



Amendment to Micro, Small and Medium Enterprises (MSME)

On 12th May 2020, the Prime Minister of India announced an economic package worth Twenty Lakh Crores for various sectors and segments to achieve the goal of self-reliant India. This economic stimulant package intended to uplift the fallen economy due to COVID 19 outbreak and combat the adverse impact of lockdown.

The proposed economic stimulus package included significant measures for facilitating the promotion, development and enhancement of the competitiveness of Micro, Small and Medium Enterprises (MSME). The Ministry further noticed that the low threshold in MSME definition had created a fear among MSMEs of graduating out of the benefits and hence killed the urge to grow. The Finance Minister, therefore, announced the following amendments to the Micro, Small and Medium Enterprises Development Act, 2006 (MSMED Act). The changes were approved by the Cabinet and the amendment was [notified in the official Gazette](#) on 01 June 2020. *The amended classification of MSME shall come into effect from 01st July, 2020.* We have given a limited impact analysis of the above mentioned amendment for your easy reference:

Key Changes

- a) *Investment threshold* criteria has been revised upwards.
- b) Additional criteria of *turnover* has been introduced.
- c) *Distinction* between manufacturing and service sector has been eliminated

A. Investment based threshold criteria

As per MSMED Act, the following eligibility norms are based on investment by enterprise* in plant, machinery, or equipment only:

| Classification | Micro | | Small | | Medium | |
|----------------------------------|---------------------------|--------------------------|--------------------------|---------------------------|---------------------------|---------------------------|
| | Existing | Revised | Existing | Revised | Existing | Revised |
| Manufacturing Enterprises | Investment < INR 25 lakhs | Investment < INR 1 Crore | Investment < INR 5 Crore | Investment < INR 10 Crore | Investment < INR 10 Crore | Investment < INR 20 Crore |
| Service Enterprises | Investment < INR 10 lakhs | | Investment < INR 2 Crore | | Investment < INR 5 Crore | |

B. Turnover based threshold criteria added to Investment norms:

The amendment has added the following turnover based criteria to above mentioned upward revised Investment norms:

| Classification | Micro | Small | Medium |
|-----------------------------------|---|---|--|
| Manufacturing and Services | Investment does not exceed INR 1 Crore & Turnover INR does not exceed 5 Crore | Investment does not exceed INR 10 Crore & Turnover INR does not exceed 50 Crore | Investment does not exceed INR 50 Crore & Turnover INR does not exceed 250 Crore |

*The Turnover of Enterprise shall be determined by data provided/declared in Goods and Service Tax (GST) returns.

C. Distinction between manufacturing and service sector eliminated:

The MSMED Act, 2006, provided for separate threshold limit for manufacturing and service Sector. As per the amended provisions, difference between service and manufacturing sector has been removed.

Major Impact of The Amendment:

1. Due to the revision of the threshold limit, many Enterprises will be registered under MSMED Act, 2006 to avail various incentives declared by Government of India.
2. With the amended definition, MSMEs will be able to access many industries such as electronic, apparel, chemical and pharmaceuticals etc.
3. The move is likely to improve quality of product and export share of the country.
4. Consequent to this amendment, many industries would now fall in the ambit of MSME segment and settlement of invoices within 45 days may create financial burden for non-MSME entities.
5. Special economic packages/incentives to MSME entities may create employment opportunities and improve productivity of indigenous manufacturing units.
6. The removal of separate threshold of investment and turnover criteria is expected to provide more encouragement to the service sector enterprises.
7. The shift will facilitate the competitiveness of indigenous Enterprises against unhealthy competitions created by Foreign entities/investors.
8. Redefine payment cycle by restricting delayed settlement to Micro and Small Enterprises by big Enterprises.
9. Facilitate intrinsic growth of manufacturing and export-oriented Enterprises.

10. Due to revision of threshold limit under the MSMED Act, 2006, Companies will have to seek details of MSME registrations from vendors and suppliers of goods or services. Outstanding amount of more than 45 days as per provisions of Section 15 of MSMED Act, 2006 shall be reported by Companies in Form MSME-1 with the Ministry of Corporate Affairs.

Other Registration Requirements:

There is no separate MSME registration required for each branch/manufacturing unit of an enterprise. Enterprises are required to provide addresses and details of branches and manufacturing units at the time of registration and the same would be displayed in the Certificate issued under MSMED Act, 2006. Further, enterprises engaged in wholesale trading activities are not eligible to register as MSME Enterprises. MSME is to support start-ups with subsidies and benefits, whereas trading companies are just like middlemen, a link between manufacturer and customer.

Moreover, enterprises are required to fulfil only investment and turnover criteria to register under MSMED Act, 2006. Hence, subsidiary of another Indian Company or Subsidiary of Foreign Body Corporate can be registered as MSME Enterprise under MSMED Act, 2006. The Government would most likely notify more restrictions on applicability criteria for registration under MSMED Act, 2006. The Statutory time limit for realisation of Export payments are provided under Foreign Exchange Management Act, 1999. Further, the liability to make payment to Micro and Small Enterprises under the provisions of Section 15 of MSMED Act, 2006, is applicable only for outstanding payments against domestic supply of goods or services.

Conclusion:

The objective of the amendment is mentioned in the Statement of Objects and Reasons of the MSME (Amendment) Bill as "over a period of time, it has been felt necessary to change the criteria for the classification in order to align it with the need of current times and changing business ecosystem."

Therefore, the amendment had been brought in with the belief that the criterion of investment in plant and machinery or equipment often incentivises the tendency in the promoters to keep the investment size small in order to retain the benefits associated with micro or small enterprises category. Further, the physical verification of the value of asset had been a difficult task. On the contrary if the annual turnover is taken as a criterion for classification, the information available with goods and services tax network and other sources can be used for determination of the category of the enterprises.

Thus, to conclude the annual turnover based classification

- will bring in transparent and objective classification system
- will enable industrial growth and increased employment in the country and
- will promote the ease of doing business

***Meaning and Definitions:**

Enterprise: As per the provisions of Section 2(e) of MSME Act, 2006, “**enterprise**” means an industrial undertaking or a business concern or any other establishment, by whatever name called, engaged in the manufacture or production of goods, in any manner, pertaining to any industry specified in the First Schedule to the Industries (Development and Regulation) Act, 1951 (55 of 1951) or engaged in providing or rendering of any service or services;

i. Calculation of Investment of Enterprises engaged in the manufacture or production, processing or preservation of goods as specified below:

| Micro | Small | Medium |
|---|---|--|
| As per explanation to Section 7 (1) of MSME Act, 2006, investment in plant and machinery excludes- i) the cost of pollution control, ii) research and development, iii) industrial safety devices iv) such other items as may be specified, by notification, shall be excluded | As per explanation to Section 7 (1) of MSME Act, 2006, investment in plant and machinery excludes- i) the cost of pollution control, ii) research and development, iii) industrial safety devices iv) and such other items as may be specified by notification shall be excluded | As per explanation to Section 7 (1) of MSME Act, 2006, investment in plant and machinery excludes- i) the cost of pollution control, ii) research and development, iii) industrial safety devices iv) land and building and such other items as may be specified in vide notification No.S.O.1722(E) dated October 5, 2006 issued by Ministry of Small-scale Industries |

Investment by Enterprises engaged in providing/rendering of services and whose investment in equipment (original cost excluding land and building and furniture, fittings and other items not directly related to the service rendered or as may be notified under the MSME Act, 2006

Important Note

The Ministry of Home Affairs announced further extension of lockdown upto 30th June 2020 on account of coronavirus pandemic and provided relaxation to various commercial activities subject to strict implementation of safety guidelines.

Since social distancing is the only solution to fight against corona virus, stay home, stay safe.

Authors: T. Sathya Prasad | Director–Corporate Compliance | sathya.prasad@foxmandal.in
ND Satish | Senior Associate | nd.satish@foxmandal.in

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