 1, including Broad Comparative Matrix of Legal Business Formats in India

Feature	Sole Proprietorship	One Person Company (OPC)	Private Limited Company
Governing Statute	Unregistered / Common Law	Companies Act, 2013 (S. 2(62))	Companies Act, 2013
Legal Identity	No separate identity	Distinct legal element	Distinct legal item
Liability Exposure	Unlimited personal liability	Limited to unpaid share capital	Limited to unpaid share capital
Member Thresholds	1 Person	1 Person (Min & Max)	Min 2 / Max 200
Perpetual	No (Terminated at	Yes (Via mandatory	Yes (Via share

[17]Companies Act, 2013, § 149(1).
[18]Companies Act, 2013, § 122.

© 2026 International Journal of Advanced Legal Research

Succession	death)	nominee)	transfer/heirs)
AGM Requirements	Exempt	Statutorily Exempt (S. 96)	Mandatory Annual Meeting

III. ADVANTAGES OF ONE PERSON COMPANY STRUCTURE

Attributes of sole proprietorships and classic corporate elements are being combined by the OPC structure, offering legal, financial and operational benefits for solo entrepreneurs.

A. Corporate Personality and Limited Liability Protection

The primary strength of an OPC is its autonomous corporate identity, distinct from its owner. This reflects the foundational belief system established in *Salomon* v. *Salomon & Co. Ltd*.[19], which knew that a legally included company is a separate legal element distinct from its person incorporators.

No legal line exists between business obligations and personal assets in an unorganized sole proprietorship, on the whole. Personal assets remain protected from company debts and legal claims, allowing entrepreneurs to chase innovative opportunities in high-growth, high-risk sectors without exposing personal net worth, in many respects. At the same time, an OPC member's personal risk is rigorously restricted to the unpaid share capital subscribed. Creditors can (at least in most settings) meet claims directly from the owner's personal feature, savings and real estate, if a sole proprietorship brings on commercial responsibilities or faces bankruptcy.

B. Perpetual Succession and Legal Continuity

The OPC structure is solving this issue through its statutory nominee mechanism, under Section 3(1)(c)[20]. Unincorporated sole proprietorships lack legal continuity and generally end upon the death, mental incapacity, or bankruptcy of the owner. Ongoing commercial contracts can (in practical terms) be disrupted by this vulnerability, cause asset liquidations, and create instability for employees.

Upon the death or physical incapacity of the sole subscriber, membership is automatically supposed by the appointed nominee. This seamless transition preserves business continuity,

[19]Salomon v. Salomon & Co. Ltd. [1897] AC 22 (HL).
[20]Companies Act, 2013, S. 3(1)(c).

© 2026 International Journal of Advanced Legal Research

protects company assets, sustains contractual relationships, and offers operational steadiness for clients and employees, at least in principle.

C. Access to Institutional Credit and Commercial Financing

Unincorporated sole proprietors often face hurdles securing institutional credit from commercial banks and financial lenders. Indeed, lenders often classify sole proprietorships as higher credit risks due to informal financial reporting, constrained regulatory oversight, and reliance on an person's personal financial standing, in actual application. But still, OPCs must, more exactly, preserve audited financial entries, follow with statutory reporting standards, and file annual returns (Form MGT-7A and Form AOC-4) with the Registrar of Companies[21], in real-world scenarios.

The transparent regulatory framework boosts credit profile evaluation. In turn, financial institutions can examine confirmed balance sheets, profit-and-loss statements, and statutory compliance histories, broadly speaking, and then, OPCscan (in practice) secure working capital lines, term credit, and equipment financing on commercial terms without hinging only on personal credit scores.

D. Reduced Operational Costs and Governance Reliefs

Managing a standard private limited company needs fulfilling statutory needs such as annually meeting, running AGMs, drafting formal detects, and sustaining quorums. These processes are creating administrative running costs without adding operational value for solo entrepreneurs, to a significant degree.

The OPC structure lowers administrative costs by exempting single-member companies from AGMs (Section 96) and Cash Flow Statement reporting (Section 2(40)), and corporate resolutions are passed simply by entering them into the minute book and employing the sole member'ssignature. These streamlined mechanics are allowing solo entrepreneurs to emphasize on business growth while preserving statutory compliance.

IV. CRITICAL CHALLENGES AND SYSTEMIC BOTTLENECKS

In spite of its benefits, structural, fiscal and regulatory roadblocks are continuing to alter the adoption and growth of OPCs in India, in actual application.

[21]Companies Act, 2013, S. 137.

© 2026 International Journal of Advanced Legal Research

A. Fiscal Parity Disparities and High Corporate Tax Burden

A major hurdle to choosing the OPC model is currently tax treatment. Under the Income Tax Act, 1961, an OPC is normally taxed as a corporate item at a flat base rate of 30% (plus applicable surcharges and health/education cess), or 22% under Section 115BAA for qualifying domestic elements[22]. Better yet than that, sole proprietors are, after all, taxed under the individual progressive tax slab rates, where early income brackets face 0%, 5%, 10%, or 20% rates, on the whole.

Early-stage entrepreneurs are often guided by this tax differential to remain unincorporated, and more, profit distributions are, after all, subject to dividend tax rules, creating a double taxation effect, to a significant degree. In fact, for small-scale entrepreneurs making modest annual net profits (e.g., INR 5 Lakhs to 15 Lakhs), operating as an OPC results in a higher effective tax burden than operating as a sole proprietorship, in the main.

B. Institutional Banking Hesitancy and Personal Guarantees

Even as the legal framework is starting an OPC as an autonomous legal element, statutory design is often lagged by commercial credit practices, in the main. Personal guarantees, asset mortgages, or third-party indemnities from the sole member are frequently required by financial institutions, when OPCs use for bank credit, in actual application. Needing personal collateral basically bypasses the statutory limited liability protection granted by Section 2(62), shifting business risk back onto the entrepreneur's personal holdings.

C. Nominee Selection Constraints and Multi-Entity Restrictions

What the statutory nominee requirement provides is administrative and concrete roadblocks. Indeed, spotting an person willing to accept nominee status without needing management involvement needs important personal trust. As well, Rule 3(2) prohibits any person from being amember or nominee in more than one OPC together[23]. And this restriction limits experienced entrepreneurs from starting many single-member corporate ventures.

D. Equity Funding Limitations and Growth Barriers

[22]Income Tax Act, 1961, S. 115BAA, No. 43, Acts of Parliament, 1961 (India).
[23]Companies (Incorporation) Rules, 2014, Rule 3(2).

© 2026 International Journal of Advanced Legal Research

As, an OPC can have only one member, it can't raise capital by issuing equity shares to angel investors, venture capital funds, or co-founders, in actual application. When an OPC needs equity capital, it must undergo statutory conversion into a multi-member private restricted company under Section 18 of the Act[24]. This conversion process entails drafting new Articles of Association, passing corporate resolutions, changing agreements, and turning in RoC filings, creating administrative friction during the expansion phases, in many respects.

V. JUDICIAL INTERPRETATIONS AND GLOBAL COMPARATIVE PERSPECTIVES

Indian jurisprudence preserves a balanced method toward the single-member corporate items, upholding corporate separation while employing judicial protects against abuse, at least for now.

The legal foundation of corporate separation established in *Salomon v. Salomon & Co. Ltd.*[25] was further sharpened in *Lee v. Lee's Air Farming Ltd.*[26]. In Lee, the Judicial Committee of the Privy Council held that a single individual can simultaneously serve as governing director, controlling shareholder, and employee of a company under a contract of use, on the whole. Indian courts apply this tenet to OPCs, checking that a sole member can, at least in theory, act as an employee or service provider to their own company, at least in practice.

And yet, Indian courts are keeping the fair belief framework of 'lifting the corporate veil' to prevent fraud, tax evasion, or financial wrongdoing, broadly speaking. In landmark decisions such as *State of UP* v.*Renusagar Power Co.*[27]and *LIC* v. *Escorts Ltd.*[28], the Supreme Court of India ruled that when corporate architectures are employed as a cloak for fraud or statutory evasion, courts will (to some degree) perhaps disregard the corporate shell to force personal blame. As, managerial control in an OPC resides with a single individual, judicial oversight is remaining applicable during the bankruptcy or debt default proceedings.

From an international angle, valuable ideas are being offered by comparative jurisdictions, and in the United Kingdom, Section 123 of the Companies Act 2006 controls single-member

[24]Companies Act, 2013, S. 18.
[25]Salomon v. Salomon & Co. Ltd. [1897] AC 22 (HL).
[26]Lee v. Lee's Air Farming Ltd. [1961] AC 12 (PC).
[27]State of UP v. Renusagar Power Co., (1988) 4 SCC 59.
[28]Life Insurance Corporation of India v. Escorts Ltd., (1986) 1 SCC 264.

© 2026 International Journal of Advanced Legal Research

privatecompanies[29], streamlinedly needing without needing mandatory sole nominees. Single-Member Limited Liability Companies (SMLLCs) operate under Check-the-Box tax regulations[30] in the United States. This tax framework is allowing single-member entities to choose 'disregarded element' status, which is enabling pass-through the taxation where corporate profits are usually reported on the person owner's tax return, avoiding double taxation, in the main. Embracing a analogous pass-through the taxation option in India could greatly increase OPC adoption among early-stage entrepreneurs, all things considered.

VI. STRATEGIC POLICY RECOMMENDATIONS AND CONCLUSION

The introduction of the One Person Company, under the Companies Act, 2013 represents a milestone in Indian corporate law reform, to a significant degree. Moving on regulatory reforms, covering the Companies (Incorporation) Second Amendment Rules, 2021, are showing ongoing policy support for simplifying corporate incorporation, all things considered. By limitedly protecting, corporate personality, and constant succession to individual entrepreneurs, the OPC framework is supporting formal enterprise creation and MSME growth.

To further raise the OPC ecosystem and tackle remaining structural problems, policymakers should probably consider the following legal and regulatory adjustments:

1. **Introduction of Pass-Through Tax Mechanisms**: Update the Income Tax Act, 1961 to introduce optional pass-through the taxation or presumptive tax schemes for qualifying micro-OPCs, lowering the tax differential relative to sole proprietorships.
2. **Flexibility in Nominee and Entity Limits**: Modify Rule 3(2) of the Companies (Incorporation) Rules, 2014 to allow serial entrepreneurs to participate in up to three OPCs, encouraging business diversification.
3. **RBI Credit Directives on Personal Guarantees**: Issue tackled orders via the Reserve Bank of India instructing commercial lenders to depend on enterprise creditworthiness and credit guarantee schemes rather than routinely needing personal collateral for OPC credit lines, in the main.

[29]UK Companies Act 2006, c. 46, S. 123.
[30]Internal Revenue Code, 26 U.S.C. § 7701; Treasury Reg. S. 301.7701-3.

© 2026 International Journal of Advanced Legal Research

4. **Streamlined Fast-Track Equity Conversion**: Simplify the statutory conversion procedure under Section 18 through the automated, fast-track MCA21 portal workflows when OPCs accept external equity investment.

Tackling these fiscal imbalances, credit access barriers, when the dust settles. And operational bounds will, after all, allow the One Person Company model to fulfill its target as an effective driver of entrepreneurial plan, enterprise formalization, and economic growth in India.

© 2026 International Journal of Advanced Legal Research