

NAVIGATING COMPLIANCE: CHALLENGES FACED BY NEW COMPANIES UNDER COMPANIES AND INCOME TAX LAWS

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ABSTRACT

Corporate compliance has become an essential aspect of modern business governance, particularly for newly incorporated companies that must operate within a complex regulatory framework. In India, companies are required to comply with various statutory obligations under company law and taxation law, which are designed to ensure transparency, accountability, and financial discipline in business operations. However, new companies often encounter several practical and procedural challenges while attempting to fulfill these compliance requirements.

This research paper examines the major compliance obligations imposed on companies under the Companies Act and the Income Tax framework, with particular focus on the difficulties faced by newly established entities. It analyses issues such as lack of awareness of regulatory procedures, frequent changes in legal provisions, complex documentation requirements, and the burden of maintaining statutory records and timely filings. The study also highlights how non-compliance may result in penalties, legal liabilities, and reputational risks for companies.

Furthermore, the paper explores the importance of effective compliance mechanisms, professional guidance, and corporate governance practices in helping new companies navigate regulatory requirements efficiently. By examining the legal framework and the practical challenges associated with it, this research aims to provide a clearer understanding of the compliance landscape and suggests measures that may assist companies in ensuring lawful and efficient business operations.

KEYWORDS: Corporate Compliance, New Companies, Regulatory Framework, Companies Act Compliance, Income Tax Compliance, Corporate Governance, Statutory Obligations, Business Regulation.

INTRODUCTION

1.1 Meaning of Corporate Compliance

Corporate compliance refers to the process by which a company ensures that it follows all the laws, rules, regulations, and standards that are applicable to its business operations.

¹In the corporate sector, compliance is essential to maintain transparency,

accountability, and ethical business practices.²

In simple terms, corporate compliance means that a company conducts its activities in accordance with the legal framework established by the government. These legal requirements may arise from various laws such as company law, taxation laws, labour laws, environmental laws, and other regulatory provisions.

Under the Indian legal system, companies are required to comply with numerous statutory obligations, particularly those prescribed under the Companies Act, 2013 and the Income Tax Act, 1961. These laws impose several duties on companies, including proper registration, maintenance of statutory records, filing of annual returns, payment of taxes, and disclosure of financial information.³ Corporate compliance plays a significant role in ensuring that companies operate in a lawful and responsible manner. It helps in protecting the interests of shareholders, employees, creditors, and other stakeholders. Compliance also helps companies avoid legal penalties, financial losses, and reputational damage.

1.2 Importance of Corporate Compliance

Corporate compliance plays a vital role in ensuring that companies operate within the legal framework established by the government. It helps organizations follow statutory rules and regulations that govern business activities. Compliance ensures that companies act responsibly and maintain transparency in their operations. One of the major reasons corporate compliance is important is that it helps companies avoid legal penalties and sanctions. Non-compliance with statutory provisions may lead to heavy fines,

legal action, and in some cases even cancellation of business licenses. Therefore, companies must ensure that they strictly follow all regulatory requirements.

1.3 Objectives of the Study

The main objectives of this study are:

- To understand the concept and meaning of corporate compliance.
- To examine the legal requirements applicable to new companies under company law.
- To analyze the tax compliance obligations under income tax laws.
- To identify the major challenges faced by newly established companies in fulfilling compliance requirements.
- To study the impact of non-compliance on business operations.
- To suggest possible measures that may help new companies manage compliance more effectively.

In the case of **Tata Consultancy Services Ltd. v. Cyrus Investments Pvt. Ltd.**,⁴ the Supreme Court emphasized that corporate management must act in accordance with the provisions of company law and in the interest of the company and its stakeholders

LEGAL FRAMEWORK OF CORPORATE COMPLIANCE UNDER COMPANY LAW AND INCOME TAX LAWS

UNDER COMPANY ACT ,2013:

In India corporate compliance is generally governed by Companies Act ,2013. To establish the company legally it is important to incorporate it. And in India it is important to register the company under the Companies act 2013. There are various provisions under the companies act and it is important to every company to follow that. Some of the important compliance requirements are as follows :

➤ INCORPORATION OF COMPANY :

At the time of formation of company various documents are required such as -

- Name approval – the name of the company should be different and it needs to get approved.
- Memorandum of Association – Every company has its different objectives predetermined. This document describes the objectives of the

company.

- Article of Association - This document provides all the internal rules and regulations of the company according to which the company works. This document provides all the structure management.
- BOARD AND SHAREHOLDER MEETINGS COMPLIANCE:

It is important for every company to schedule proper meetings of the board of directors so that the functioning of company could be smooth.

- Board meetings:

In case of public companies minimum of 4 board meetings are required to be held. Board of directors hold these meetings and they are responsible for the smooth functioning of the company. These meetings are not only responsible for policy making, financial planning but also for important investment decisions.

- Shareholder meetings

Shareholders are the owners of the company and their meetings are held for taking important decisions. Every important matter is discussed in the shareholder meeting.

Official Liquidator v. P.A. Tendolkar (1973) 1 SCC 602 (SC)

In this case court held that the relationship between director and company is fiduciary relationship, so directors of the company show due diligence.

- MAINTENANCE OF STATUTORY REGISTERS

The maintenance of statutory registers is one of the important compliance requirements for companies under the Companies Act, 2013.⁵ When a new company is incorporated, it often faces several procedural and administrative challenges. Newly established companies may lack adequate knowledge and experience regarding the legal requirements and regulatory procedures that must be followed. As

a result, the process of complying with various statutory obligations may appear complex during the initial stages of business operations.

Among the various compliance requirements, the maintenance of statutory registers holds significant importance. These registers serve as official records in which a company maintains essential information relating to its management and ownership structure.⁶ Proper maintenance of such records ensures transparency, accountability, and effective corporate administration.

Statutory registers generally contain classified information relating to different aspects of the company, such as records of directors, members, and other relevant corporate details. By maintaining these registers systematically, a newly incorporated company can ensure that it follows the prescribed legal procedures and remains compliant with the regulatory framework governing corporate entities..

Role of Registrar of Companies:

The Registrar of Companies plays a crucial role in the regulation and supervision of companies in India. The Registrar of Companies operates under the Ministry of Corporate Affairs and is responsible for administering company law.

The primary functions of the Registrar of Companies include registering companies, maintaining records of companies, ensuring compliance with statutory provisions, and monitoring corporate filings. Companies are required to submit various documents and reports to the Registrar, such as annual returns, financial statements, and other statutory filings.

Failure to comply with these requirements may result in penalties or legal action against the company and its directors.

Statutory Compliance Requirements:

Companies are required to fulfill several statutory compliance obligations in order to maintain transparency and accountability in

their operations. These compliance requirements include maintaining proper books of accounts, conducting regular board meetings, filing annual returns, and submitting financial statements.

Corporate compliance also includes the obligation to disclose important information to regulatory authorities and stakeholders. These disclosures help ensure that companies operate in accordance with legal and ethical standards.

Penalties For Non Compliance:

Non-compliance with corporate laws may result in serious consequences for companies and their directors. The Companies Act, 2013 prescribes various penalties for failure to comply with statutory requirements.

These penalties may include monetary fines, disqualification of directors, or legal action against the company. In some cases, repeated non-compliance may even lead to the striking off of the company's name from the register maintained by the Registrar of Companies.

Therefore, it is essential for companies to establish proper compliance mechanisms to ensure that all legal obligations are fulfilled in a timely manner.

UNDER INCOME TAX ACT,1961:

Once a company is incorporated, it acquires the status of a separate legal entity distinct from its members. This principle was firmly established in the landmark case of **Salomon v. Salomon & Co. Ltd.**,⁷ where the court recognized that a duly incorporated company possesses an independent legal personality. After completing all the formalities prescribed under the Companies Act, 2013, a company becomes an artificial legal person capable of exercising rights and performing legal obligations.

Although a company is an artificial person, it is still required to comply with various laws applicable within the legal system, including

taxation laws. Similar to natural persons, companies are obligated to follow the provisions of the Income Tax Act, 1961. These provisions impose several statutory responsibilities relating to tax reporting, payment of taxes, and maintenance of financial records. Compliance with these tax regulations is essential to ensure lawful financial conduct and accountability in business operations.

➤ Filing of Income Tax Return

One of the primary tax compliances applicable to companies is the filing of Income Tax Returns (ITR). Just as an individual taxpayer is required to file a return declaring their income, a company must also file its income tax return for every financial year. Through this process, the company reports its total income, taxable profits, and the amount of tax payable to the government.

The provisions relating to the filing of income tax returns are primarily governed by **Section 139**⁸, which requires companies to submit their returns within the prescribed time. Timely filing of returns is an important compliance requirement, as failure to do so may result in penalties, interest, or other legal consequences

➤ PAN (PERMANENT ACCOUNT REGISTRATION)

One of the primary tax compliances for a newly incorporated company is obtaining a Permanent Account Number (PAN). PAN functions as a unique identification number issued by the Income Tax Department of India for the purpose of tracking financial and tax-related transactions of taxpayers. After the incorporation of a company, it becomes necessary for the entity to obtain PAN in order to comply with the provisions of the Income Tax Act, 1961.

Since a company is treated as a separate legal entity under law, it is required to possess its own PAN for undertaking financial activities such as filing income tax returns, paying taxes, and conducting various transactions with

financial institutions. PAN also facilitates the proper identification of taxpayers by the tax authorities and ensures transparency in financial reporting.

➤ Payment of Advance Tax

Another important compliance requirement for companies under the Income Tax Act, 1961 is the payment of advance tax. Advance tax refers to the payment of income tax in installments during the financial year rather than paying the entire tax liability at the end of the year. This system ensures that the government receives tax revenue throughout the year and also reduces the burden of a lump-sum payment for taxpayers.

Under the provisions of the Income Tax Act, companies are required to estimate their expected income and calculate the amount of tax payable for the financial year. If the estimated tax liability exceeds the prescribed limit, the company must pay advance tax in specified installments within the time limits provided by law. These provisions are primarily governed by Sections 207 to 211.⁹

Conclusion

Corporate compliance plays a vital role in ensuring that companies operate within the framework of law and maintain transparency in their financial and administrative activities. Once a company is incorporated and recognized as a separate legal entity, as established in *Salomon v. Salomon & Co. Ltd.*, it becomes responsible for complying with various statutory obligations imposed under corporate and taxation laws. Compliance with these legal requirements is essential for maintaining accountability, protecting stakeholder interests, and promoting ethical business practices.

Under the Companies Act, 2013, companies are required to follow several regulatory procedures such as maintenance of statutory registers, proper management of corporate records, and adherence to governance standards. Similarly, the Income Tax Act, 1961 imposes various tax-

related obligations including obtaining PAN, filing income tax returns, payment of advance tax, and maintaining proper financial documentation.

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END NOTES

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