THE COMPANIES LAW AMENDMENT BILL 2026 : AN OVERVIEW

REGULATIONS SHOULD GUIDE. NOT RESTRICT GROWTH.

INTRODUCTION

When we categorize a company under “artificial person”, we give it the right or property of evolving with the dynamic environment it operates in. Rightly so, the law governing the corporate field and companies specifically is the Companies Act, 2013 which carries with it the principles and doctrines of the parent act of 1956 and the subsequent amendments made to the parent legislation. The Corporate Laws Amendment Bill, 2026 (the Bill) was recently introduced in the Lok Sabha, aiming to amend the Companies Act, 2013 (the Act) and the Limited Liability Partnerships Act, 2008. This bill is primarily based on the recommendations from the Company Law Committee Report of 2022 and has recently been referred to a Joint Parliamentary Committee because several additional developments have been witnessed in corporate law, governance and regulatory practices since the 2022 report. The objectives of this bill are multifold. It aims as decriminalizing procedural defaults, modernizing corporate practices by recognizing compensation instruments like Restricted Stock Units (RSU) and Stock Appreciation Rights (SAR), ease of doing business, amending the criteria or definition for qualifying as a “small company” under the Act, and addressing gaps and ambiguities in the current legal framework among other changes. This article seeks to elaborate four major policy reforms accommodated in the proposed Bill. It further discusses the legal implications which will be brought about through these changes, if the Bill is passed. The specific policy changes to be discussed in this article are:

i. Revised criteria for “small company”

ii. Decriminalization of procedural mistakes

iii. Modernization of corporate practices through RSU and SAR

iv. Corporate Social Responsibility (CSR)

REVISED CRITERIA FOR "SMALL COMPANY"

Section 2(85) of the Act defines the eligibility criteria for a company to be considered as a "Small Company". Once any company is qualified as a small company, it becomes eligible to avail various relaxations in compliances as provided under this Act.

In the current Act, the upper limit of paid up share capital is INR10 crores which was revised in December, 2025 from INR4 crores and INR 40 crores, respectively. Presently, this limit is proposed to be doubled and changed to INR 20 crores. Additionally, the turnover cap is currently at INR 100 crores which is also proposed to be doubled and fixated at INR200 crores. This proposed change of doubling up these caps creates a significant margin for more companies to enter this ecosystem of small companies and avail the relaxations provided under the Act. This change enables more number of small companies to focus on real growth and survival in the market rather than staying caught up in legal formalities and other technicalities which would come along otherwise. Small Companies are exempted from cash flow statement, lesser board meeting requirements, lesser professional certification requirements, simplified annual return and more.

DECRIMINALIZATION OF PROCEDURAL MISTAKES

When a Company fails to comply with the procedural or compliance requirements as listed under this Act, it is, which is to say, the Directors are, subject to imprisonment and/or fine. This became a major problem for the working of Companies because for any and every mere procedural mistake, criminal proceedings would initiate against the Directors, impacting the reputation of the Company and the Director, hindering the work, and uncertainty of the decision. Therefore, the Bill proposes changing the nature of this mistake from criminal to civil. The idea is to convert them into civil violations, subject to monetary penalties. Furthermore, section 454C proposes a settlement procedure through which companies can enter into a settlement with consent of parties bore an order is produced. This proposed change no only enables the company to escape criminal proceedings but also saves time and cost which can be better utilized in carrying out the business.

MODERNIZATION OF CORPORATE PRACTICES THROUGH RSU AND SAR

Restricted stock units (RSUs) and Stock Appreciation Rights (SARs) are some of the instruments to issue shares to employees, similar to ESOPs (employee stocks option plan). RSU and SAR were used earlier, however these instruments lacked a clear statutory footing and thereby, ESOPs were more widely accepted option. The Bill proposes to amend section 62(1)(b) to permit further issue of shares to the employees in addition with the conventional ESOP. This change is aimed at formally recognising other instruments and until separate rules are formed for them specifically, they will be governed by the ESOPs rules.

CORPORATE SOCIAL RESPONSIBILITY

Every company is obliged to fulfil its corporate social responsibility, provided it qualifies the threshold. CSR is basically a corporate entities responsibility towards the society. Since the companies take resources from the society like land, labour, and capital, it is obliged to give something back to the society for its wellbeing. CSR can be fulfilled in multiple ways like providing healthcare, educational facilities, eco-friendly alternatives, etc. However, only particular companies, who fulfil the conditions given under the Act, are supposed to fulfil CSR. The criteria in the current Act is given under section 135, which is a net-profit threshold of INR 5 crore, and this is proposed to increase to INR 10 crore. Moreover, it is also proposed to extend the timeline given in which companies have to transfer the unspent CSR fund into Unspent CSR Account from 30 days to 90 days.

Lastly, it proposes to raise the exemption threshold for constituting a CSR Committee from INR 50 Lakhs to INR 1 crore. The Bill also proposes to add a new provision in order to give authority to the Central Government to exempt companies of specified classes from the CSR obligations altogether. The doubling of net-profit threshold would help several small size and medium size companies to escape the CSR obligation and enable them to develop the business more. The change in the timeline would lower down the pressure on the companies for compliance and the exemption to specific classes of companies would also enhance ease of doing business.

CONCLUSION

The 2026 Bill has proposed various changes to the Act apart from the ones discussed above such as Audit and Governance, Directors, Key Managerial Personnel (KMP), NFRA, and more. The brief analysis of some of them done above gives the clear indication that the aim of the introduction of these changes is to facilitate higher ease of doing business, ensuring that the companies are not caught up in a bundle of unnecessary formalities and compliances and can focus on the growth instead. This would ultimately serve the purpose of the society at large by boosting the economic growth.