CHAPTER 12 · COMPLIANCE MANUAL · 2024 EDITION

Micro, Small and Medium Enterprises

*This chapter is an extract from **The RST Compliance Manual**, a regulator-mapped reference for Indian business entities curated by the partners of R S T & Co.*

MSME stands for Micro, Small, and Medium Enterprise that was introduced by the Government of India in agreement with Micro, Small & Medium Enterprises Development (MSMED) Act, 2006. MSME is initiated and managed under the Ministry of MSME (MoMSME).

MSME sector is considered as the backbone of the Indian economy that has contributed substantially to the socio-economic development of the nation.

12.1 Classification of Enterprises

Sector/Enterprise Type	Micro Enterprise	Small Enterprise	Medium Enterprise
Manufacturing & Services Sector, both	Investment less than Rs. 1 crore Turnover less than Rs. 5 crore	Investment less than Rs. 10 crore Turnover up to Rs. 50 crore	Investment less than Rs. 50 crore Turnover up to Rs. 250 crore

Investment: Investment in Plant and Machinery or Equipment

Turnover: Annual Turnover

Key takeaways of new MSME definition introduced in **Aatm Nirbhar Bharat Abhiyan** (Self-reliant India Scheme, 2020) -

Collateral free loans to MSMEs and unsecured loans up to Rs. 1 crore

Secured loans of up to Rs. 500 crore (lease rental discounting)

Moratorium period offered is 12 months, can exceed as per bank

Manufacturing and Service MSMEs are considered as the same entities

Repayment tenure up to 60 months

100% credit guarantee, for several loan schemes

Value of Plant and Machinery or Equipment

There are clarifications sought by the entrepreneurs regarding valuation of plant and machinery or equipments on cost or purchase price while filing the Udyam Registration.

It is clarified that online form for Udyam Registration captures depreciated cost as on 31st March each year of the relevant previous year.

Therefore, the value of Plant and Machinery or Equipments for this purpose and for all the enterprises mean the Written Down Value (WDV) as at the end of the Financial Year as defined in the Income Tax Act and not the cost of acquisition or original price.

12.2 Registration of Enterprises

Registration of MSME is optional but it is advisable to complete the registration for availing various benefits.

The new process for registration of micro, small and medium enterprises came into effect in the name of **Udyam Registration** from July 1, 2020.

Udyam Registration can be filed online based on self-declaration with no requirement for documents of proof, except Aadhar and PAN. Udyam Registration is fully integrated with the IT and GST systems.

Businesses which have the EM-II (Entrepreneurs Memorandum) or Udyog Aadhaar Memorandum or any other registration issued by an authority under the MSME ministry, will have to re-register themselves.

Existing enterprises registered prior to 30th June, 2020 are valid only up to **31st December, 2021 (**extended from 31st March, 2021**)**.

The ministry has clarified that except the Indian government portal (**www.udyamregistration.gov.in**) and its single window facilitation systems, no other private online or offline system, service, agency or person is authorized or entitled to do MSME Registration or undertake any activity related to the process.

There are no fees or charges to be paid to Government.

12.3 Benefits of Registration

Government Tender's: Government is providing exclusive tenders to MSME's. While applying for government tenders, they are exempted from payment of earnest money, waiver of security deposit up to a certain monetary limit, issue of tender sets free of cost. Udyam Registration Portal is integrated with Government e-Marketplace and various other State Government portals which give them easy access.

Concession in Electricity Bills: MSME's can get a concession in electricity bills by making an application to respective department.

Lower Loan Rates: MSME's can get loan at lower rate of interest as compared to other banks.

Subsidy on Trademark Registration: MSME's can get up to 50% concession.

Subsidy on Patent Registration: MSME's can get up to 50% concession.

Subsidy on ISO Certification: MSME's can get subsidy on ISO Certification.

Counter Guarantee: MSME's are eligible for counter guarantee from the Government.

Exemption from Stamp Duty & Registration Fees: All new industrial units in public IT parks are exempted from payment of stamp duty and registration fees.

Preference on Government Licenses: MSME's are given higher preference and an easy way to obtain government licenses, approvals and registrations.

Loan Availability: Aadhar Udyog Certificate is a business proof for MSME. Probability of obtaining a loan availability is higher in case of registered MSME's than those unregistered.

Credit for Minimum Alternate Tax can be carried forward for up to 15 years instead of 10 years.

12.4 MSME Schemes

Prime Minister's Employment Generation Programme (PMEGP)

Credit Guarantee Trust Fund for Micro & Small Enterprises (CGT SME)

Interest Subsidy Eligibility Certificate (ISEC)

Market Promotion & Development Scheme (MPDA)

Scheme of Fund for Regeneration of Traditional Industries (SFURTI)

Coir Industry Technology Upgradation Scheme (CITUS)

Science and Technology (S&T) for Coir

Skill Upgradation and Mahila Coir Yojana (MCY)

Export Market Promotion (EMP)

Domestic Market Promotion (DMP)

Trade and Industry Related Functional Support Services (TIRFSS)

Welfare Measures (Pradhan Mantri Suraksha Bima Yojana (PMSBY)

Financial Support to MSMEs in ZED Certification Scheme

A Scheme for promoting Innovation, Rural Industry & Entrepreneurship (ASPIRE)

Credit Linked Capital Subsidy for Technology Upgradation (CLCSS)

Marketing Support/Assistance to MSMEs (Bar Code)

Lean Manufacturing Competitiveness for MSMEs

Design Clinic for Design Expertise to MSMEs

Technology and Quality Upgradation Support to MSMEs

Entrepreneurial and Managerial Development of SMEs through Incubators

Enabling Manufacturing Sector to be Competitive through QMS & QTT

Building Awareness on Intellectual Property Rights (IPR)

International Cooperation Scheme

Marketing Assistance Scheme

Procurement and Marketing Support Scheme (P&MS)

Entrepreneurship Skill Development Programme (ESDP)

Assistance to Training Institutions (ATI)

Micro & Small Enterprises Cluster Development (MSE-CDP)

12.4.29 Other Schemes

Scheme of Surveys, Studies and Policy Research

National SC-ST-HUB

Scheme of Information, Education and Communication

12.5 Important Provisions

Section 15

Buyer of goods makes payment for the goods supplied to him immediately or before the date agreed between the buyer and supplier. The agreed period should not exceed 45 days from the day of acceptance of goods or deemed acceptance.

Supplier means a micro or small enterprise which has filed a memorandum with concerned authorities.

Section 16

If the buyer fails to make payment to the supplier within the agreed period, then the buyer will be liable to pay compound interest at 3 times of the bank rated notified by the RBI from the date immediately following the date agreed.

The buyer should specify the unpaid amount with interest in his annual statement of accounts.

Interest payable or interest paid will not be allowed as deduction for the purpose of computation of income under the Income Tax Act, 1961.

Establishment of Micro and Small Enterprises Facilitation Council

The council will have jurisdiction to act as an Arbitrator or Conciliator in a dispute between the supplier located within its jurisdiction and a buyer located anywhere in India.

Penalty

Penalty of Rs.10,000 one time and Rs.1,000 per day is prescribed for non-filing of memorandum and non-specification of unpaid amount.

Reservation of products for exclusive manufacture

There are items reserved for exclusive manufacture by MSME sector where there is techno-economic justification.

Large/medium units can manufacture such reserved items provided they undertake to export 50% or more of their production.

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End of Chapter. *For the complete Compliance Manual, additional chapters, or a tailored briefing for your finance and compliance teams, contact* ***info@rstandco.co.in****.*