

MSME Development (Amendment) Bill 2018

Why in news?

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The Centre has tabled the MSME Development (Amendment) Bill 2018 in Parliament.

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What are the key provisions?

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- The Bill amends the Micro, Small and Medium Enterprises Development Act, 2006.

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- Under the Act, manufacturing units are defined depending on their investments in plant and machinery as:

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- i. micro enterprises (below Rs.25 lakh)

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- ii. small enterprises (Rs.25 lakh to Rs.5 crore)

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- iii. medium enterprises (Rs.5 crore to Rs.10 crore)

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- The thresholds were lower for services units.

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- Under the Bill, all MSMEs will be classified on the basis of their annual turnover.

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- This is irrespective of whether they are manufacturing or service-providing enterprises.

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- Now, the units will be

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- i. 'micro' enterprises if their annual sales turnover is less than Rs.5 crore
- ii. 'small' if they fall in the Rs.5-75 crore range
- iii. 'medium' if they are in the Rs.75-250 crore band

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- The central government may change these annual turnover limits through a notification.
- The maximum turnover may be up to three times the limits specified in the Bill.

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What are the benefits?

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- **Starters** - MSMEs are offered a range of incentives and tax benefits, to promote them.
- Under the current definition, the newer units often face disadvantages.
- As, their higher investments, as part of the industrial modernisation efforts, keeps them out of MSME definition.
- Hence, the turnover criterion is a more pragmatic way to incentivise industry.
- It facilitates fairer comparisons between older and newer ventures and helps starters in utilising MSME sops.
- **Sectors** - Turnover-based sops may be friendlier to technology-intensive sectors.
- These include engineering, auto components or pharmaceuticals.
- Substantial capital investments are needed to ensure even minimal scale in

these.

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- Here again, turnover, instead of investment criterion, would be more beneficial.

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- **Procedure** - The annual turnover criteria can be directly verified from the GST Network.

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- It thus puts an end to physical inspections necessitated by the investment-based regime.

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- **Efficiency** - Turnover criteria will allow a unit to graduate from its MSME status on reaching a fair size.

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- It will discourage the proliferation of inefficient units created mainly with an eye to utilise sops.

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- The Centre should consider a sunset clause on MSME benefits to encourage small units to climb up the value chain.

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Source: PRSIndia, BusinessLine

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