

Amendments for classification of Micro, Small & Medium Enterprises under the Micro, Small & Medium Enterprises Development Act, 2006

The Government of India (GoI), vide Gazette Notification S.O. 2119 (E) dated June 26, 2020, has notified new criteria for classifying the enterprises as Micro, Small and Medium enterprises. The new criteria will come into effect from July 1, 2020.

Classification of Enterprises

Existing MSME Classification			
Criteria: Investment in Plant & Machinery or Equipment			
Classification	Micro	Small	Medium
Manufacturing Enterprises	Investment ≤ 25 lacs	Investment ≤ 5 crore	Investment ≤ 10 crore
Service Enterprises	Investment ≤ 10 lacs	Investment ≤ 2 crore	Investment ≤ 5 crore

Revised MSME Classification			
Criteria: Investment in Plant & Machinery or Equipment <u>and</u> Turnover			
Classification	Micro	Small	Medium
Manufacturing and Service Enterprises	Investment ≤ 1 crore <u>And</u> Turnover ≤ 5 crore	Investment ≤ 10 crore <u>And</u> Turnover ≤ 50 crore	Investment ≤ 50 crore <u>And</u> Turnover ≤ 250 crore

Composite criteria of investment and turnover for classification

- A composite criterion of investment and turnover shall apply for classification of an enterprise as micro, small or medium.
- If an enterprise crosses the ceiling limits specified for its present category in either of the two criteria of investment or turnover, it will cease to exist in that category and be placed in the next higher category but no enterprise shall be placed in the lower category unless it goes below the ceiling limits specified for its present category in both the criteria of investment as well as turnover.
- All units with Goods and Services Tax Identification Number (GSTIN) listed against the same Permanent Account Number (PAN) shall be collectively treated as one enterprise 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.

Calculation of investment in plant and machinery or equipment

- The calculation of investment in plant and machinery or equipment will be linked to the Income Tax Return (ITR) of the previous years filed under the Income Tax Act, 1961.
- In case of a new enterprise, where no prior ITR is available, the investment will be based on self-declaration of the promoter of the enterprise and such relaxation shall end after the 31st March of the financial year in which it files its first ITR.
- The expression “plant and machinery or equipment” of the enterprise, shall have the same meaning as assigned to the plant and machinery in the Income Tax Rules, 1962 framed under the Income Tax Act, 1961 and shall include all tangible assets (other than land and building, furniture and fittings).
- The purchase (invoice) value of a plant and machinery or equipment, whether purchased first hand or second hand, shall be taken into account excluding Goods and Services Tax (GST), on self-disclosure basis, if the enterprise is a new one without any ITR.
- The cost of certain items specified in the Explanation I to sub-section (1) of section 7 of the Micro, Small & Medium Enterprises Development Act, 2006 shall be excluded from the calculation of the amount of investment in plant and machinery.

Calculation of turnover

- Exports of goods or services or both, shall be excluded while calculating the turnover of any enterprise whether micro, small or medium, for the purposes of classification.
- Information as regards turnover and exports turnover for an enterprise shall be linked to the Income Tax Act or the Central Goods and Services Act (CGST Act) and the GSTIN.
- The turnover related figures of such enterprise which do not have PAN will be considered on self-declaration basis for a period up to 31st March, 2021 and thereafter, PAN and GSTIN shall be mandatory

Note:

In case of an upward change in terms of investment in plant and machinery or equipment or turnover or both, and consequent re-classification, an enterprise will maintain its prevailing status till expiry of one year from the close of the year of registration. In case of reverse-graduation of an enterprise, whether as a result of re-classification or due to actual changes in investment in plant and machinery or equipment or turnover or both, and whether the enterprise is registered under the Act or not, the enterprise will continue in its present category till the closure of the financial year and it will be given the benefit of the changed status only with effect from 1st April of the financial year following the year in which such change took place.

Registration process.

For New Enterprises

- Any individual / enterprise can register itself as an MSME on the Udyam Registration Portal. There will be no fee charged for such registration.
- Aadhaar number shall be required for Udyam Registration. The Aadhaar number shall be of the proprietor in the case of a proprietorship firm, of the managing partner in the case of a partnership firm and of a karta in the case of a Hindu Undivided Family (HUF).
- In case of a Company or a Limited Liability Partnership or a Cooperative Society or a Society or a Trust, the organisation or its authorised signatory shall provide its GSTIN and PAN along with its Aadhaar number.
- 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 is allowed to 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.

For Existing enterprises

- 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.
- All enterprises registered till 30 June 2020, shall be re-classified in accordance with this notification.
- The existing enterprises registered prior to 30 June 2020, shall continue to be valid only for a period up to the 31 March 2021
- An enterprise registered with any other organisation under the Ministry of Micro, Small and Medium Enterprises shall register itself under Udyam Registration.

Note:

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.

Select Highlights of new notification dated 26 June 2020

- New classification criteria based on turnover introduced and upward revision made in the investment limits. Both the turnover as well as investment criteria shall be satisfied by an enterprise to be classified as either Micro, Small or Medium enterprise.
- No distinction between manufacturing and service enterprises for classification as an MSME.
- The movement of classification from one criteria to the other will take effect from the start of next financial year.
- Investment in plant and machinery or equipment will be determined as per the previously filed Income Tax Return (ITR). In case of new enterprises where no ITR is available, value of investment shall be taken on self-declaration basis until the end of financial year in which the ITR is filed.
- Turnover information provided shall be linked to Income Tax Act or the Central Goods and Services Act (CGST Act).
- Value of export of goods and services shall be excluded from the turnover calculation.
- Turnover of all units with Goods and Service Tax Identification Number (GSTIN) listed against same Permanent Account Number (PAN) shall be considered together for deciding the classification.
- Value of investment and turnover shall be excluding Goods and Service Tax (GST).
- Introduction of a new Udyam Registration Portal for registration of new as well as existing MSMEs.
- Mandatory requirement of Aadhar Number for registration on Udyam Registration Portal as follows:

Type of enterprise	Aadhar number required
Proprietorship firm	Proprietor
Hindu Undivided Family (HUF)	Karta
Partnership Firm	Managing Partner
Limited Liability Partnership	Authorised Signatory
Company	Authorised Signatory
Cooperative Society or Trust	Authorised Signatory