

## UDYAM REGISTRATION - REBIRTH OF MSMEs

Micro, Small and Medium Enterprises (MSME) sector has emerged as a highly growing and dynamic sector of the Indian economy over the last decade. India has more than 6 crore units falling under MSME categories which contribute approximately 29% to the country's GDP. These enterprises not only play crucial role in providing large employment opportunities at comparatively lower capital cost than large industries but also help in industrialization of rural & backward areas, thereby, reducing regional imbalances, assuring more equitable distribution of national income and wealth. MSMEs are complementary to large industries as ancillary units and this sector contributes enormously to the socio-economic development of the country.

The Micro, Small and Medium Enterprises Development (MSMED) Act was notified in 2006 to address policy issues affecting MSMEs as well as the coverage and investment ceiling of the sector.

In 2015, Modi Government introduced new Udyog Aadhaar Scheme under the campaign of 'Make in India' to make the process of registration easy with only requirement of one Aadhaar for one enterprise.

Then, after 14 years, the much-expected change in the definition of MSME was brought to reality by the Modi Government under the "Atmanirbhar Bharat Package". Also, a new procedure of Udyam Registration was introduced which triggered the reclassification for all MSME enterprises exiting on 30<sup>th</sup> June 2020.

In this article, I have discussed and compared the changes which have been made through the Notification S.O. 2119(E) dated 26th June, 2020 in the MSMED Act, 2006 and also tried to explain the new method of classification of enterprises.

### A. Role of MSMEs in Indian Economy-

#### I. Total No. of Registered Enterprises-

Total No. of Registered Enterprises	Micro Enterprises	Small Enterprises	Medium Enterprises
6.33 Crores	6.30 Crores	3.31 Lakhs	0.05 Lakhs
	99.40%	0.52%	0.007%

*(Source- Annual Report of MSME FY2019)*

## II. Total No. of Registrations done in FY2020-

Total	Micro Enterprises	Small Enterprises	Medium Enterprises
25.12 Lakhs	22.06 Lakhs	2.95 Lakhs	0.11 Lakhs
	87.82%	11.74%	0.44%

*(Source- Data Shared by Mr. Nitin Gadkari)*

## III. Employment Generation-

Over 11.10 Crores Indians were employed in micro, small or medium businesses across India in financial year 2019. *(Source- Annual Report of MSME FY2019)*

## IV. Contribution in Exports

The share of MSME related products in total exports from India during FY 2018-19 was 48.10%

## B. Benefits to MSMEs -

- Bind the buyer to pay the SME supplier within the statutory due date.
- Provide for penal interest statutorily in case buyer defaults in making payment and provide for efficient statutory mechanism for expeditious resolution of supply and payment related disputes.
- Ensure SME supplier to recover at least 75% of the due amount along with interest for disbursement of finance to the SME supplier to keep it viable in case buyer appeals in court.
- The Government of India has made collateral-free credit available to all small and micro business sectors upto certain limits.
- Certain Government tenders are made available only to MSMEs.
- 50% subsidy to the Enterprise registered as MSME for patent registration by giving application to respective ministry.
- Registered MSME can avail a benefit of 1% on interest on the Over Draft facility. However, the OD facility may differ from bank to bank.
- Registered MSMEs can avail concession in electricity bill of the enterprise.

Specific & One-time Measures due to COVID 19 –

- Rs 3 lakh crores Collateral-free Automatic Loans for Businesses, including MSMEs
- Rs 20,000 crores Subordinate Debt for Stressed MSMEs
- Rs 50,000 crores Equity infusion for MSMEs through Fund of Funds (FoF)

**C. Change in Definition of MSME-**

Previous MSME Classification			
Criteria : Investment in Plant & Machinery or Equipment			
Classification	Micro	Small	Medium
Manufacturing Enterprise	Investment < Rs.25 lacs	Investment < Rs.5 Cr.	Investment < Rs.10 Cr.
Service Enterprise	Investment < Rs.10 lacs	Investment < Rs.2 Cr.	Investment < Rs.5 Cr.

Revised MSME Classification (Updated up to 28-06-2020)			
Composite Criteria : Investment and Annual Turnover			
Classification	Micro	Small	Medium
Manufacturing & Services	Investment < Rs.1 Cr. And Turnover < Rs.5 Cr.	Investment < Rs.10 Cr. And Turnover < Rs.50 Cr.	Investment < Rs.50 Cr. And Turnover < Rs.250 Cr.

D. Now there will be no “Udyog Aadhaar Registration”. The same will be replaced by “Udyam Registration” w.e.f. 1<sup>st</sup> July 2020.

**E. Change in method of calculation of Value of Investment in Plant and Machinery or Equipment-**

Particulars	Previous Manner of Calculation	New Manner of Calculation
<b>Related Notification</b>	S.O. 1722(E) dated October 5, 2006	S.O. 2119(E) dated June 26, 2020
<b>Meaning of Plant and Machinery or Equipment</b>	No such clear meaning provided earlier	<p>The meaning as assigned to the plant and machinery in the Income Tax Rules, 1962 and shall include all tangible assets (<b>other than land and building, furniture and fittings</b>).</p> <p>(This has expanded the scope of items which can be included in Plant and Machinery. As per Income Tax Rules, vehicle, computer and its peripherals, books etc. are considered as P &amp;M)</p>
<b>Value to be taken from</b>	<p>For the Value, following documents could be relied upon:</p> <p>(1) <b>A copy of the invoice</b> of the purchase of plant and machinery; or</p> <p>(2) Gross block for investment in plant and machinery <b>as shown in the audited accounts</b>; or</p> <p>(3) <b>A certificate issued by a Chartered Accountant</b> regarding purchase price of plant and machinery.</p> <p><i>(As per RBI Notification RBI/2017-18/21 - FIDD.MSME &amp;</i></p>	<p><b><u>In case of Existing Enterprises-</u></b></p> <ul style="list-style-type: none"> <li>- The value will be taken from <b>Income Tax Return (ITR)</b> of the previous years filed under the Income Tax Act, 1961.</li> </ul> <p><b><u>In case of New Enterprises (where no prior ITR is available)-</u></b></p> <ul style="list-style-type: none"> <li>- The value will be based on <b>self-declaration*</b> of the promoter of the enterprise (<u>such relaxation shall end after the 31st March of the financial year in which it files its first ITR</u>)</li> </ul> <p><i>*The purchase (invoice) value of the plant and machinery, whether purchased first hand or</i></p>

	NFS.BC.No.10/06.02.31/2017-18)	<i>second hand, shall be taken into account excluding Goods and Services Tax (GST) for self-declaration by the promoter. i.e. the GST part will not be considered while calculating the value of Plant and machinery.</i>
<b>Exclusions from the Value</b>	The cost of items specified in Explanation I to section 7(1) shall be excluded. (The list of such items is provided by S.O. 1722(E) dt. October 5, 2006)	The cost of items* specified in Explanation I to section 7(1) shall be excluded.  <b>*Items provided under the explanation-</b> Pollution Control, Research and Development, Industrial Safety Devices & such other items as may be specified. <b>(Note:</b> The old notification S.O. 1722(E) issued under this explanation is superseded by the new MSME notification.)
<b>Basis of criteria of Enterprises</b>	One Udyog Aadhaar Registration was available to one PAN.	- All units with GSTIN listed against the same PAN shall be collectively treated as <b>one enterprise</b> and  -the turnover and investment figures for all of such entities shall be seen together and only the aggregate values will be considered for deciding the category as micro, small or medium enterprise.

#### F. New Criteria: How to calculate Turnover of the Enterprise-

**Previous method of Calculation-** The calculation of turnover was not required in the previous MSME Categorisation.

**New manner of Calculation-** the value of turnover is to be calculated as follows:

Particulars	In case of Existing Enterprises	In case of New Enterprises
Value of Turnover to be taken from	ITR and GST Returns	Self-declaration Basis (for a period upto 31st March, 2021 and thereafter PAN and GSTIN shall be mandatory.)
Exclusions from the turnover	Export of Goods or services or both	Export of Goods or services or both

#### G. Validity of Enterprises (Udyog Aadhaar) Registered till 30<sup>th</sup> June 2020-

Particulars	Validity
All existing Enterprises registered prior to 30 <sup>th</sup> June 2020	31 <sup>st</sup> March 2021

All existing enterprises registered under EM Part-II or UAM shall register again on the Udyam Registration portal on or after the 1st day of July, 2020 which will be reclassified according to this notification.

#### H. Udyam Registration Process-

- The form for registration shall be as provided on the Udyam Registration portal.
- There will be no fee for filing Udyam Registration.
- Aadhaar number shall be required for Udyam Registration.

Nature of Concern	Document Required
a proprietorship firm	Aadhaar Number of Proprietor
a partnership firm	Aadhaar Number of Managing Partner
a Hindu Undivided Family (HUF)	Aadhaar Number of Karta
a Company or a Limited Liability Partnership or a Cooperative Society or a Society or a Trust	GSTIN and PAN along with Aadhaar number of the Concern itself

- In case, an enterprise is duly registered as an Udyam with PAN, any deficiency of information for previous years when it did not have PAN shall be filled up on self-declaration basis.
- No enterprise shall file more than one Udyam Registration, provided that any number of activities including manufacturing or service or both may be specified or added in one Udyam Registration.

#### I. **Updation of information on Portal and Reclassification of Category:**

- An enterprise having Udyam Registration Number shall update its information online in the Udyam Registration portal, including the **details of the ITR and the GST Return for the previous financial year** and such other additional information as may be required, **on self-declaration basis**.
- Failure to update the relevant information within the period specified in the online Udyam Registration portal will render the enterprise liable for suspension of its status.
- Based on the information furnished or gathered from Government's sources including ITR or GST return, the classification of the enterprise will be updated.
- In case of graduation (from a lower to a higher category) or reverse-graduation (sliding down to lower category) of an enterprise, a communication will be sent to the enterprise about the change in the status.

#### J. **Validity of Old Category and Applicability of Reclassified Category-**

Particulars	Details	Validity of Old Category	New Category to be effective
<b>Graduation (Upward Classification)</b>	Due to change in terms of investment in plant and machinery or equipment or turnover or both	Till expiry of one year from the end of the year of registration	From the subsequent Year after the expiry of one year from the close of the year of registration

(Eg. Small to Medium)	(Turnover is exceeding Rs. 50 crore)	(31 <sup>st</sup> December 2021)	(1 <sup>st</sup> January 2022)
<b>Reverse Graduation (Downward Classification)</b>	Due to change in terms of investment in plant and machinery or equipment or turnover or both	Closure of the Financial Year in which change took place  (31 <sup>st</sup> March 2021)	From 1st April of the financial year following the year in which such change took place (1 <sup>st</sup> April 2021)
(Eg. Small to Micro)	(Investment in Plant and Machinery is less than Rs. 1 crore and Turnover is less than Rs. 5 crore)		

### FAQs

Question/Doubt	Answer
Applicability of New Udyam Registration	On or after 01.07.2020
Validity of Udyog Aadhar	Till 31.03.2021
How value of Plant & Machinery will be taken - Cost or WDV	WDV
Exclusions from Plant & Machinery	<p>As per section 7(1) of MSMED Act, following will be excluded:</p> <ul style="list-style-type: none"> <li>➤ Pollution control,</li> <li>➤ Research and development and</li> <li>➤ Industrial safety devices</li> <li>➤ As specified by notification</li> </ul> <p>(Previous notification S.O. 1722(E) dt. October 5, 2006 not in force)</p>



<b>Inclusions in Plant &amp; Machinery</b>	As per the latest notification of MSME, for the purpose of meaning of P&M, the Income Tax Rules, 1962 has to be referred. Due to above, certain components like First Insurance, Freight, Installation Charges, Bank Charges etc. will now be the part of the cost which were earlier excluded by the notification S.O. 1722(E) 05.10.2006.
<b>How value of Plant &amp; Machinery will be linked with ITR</b>	It will be done through feeding of data on portal for getting new Udyam Registration.
<b>How Turnover will be calculated</b>	Turnover (from GST returns) of all GSTIN linked with one PAN has to be aggregated and also it will be linked with turnover as per ITR.
<b>Trader is eligible being MSME</b>	Trading activity is neither a manufacturing activity nor a service activity hence cannot be registered as MSME.
<b>Our Role w.r.t. these new MSME changes</b>	<ul style="list-style-type: none"> <li>• IA cum consultancy services</li> <li>• Bank Audit</li> <li>• Tax Auditors</li> </ul> Form MSME - Filing with MCA on HY Basis – Verification of status of vendors
<b>Allowability of Interest paid by Buyer to Seller (MSME) under IT</b>	Not allowed as expenses under Income Tax, 1961. Also, the same has to be reported under Tax Audit Report (As per section 23 of MSMED Act, 2006)
<b>Penalty of contravention of MSMED Act</b>	Minimum Rs. 10,000/-
<b>Change in status under MSME every year</b>	Automatic, as per the latest update & study

It was correctly said by the Finance Minister that there always was this fear, even in very successful MSMEs also, that if they outgrow the size of what is defined as an MSME, they'll lose the benefits that they get as an MSME itself. Outgrowing this definition meant outgrowing and going out of receiving benefits. With this revision and a further future favourable attitude of the government towards this

sector, the MSMEs would now be able to procure more, produce more, hire more and will play a vital role in India's dream of USD 5 trillion dollar economy.

The revision of the definition had been a longstanding demand of the sector and the sector is welcoming this change. However, the change in definition brought through a single notification does not clear all the things right now. This has changed the whole scenario of MSME sector and will need more clarifications regarding investment criteria and automatic reclassification procedure to be linked with ITR and GST return.

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