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ONE PERSON COMPANY, HAS IT ACHIEVED IT'S INTENDED PURPOSE

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ABSTRACT

A One Person Company (OPC), which was introduced under the Companies Act, 2013, is a revolutionary change in the Indian corporate jurisprudence as it gives the opportunity to incorporate a company by a single person with a considerable advantage of limited liability and separate legal personality. Before this innovation, individual business people were mostly limited to sole proprietorship, which did not have separate legal personality and personal property became the subject to business risks. The OPC model was thus seen as a transition between the informal business structures and fully incorporated business with the intention of promoting entrepreneurship, formalization of the Indian economy and improving ease of doing business.

This research paper critically assesses the effectiveness of OPCs in these intended purposes. It discusses the legislative background, the salient characteristics, and the policy logic of OPCs, and also looks at the way these have been implemented and adopted in the Indian business environment. Despite the contribution of OPCs to the expansion of the corporate form to individual entrepreneurs, and the provision of safer legal routes to the small-scale business, the development has been curtailed by the regulation restriction, limited access to external funding, and compliance issues. The paper, therefore, posits that although OPCs are a progressive reform, the success of OPCs is not comprehensive but depends on the ongoing legal and institutional support.

INTRODUCTION

Conventionally, in any jurisdiction, including India, there were two requirements to incorporate a company, namely, there had to be two members. This necessity virtually denied individual entrepreneurs the benefits of incorporation, including separate legal personality, perpetual succession, and limited liability. Consequently, this forced a large number of small business owners to be sole proprietors, making them liable to an unlimited extent and restricting their

capacity to grow and gain institutional credibility. Upon identifying such a structural constraint, the Companies Act, 2013 came up with a new idea in Section 2(62)- the One Person Company (OPC). The OPC is a new twist in Indian corporate jurisprudence as it allows a solo person to form and operate a company with the advantages of a multi-member company. It is a good way of filling that gap between sole proprietorship and private limited companies as it combines both the flexibility of operations and the protection of the law. The idea is not absolutely new and is based on international experience, especially in such jurisdictions as the United Kingdom and the European Union, where single-member companies have been already established. The introduction of OPCs aimed to institutionalize the informal sector, enhance entrepreneurship, and harmonize the corporate structure in India with international standards, thus creating a more inclusive and dynamic business environment.

LEGISLATIVE FRAMEWORK OF ONE PERSON COMPANY

Companies Act, 2013 and the Companies (Incorporation) Rules, 2014 are the main principles of the legal basis of a One Person Company (OPC) in India. All these provisions form the framework, requirements and operations of OPCs in the Indian corporate system.

Section 2(62) of the Act defines an OPC as a company which has one individual as its member. This provision is one of the legal acknowledgements of the power of an individual to start a company, thus breaking the tradition of at least two members. Moreover, under Section 3(1)(c), it is expressly allowed that an OPC can be formed as a private company, whereby it is not only allowed to take the advantages of corporate personality, but the company is also owned by an individual. The eligibility criteria is established by rule 3 of the Companies (Incorporation) Rules, 2014 which only allows incorporation of a natural person who is an Indian citizen and resident in India. This will make it accountable and prevent the abuse of the structure. Another distinctive aspect of OPCs is the nominee requirement, according to which the only member has to nominate a nominee during the process of incorporation. In case of death or incapability of the member, this nominee is in charge thus providing continuity to the company. These characteristics of OPCs also support their usefulness. An OPC is a separate legal person, independent of its owner, and may own property, contract, and may sue or be sued under its name. It also provides limited liability protection, safeguarding the personal assets of the member. Besides, OPCs have a perpetual succession in the nominee mechanism. There are relatively low compliance requirements and more importantly, there is no need to have Annual General Meetings (AGMs) which makes the structure more flexible and efficient to individual entrepreneurs.

OBJECTIVE OF ONE PERSON COMPANY

The formation of the One Person Company (OPC) in the Companies Act, 2013 was informed by a series of clearly outlined policy goals to change the face of individual entrepreneurship in India. Among the major goals was to promote entrepreneurship by offering a formal and legally recognized business structure to people who would otherwise be sole proprietors. Before OPCs came into the picture, individual entrepreneurs were usually limited in the sphere of scaling, credibility, as well as legal status. The law aimed at establishing an atmosphere in which people would be more confident and secure in making business risks by enabling one person to establish a company with limited liability. The aim of formalizing the informal economy, which forms a large part of the Indian economic system, was closely connected to this. Many small businesses and traders operate beyond the formal system of regulation, thus avoiding legal regulation, taxation, and institutional benefits. It was hoped that OPCs will serve as a vehicle to introduce such entities into the formal corporate world by providing them an alternative that is not as complicated as a private limited company but more reliable and trustworthy than sole proprietorships. The other important goal was the need to offer individual entrepreneur protection of limited liability. In a sole proprietorship, the owner is not separated in terms of personal and business assets, which subject him to unlimited liability in the event of losses or debts. OPCs are responding to this issue by providing the status of a separate legal entity and, thus, making sure that the liability amount of the single member is limited to the scope of his/her investment in the company. This greatly minimizes the financial risk of being an entrepreneur and motivates people to engage in projects which they would have shunned otherwise. Also, the OPC model was developed to facilitate the ease of doing business by making regulatory and compliance issues less complex. Unlike other traditional private companies, OPCs do not require some of the formalities of procedures like having annual general meetings, and supporting voluminous records, which in turn, saves administrative burdens and costs. This understatement is in line with the larger governmental goal of raising the position of India in the global ease of doing business surveys. In addition, OPCs were also supposed to enhance the startup ecosystem through a favorable legal environment of innovation and small scale businesses. OPCs allow individuals to test business ideas without the need to have partners or large sums of money by reducing entry barriers and supplying legal protection. This creates an innovative, independent, and economic inclusion culture. Overall, the emergence of OPCs indicates a developmental legislative effort to democratize corporate ownership, empower individual entrepreneurs and assimilate the informal sector into the formal economy, which in turn can contribute to the general economic growth and development.

BENEFITS OF ONE PERSON COMPANY (OPC)

The One Person Company (OPC) introduced in the Companies Act, 2013 has been of great benefit to individual entrepreneurs in that they are given a legal and structured company structure. The idea of a separate legal entity is one of the leading benefits. An OPC has legal personality independent of its sole member, that is, it may own and incur liabilities and make contracts under its own name. This is based on the landmark case of *Salomon v. Salomon and Co. Ltd.*, which stated that a company is a separate entity and it is not the shareholders. This separation makes the business to be regarded as a separate individual before the law, hence increasing its reputation and ability to conduct its operations.

Inextricably connected with this is the benefit of limited liability. Liability of a sole member in an OPC is limited to the amount of money invested in the company. This is because the personal assets of the member are insured in case of financial losses or law suits. This aspect will promote risk taking and innovation among business owners, since they will not face unlimited personal liability, like in sole proprietorships. The second advantage is the easy incorporation. The OPCs are also relatively easy to form as opposed to other types of companies. It is less formal, less documentation and fewer procedural complexities. The one member requirement removes the necessity to seek partners or shareholders and thus it is especially appealing to individual entrepreneurs who desire to have complete control of their business yet have the status of a corporation.

Besides this, the compliance requirements of OPCs are low and thus the administrative load to the sole member is lowered greatly. Unlike other businesses, there are no Annual General Meetings (AGMs) that OPCs have to hold. Moreover, the requirements of board meetings become less complicated, and the filings concerning compliance are smaller and less complicated. This helps the owners of small businesses to concentrate more on business activities as opposed to being burdened by the regulatory requirements. The minimal compliance system is particularly useful to startups and small-scale businesses with limited resources. Finally, the OPCs guarantee the continuity of the business activities by the nomination mechanism. During the incorporation, the sole member must put forward another person who will inherit the company upon death or incapacity. This guarantees succession, one of the main attributes of corporate organizations. In contrast to sole proprietorships where such a business usually stops existing after the death of the owner, the existence of an OPC does not end, thus protecting business interests and providing stability. Summing up, it is possible to note that the OPC structure is a very useful model to be used by individual entrepreneurs because it has the flexibility of a sole proprietorship and the legal benefits of a company.

CRITICAL ANALYSIS: HAS OPC ACHIEVED ITS PURPOSE?

The achievement in Promoting Entrepreneurship OPCs has helped to have a number of individual entrepreneurs to work under the corporate structure. The OPCs introduction coincides with such programs as Startup India and Make in India. Nevertheless, numerous entrepreneurs still tend to choose the limited companies of the type of the private ones because of the higher possibility of receiving funding and their credibility. Formalization of the Small Businesses OPCs offer a formal structure but the transition of sole proprietorship to an OPC has been slower than anticipated because of, Compliance cost (although lower, still higher than proprietorships) ignorance of small business owners. Taxation complexities Ease of Doing Business: A Mixed Outcome Although OPCs were expected to simplify the operations of businesses, some restrictions made them ineffective: Restriction on voluntary conversion (earlier 2 years; since 2021 reform) Limits on paid-up capital and turnover (since 2021 reform) Although OPCs were intended to simplify the operations of businesses, some restrictions und Availability of Financing This is a significant disadvantage: OPCs cannot be used by several investors Venture capitalists would like to see a limited company of the company character Growth scalability is less than ideal So, OPCs are usually regarded as a transitory, but not a long-term business structure. Regulatory and Practical Challenges Nominee requirement is regarded as a formality instead of working protection Compliance, albeit simplified, nevertheless needs professional support Banks and financial institutions occasionally are hesitant about lending.

JUDICIAL VIEW OF ONE PERSON COMPANIES

The One Person Company (OPC) is a fairly new concept established within the framework of the Companies Act, 2013; nevertheless, the legal basis of the innovation has strong roots in the well-established principles of corporate jurisprudence. As in India there is little specific case law on the subject of OPCs, the courts apply more general principles of company law, especially that of separate legal personality, to explain and sanction the operation of these bodies. This doctrine is based on the Salomon v. Salomon and Co. Ltd. case. Here the House of Lords categorically declared that a business entity with legal personality independent of that of its members is acquired when it becomes a legal entity. Although Mr. Salomon successfully managed the company as a majority shareholder, the Court believed that the company was not his agent or alter ego, but a separate legal entity. It is a principle that is directly applicable to OPCs, in which one person forms the entire membership. The ratio in Salomon confirms the legal legitimacy of a company structure despite ownership and control being vested in a single individual.

This doctrine has been adhered to and enforced by Indian courts. The Supreme Court in State

Trading Corporation of India Ltd. v. Commercial Tax Officer acknowledged that a company has a separate legal identity, which is independent of shareholders. On the same note, in the case of Life insurance corporation of India v. Escorts Ltd., the Court highlighted that, the corporate veil is the distinction between the company and the members and that the veil of incorporation cannot be easily overridden. These decisions confirm that the size of the membership is insignificant to the fact of corporate personality; it is rather the adherence to statutory criteria of incorporation.

The identification of OPCs in Section 2(62) of the Companies Act, 2013, is thus a legal recognition of an already firmly established principle of law. The legislature has only applied the Salomon doctrine to the realities of business in the present by allowing one person to establish a company. In interpreting matters relating to OPC, courts will tend to take a purposive approach to ensure the advantages of incorporation, including limited liability and separate legal status are maintained. But where there is abuse of the corporate form, judicial scrutiny is essential.

To avert fraud, tax evasion or malpractice, Indian courts have come up with the doctrine of lifting the corporate veil. In Delhi Development Authority v. Skipper Construction Co. (P) Ltd., a case of a corporate veil being lifted, the Supreme Court declared that this veil can be lifted in cases where the corporation structure is a mere front to commit fraud or any other unethical act. This is especially applicable to OPCs since the potential for abuse can be greater as it is possible to concentrate power in one person. Therefore, on the one hand, OPCs are given full recognition as independent legal entities; however, on the other hand, courts are watchful of their abuse. The courts strike a balance between two competing concerns: it safeguards the sanctity of corporate personality, and, on the other, it is concerned not to allow this legal fiction to be used to thwart the will of the people or the law.

Conclusively, although there is no substantial OPC-specific case law, the Indian judiciary offers a powerful and consistent guideline on how they operate. Using the existing principles like separate legal entities and lifting of the corporate veil, judicial bodies have promoted the legal position of OPCs successfully. Such a judicial practice guarantees that OPCs receive equal treatment as other corporate entities, and also prevents the possibility of abuse.

COMPARISON: INDIA AND THE UK ON SINGLE-MEMBER COMPANIES.

A comparative study of One Person Company (OPC) system and the regime of the United Kingdom in the area of single-member companies shows that they differ significantly in their structural and

functional characteristics which clarify their different degrees of success. Although in both jurisdictions the legitimacy of a company being formed and run by one individual is acknowledged, the level of regulatory flexibility and institutional assistance varies largely. The idea of a single-member company is established under the Companies Act 2006 in the United Kingdom. The Act does not draw a hard and fast line between single-member and multi-member private companies; rather it is unified in its approach, such that even an individual can form a private limited company and conduct business without being exposed to an alternative or limiting compliance regime. This natural plasticity makes sure that companies of single members are not regarded as some extraordinary objects but as the natural continuation of corporate personality. Minimal compliance burden is one of the greatest benefits in the UK framework. In the UK, the company with a single member does not need to conduct Annual General Meetings (AGM) and the decision-making can be documented by means of written resolutions.

Corporate governance obligations are simplified and electronic filing via Companies House make incorporation and compliance cost effective and efficient. Conversely, despite some of the relaxations in the OPC regime in India under Companies Act 2013 like exemption of AGMs and reduced board meeting requirements, the formalities involved in the procedure are still cumbersome to small entrepreneurs. Professional help is usually required to ensure compliance, which raises the costs of operation. The other important difference is financial integration and availability of credit. The UK has a more accepting financial ecosystem of single-member companies. Banks, investors and other financial institutions treat them like any other private company thus making it easier to get loans and credit facilities. Moreover, structural restrictions do not exist to restrict the expansion of such companies either in their ownership or subsequent investment.

In India, OPCs have real constraints to access finance. The single-member nature of OPCs can make financial institutions view them as less stable, and their failure to raise equity through multiple investors further limits growth. Therefore, most entrepreneurs end up transforming OPCs into private limited companies to raise funds. Another aspect in which the UK model beats the OPC framework of India is flexibility in corporate structuring. The UK does not limit the number of single member companies which an individual can form, or does not require the appointment of a nominee shareholder.

RECENT AMENDMENTS (2005)

The 2021 changes in the One Person Company (OPC) structure under Companies Act, 2013 were a major regulatory change to overcome the practical constraints that had deterred success of OPCs since its inception. These changes were majorly brought in via notification by the Ministry of Corporate Affairs (MCA) and changes to the Companies (Incorporation) Rules, 2014. They manifest a definite policy acknowledgement that the original OPC model, which proved to be innovative, was too restrictive and needed to be liberalized to actually encourage entrepreneurship.

The elimination of the paid-up capital and turnover limits, which earlier required the mandatory conversion of an OPC into a private or a public company, was one of the most significant changes. Previously, an OPC with a paid-up capital of ₹50 lakhs or an annual turnover of 2 crores had to be converted into a private company. This limit greatly deterred expansion, as entrepreneurs had to reorganize their business when they became profitable. The 2021 reforms have enabled OPCs to scale freely without structural interference, due to the removal of these thresholds, making them a more practical long-term business model instead of being a transitional form of incorporation.

The other significant reform was the license that was given to Non-Resident Indians (NRIs) to incorporate OPCs in India. Formation of OPCs was previously restricted to resident Indian citizens excluding a substantial portion of the Indian diaspora who were able to engage in this simplified corporate form. The government has also made NRIs eligible, and this has increased the reach of the OPCs, which attracts foreign investment and entrepreneurship across borders and increased economic involvement. This step fits into the larger goal of India to incorporate the world capital and talent into its domestic economy.

The amendment also covered the issue of residency requirement which had previously been pegged at a minimum of 182 days of stay in India in the previous financial year. This was cut down to 120 days thus enabling those with international business interests to qualify to incorporate OPCs. This loosening is indicative of a realization of current business realities where entrepreneurs may find themselves crossing jurisdictions and are unable to satisfy strict residency requirements.

Moreover, the reforms also brought more flexibility in the conversion of OPCs to other types of companies. Until recently, voluntary conversion was limited and required a minimum of two years after incorporation, except when the financial limits were met. This time limit was eliminated by the 2021 amendments, enabling OPCs to become either a private or public company at any moment. This gives business owners the liberty to respond to varying financial demands, investor requests

or strategy by altering the business structure.

All these reforms are indicative that the OPC model was theoretically sound but its early implementation put constraints on it, which restricted its performance. The changes introduced in 2021 have allowed OPCs to become much more flexible and inclusive and have increased their scalability, allowing it to be more consistent with the initial goal of promoting entrepreneurship. The necessity of such a vast number of reforms, however, also indicates that the initial structure was not quite as productive as it could have been, which resulted in the fact that it had to constantly evolve based on the practical needs.

CONCLUSION

The concept of a One Person Company (OPC) represents a forward-looking and progressive reform within Indian corporate law, reflecting the legislature's intent to modernize business structures and make formal incorporation accessible to individual entrepreneurs. By recognizing the need to bridge the gap between sole proprietorships and traditional corporate entities, the introduction of OPCs under the Companies Act, 2013 has undoubtedly contributed to democratizing entrepreneurship. It has enabled individuals to avail themselves of the benefits of limited liability, separate legal personality, and perpetual succession without the procedural complexities traditionally associated with company formation. In doing so, OPCs have provided a legitimate and structured avenue for small business owners to enter the formal economy, thereby enhancing transparency and accountability.

However, despite these conceptual strengths, the practical realization of OPCs has been somewhat limited. While the framework was designed to simplify compliance and encourage ease of doing business, the regulatory environment has not been entirely conducive for widespread adoption. Even though compliance requirements are reduced compared to private limited companies, they remain significantly more burdensome than those applicable to sole proprietorships. This has discouraged many small entrepreneurs, particularly in India's vast informal sector, from transitioning to OPCs. Additionally, a lack of awareness and limited legal literacy among grassroots business owners has further hindered the uptake of this model.

Another critical limitation lies in the structural constraints of OPCs, particularly with respect to growth and scalability. Since an OPC can have only one member, it inherently restricts the ability to raise equity capital and attract investors. In an increasingly competitive and capital-driven market, this becomes a significant disadvantage. As a result, many entrepreneurs view OPCs not

as a long-term business structure, but rather as a temporary or transitional phase before converting into a private limited company. This trend underscores the fact that while OPCs may facilitate initial business formation, they fall short in supporting sustained business expansion and investment opportunities.

Furthermore, although recent amendments in 2021 have relaxed several restrictions—such as removing thresholds for paid-up capital and turnover, and allowing easier conversion into other company forms—these changes themselves highlight the inadequacies of the original framework. The need for such reforms suggests that the initial design of OPCs did not fully anticipate the practical challenges faced by entrepreneurs. While these amendments have improved flexibility, their long-term impact on adoption rates and business sustainability remains to be seen.

In essence, OPCs have functioned effectively as an enabling mechanism by providing a legal identity and limited liability to individual entrepreneurs. However, they have not yet emerged as a transformative reform capable of fundamentally reshaping the landscape of small business organization in India. Their limited role in facilitating long-term growth, coupled with regulatory and financial constraints, continues to impede their full potential.

Therefore, while OPCs have made a meaningful contribution to the corporate legal framework, they have not entirely achieved their intended purpose. To unlock their true potential, there is a need for continued regulatory simplification, greater awareness among entrepreneurs, improved access to credit, and integration with broader economic policies aimed at supporting small and medium enterprises. Only through such comprehensive measures can OPCs evolve from a merely facilitative structure into a truly transformative tool for economic development.