

Micro, Small and Medium Enterprises (MSME):
Change in Classification

Ministry of Micro, Small and Medium Enterprises has notified changes in the classification of MSMEs. As per the new classification an enterprise will now be classified as MSME based on the criteria of investment in Plant & Machineries, as well as on the turnover of the enterprise.

2. An enterprise shall be classified as Micro, Small and Medium enterprise on the basis of the following criteria, namely: -

A. Micro Enterprises: An enterprise will be classified as micro, where the investment in Plant & Machineries or equipment does not exceed Rs One Crore and turnover does not exceed Five Crore.

B. Small Enterprises: An enterprise will be classified as Small, where the investment in Plant & Machineries or equipment does not exceed Rs Ten Crore and turnover does not exceed Rs Fifty Crore.

C. Medium Enterprises: An enterprise will be classified as Medium, where the investment in Plant & Machineries or equipment does not exceed Rs fifty crore and turnover does not exceed Rs two hundred and fifty crore.

3. Composite Criteria of Investment & Turnover for Classification:

i) A Composite Criterion of investment and turnover shall apply for classification of an enterprise as micro, small or medium.

ii) 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.

iii) All units with Goods & Services Tax Identification Number (GSTIN) listed against 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 of micro, small or medium.

4. Calculation of Investment in Plant & Machinery or Equipment:

i) The Calculation of investment in plant & machinery or equipment will be linked to the Income tax return (ITR) of the previous years filed under the Income tax act, 1961.

ii) 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 31st March of the financial year in which it files its first ITR.

iii) The expression “Plant & Machineries” or “Equipment” of the enterprise shall have the same meaning as assigned to the Plant & 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 & fittings).

iv) The purchase (Invoice) value of plant & machinery or equipment, whether purchased first hand or second hand shall be taken into account excluding Goods & Services (GST), on self-disclosure basis, if the enterprise is a new one without ITR.

v) However, cost of the following plant & machinery / equipment etc. would be excluded for computation of investment value.

a) Equipment such as tools, jigs, dies, moulds, and spare parts for maintenance and the cost of consumable stores;

b) Installation cost of plant & machinery;

c) Research & development and pollution control equipment;

d) Power generation set and extra transformer installed by the enterprise as per the Regulations of the State Electricity Board;

e) Bank charges and Service Charges paid to the National Small Industries Corporation or the State Small Industries Corporation.

f) Procurement or Installation of cables, wiring bars, and electrical control panels (not mounted on individual machines)

g) Oil circuit breakers or miniature circuit breakers which are necessarily to be used for providing electrical power to the plant and machinery or for safety measures;

h) Gas producing plants;

i) Transportation charges (**other than** sales tax or value-added tax and excise duty) for indigenous machinery from the place of their manufacture to the site of the enterprise);

j) Charges paid for technical know-how for erection of plant machinery;

k) Such storage tanks which store raw materials and finished products only and are not linked with the manufacturing process;

l) Fire-fighting equipment; and

m) Such other items as may be specified, by notification from time to time.

5. Calculation of Turnover:

- i) Exports of goods or services or both, shall be excluded while calculating the turnover of any enterprise whether micro, small or medium for the purpose of classification.
- ii) Information as regards to 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.
- iii) 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.

6. Udyam Registration:

Branches should encourage all the borrowers to register on Udyam Registration portal and it would be mandatory for all the branches to keep the registration certificate on record. The SOP for obtaining Udyam Registration is detailed below:

- i) All enterprises who wishes themselves to be classified as MSME are required to file Udyam Registration on Udyam Registration portal.
- ii) Aadhaar Number is mandatory for filing Udyam Registration. Aadhaar number shall be of the proprietor in the case of proprietorship firm, managing partner in case of partnership firm and of karta in the case of Hindu Undivided family (HUF).
- iii) In case of company or a limited liability company partnership or a cooperative society or a society or trust, the organization or its authorized signatory shall provide its GSTIN and PAN.
- iv) All existing enterprise are required to register again on the Udyam Registration portal, even though they previously were in possession Udyog Aadhaar Number.
- v) It will be mandatory for the branches to obtain Udyam Registration Certificate from the borrowers, while considering any new loan, wef 01.09.2020. (In case URC is not available, they should be prompted to obtain the same before disbursement through the portal)
- vi) In case of existing borrower the Udyam Registration Certificate is to be obtained from all borrower within 31/03/2021 and should be kept on record.
- vii) An enterprise registered with any other organization under the ministry of Micro, Small and Medium enterprises shall register itself under Udyam Registration.