



## Micro, Small and Medium Enterprises ("MSME") and their benefits

### Background

In the year 2006 the Government enacted the Micro, Small and Medium Enterprises Development Act, 2006 ("MSME Act") to facilitate the promotion and development and enhancing the competitiveness of MSME. Since this sector contributes enormously to the socio-economic development of the country the Government has announced a number of incentives and schemes for the MSME sector. Some of these benefits and requirement of getting MSME registration are discussed in this note.

### Who qualifies as MSME?

As per the MSME Act, only enterprises engaged in manufacturing or production of goods or rendering of services can be classified as MSME. Investment in plant and machinery or equipment<sup>1</sup> as mentioned below determines the category of enterprise:

Category	Investment in Plant and Machinery or Equipment		
	Micro	Small	Medium
Manufacturing Enterprises	Upto INR 25,00,000	INR 25,00,001 - INR 5,00,00,000	INR 5,00,00,001 - INR 10,00,00,000
Service Enterprises	Upto INR 10,00,000	INR 10,00,001 - INR 2,00,00,000	INR 2,00,00,001 - INR 5,00,00,000

### Benefits of obtaining registration under MSME Act

To obtain benefits under the MSME Act it is mandatory to obtain registration under the appropriate category. The enterprise will get a certificate from Government of India after successful registration. Once registered, a MSME is eligible to a number of incentives and schemes. Some of them are as follows:

<sup>1</sup> It is proposed to change the MSME classification from investment in plant and machinery/equipment to turnover. However, such proposal is not yet approved.

1. The buyer<sup>2</sup> of goods or services from a MSME is required to make payment within 45 days or less (if so agreed between parties) of the delivery of goods or rendition of services. Even if the agreement between seller and buyer provides a credit period beyond 45 days, that will not be relevant.

Further, the buyer is liable to pay compounded interest with monthly rests to the MSME supplier on the outstanding amount at three times of the bank rate notified by the Reserve Bank of India (RBI)<sup>3</sup> in case payment is not made within 45 days mentioned above. If the payment is not made within the above mentioned period, interest shall be computed from the 16<sup>th</sup> day of delivery of goods or rendering of services.

2. GST registered MSME are eligible for interest relief at 2% on incremental/new working capital credit or term loan upto INR 1 crore obtained during period November 2, 2018 to March 31, 2020.
3. Government has framed a credit guarantee scheme for Micro and Small Enterprises ("MSE") under which these enterprises can avail collateral security or third party guarantee free loan from banks or financial institutions upto INR 2 crores.
4. Another scheme aims at facilitating technology up-gradation by providing 15% upfront capital subsidy upto a maximum cap of INR 15 Lakhs (i.e., maximum investment in approved machinery is INR 1 crore) to MSEs for up-gradation of technology, etc.
5. Reimbursement of 75% of the certification expenses up to a maximum of INR 75,000 for obtaining certification of ISO: 9001/14001/HACCP.
6. Minimum alternate tax (MAT) to be carried forward up to 15 years instead of 10 years.

#### **Requirement for buyer of goods and services from MSME**

To encourage timely payment to MSME there are penal consequences for the buyer of goods or services:

1. If the annual accounts of the buyer are required to be audited under any law, then disclosure of details of interest and principle amount paid or payable, due to delay in payment, in the audited financials is necessary.
2. If the buyer contravenes the conditions of abovementioned point no.1, he shall be punishable with a minimum fine of INR 10,000 as per the MSME Act.

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<sup>2</sup> Whether MSME or non-MSME

<sup>3</sup> RBI bank rate as on April 4, 2019 is 6.25% per annum

3. Further, the interest paid or payable to MSME shall not be allowed as deduction for the purpose of computation of income tax liability.

### **Conclusion**

Looking at numerous benefits available to MSME it is advisable that registration under the MSME Act is obtained and a disclosure of registration be made to the all parties to whom goods or services are supplied in the invoice itself.

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