

Extending non-tax benefits to 3 years post reclassification will further encourage micro units to grow: Experts

Ease of doing business for MSMEs: In a notification issued on Tuesday, the ministry said enterprises will continue to avail of all non-tax benefits — of the category they were in before the re-classification — for a period of three years from the date of such upward change in investment in plant and machinery or equipment or turnover or both.

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Non-tax benefits included benefits of various schemes of the government related to public procurement policy, delayed payments, etc.

Ease of doing business for MSMEs: The MSME Ministry's extension of non-tax benefits to registered MSMEs from one year to three years in case they grow from micro to small or to medium category due to upward revision in their investment and/or turnover will further encourage micro enterprises to a large extent to scale up, experts told FE Aspire. In a notification issued on Tuesday, the ministry said enterprises will continue to avail of all non-tax benefits — of the category they were in before the re-classification — for a period of three years from the date of such upward change in investment in plant and machinery or equipment or turnover or both.

“There are schemes for micro enterprises which may not be available to them a year after they grow out of the micro category. But the latest decision by the government will now further encourage them to grow. Also, the three years extension would be like a transition period or a breathing space for such micro or small enterprises to adjust their working style or accounting system to the new category,” Dinesh Rai, Former Secretary, MSME Ministry and Founder Chairman of MSME representative body Alliance of Indian MSMEs told FE Aspire.

Non-tax benefits included benefits of various schemes of the government related to public procurement policy, delayed payments, etc...The decision has been taken after due deliberations with MSME stakeholders and is in line with the Atmanirbhar Bharat Abhiyan, the ministry noted in a statement on Wednesday.

“This move will encourage more micro and small enterprises to scale up their operation as they can continue to avail of these benefits for three more years from the date of the revision in their category,” echoed Vijay Kalantri, Chairman, MVIRDC World Trade Center Mumbai talking to FE Aspire.

The current count of registered MSMEs on the Udyam portal stood at 1.15 crore, of which 95 per cent (1.09 crore) were micro units while 3.6 per cent (4.17 lakh) were small businesses and only 0.33 per cent (39,068) were medium enterprises.

However, to be sure, the latest decision by the government to encourage scale in the MSME sector doesn't mean there was no growth from micro to small or small to medium among MSMEs earlier. According to the data shared by the Minister of State for MSMEs Bhanu Pratap Singh Verma in the Parliament this monsoon session, 93,048 micro enterprises had scaled up to become small enterprises post-pandemic between July 2020 and July 2022 while 10,141 small enterprises grew into the medium business category during the said period. But that growth is not sizeable in comparison to developed economies.

"In comparison to the developed nations where the graduation rate from micro to small enterprise is around 45-50 per cent and 20 per cent in China, it is only 0.5 per cent in India. It is because the incentive to grow hasn't been there. Even if we come close to China, we will become a much better economy as a majority of businesses in India are micro enterprises. So, three years is enough time for such enterprises to settle down in a new category," Amit Kumar, Founder and CEO at MSME advisory platform MSMEEx told FE Aspire.

The government had reclassified MSMEs in 2020 after Covid to bring more businesses under the MSME ambit and provide benefits offered to the sector. According to the revised MSME definition, enterprises up to Rs 1 crore investment and Rs 5 crore turnover were categorised under micro segment from earlier less than Rs 25 lakh investment.

Similarly, less than Rs 10 crore investment and Rs 50 crore turnover were considered small businesses vis-a-vis up to Rs 5 crore investment earlier. For medium enterprises, the investment limit was increased from less than Rs 10 crore to less than Rs 50 crore along with up to Rs 250 crore turnover.