

CNK & Associates LLP

Bulletin

MSMEs: Udyam Registration – Key Aspects

Background:

- On 1 June, 2020, the Ministry of Micro, Small and Medium Enterprises (MMSME) had issued new norms for classification of micro, small and medium enterprises (MSMEs).
- Following the same, the MMSME has come out with a Notification dated 26 June, 2020 encompassing the following:
 - Classification of MSMEs, based on a combination of investment and turnover limits (made effective from 1 July, 2020) and manner of calculating investments/turnover limits;
 - Manner and procedure for registration;
 - Initiatives by the MMSME for facilitating the Udyam registration process.

A synopsis of the Notification is summarized below.

Classification of MSMEs – Re-defined Scope:

- Investment/turnover limits of MSMEs enhanced to enable increased coverage of additional units/businesses within its ambit - investment limits for MSMEs increased and turnover criterion introduced.
- Sector-wise bifurcation of enterprises between manufacturing and services done away with.
- **Revised Definition:**

Classification	Micro	Small	Medium
Manufacturing & Service Enterprises	Investment < INR 1 cr. AND Turnover < INR 5 cr.	Investment < INR 10 cr. AND Turnover < INR 50 cr.	Investment < INR 50 cr. AND Turnover < INR 250 cr.

Basis of Classification:

- All units having Goods and Services Tax Identification Number (GSTIN) listed against the same Permanent Account Number (PAN) shall be collectively treated as one enterprise – investment/turnover thresholds computed on an enterprise-wise level to form the basis for classification as micro, small or medium enterprise;
- **Investment Criterion:**

Enterprise	Calculation Basis
Existing Enterprises	<ul style="list-style-type: none">▪ Calculation linked to the Income Tax Return (ITR) of the previous year;▪ Plant and machinery/equipment to have the meaning as assigned under the Income Tax Rules and shall include all tangible assets (other than land and building, furniture and fittings);▪ Cost of pollution control/research and development/industrial safety devices, to be excluded for calculating the investment limits.
New Enterprises (where no prior ITR is available)	<ul style="list-style-type: none">▪ Based on Self-Declaration of the Promoter;▪ Purchase (invoice) value, irrespective of being brand new or second hand, excluding GST, to be considered on a self-declaration basis;▪ Relaxation to end after the 31 March of the FY, upon filing of its first ITR; thereafter classifications to follow the norms for existing enterprises.

▪ **Turnover Criterion:**

Enterprise	Calculation Basis
Existing Enterprises with PAN	▪ Turnover* to be linked to the Income Tax Act/Central Goods and Services Act (CGST) and GSTIN
Other Enterprises (without PAN)	▪ Based on Self-Declaration of the Promoter up to 31 March, 2021; thereafter, PAN/ GSTIN to be mandatory.

* Exports of goods/services or both to be excluded for computing turnover limits.

▪ **Change of Classification:**

Particulars	Calculation Basis
Lower to Higher Category	<ul style="list-style-type: none"> ▪ Upon crossing of specified limits for either investments or turnover, MSME to exit the lower category and move to a higher category; ▪ Enterprise to remain in its existing lower category, till the expiry of one year from the close of the year of registration.
Higher to Lower Category	<ul style="list-style-type: none"> ▪ Enterprise to be shifted from higher to lower category, only if it fulfils both investment and turnover thresholds applicable to the lower category; ▪ Enterprise to remain in its existing higher category, till the closure of the FY - benefit of lower category to take effect only from 1 April of the FY following the year of change.

Registration Procedure:

- Application for MSME registration may be uploaded on the Udyam Registration Portal (URP);
 - Simplified one Page Form;
 - Based on Aadhar Number and
 - On self-declaration basis – no requirement to upload any documents, papers, certificates or proofs
- No registration fees/costs;
- Single registration per enterprise - any number of manufacturing/service activities or both (based on NIC Code List of 2008) may be specified in a single registration;
- **Existing Enterprises:**
 - Enterprises registered under EM-Part-II or Udyog Aadhar Memorandum (UAM) to also register on the URP on or after 1 July, 2020 - any information deficiency for previous years to be filled up on URP on self-declaration basis;
 - Enterprises registered till 30 June, 2020 to be classified into micro, small or medium, based on revised classification norms;
 - Enterprises registered prior to 30 June, 2020 to remain valid only till 31 March, 2021.
- Upon completion of registration, an enterprise to be assigned a permanent identity number - Udyam Registration Number (URN) and be issued an e-certificate - Udyam Registration Certificate (URC).

Updation/ Transition:

- Enterprises with URN to update its information electronically on the URP, including the details of ITR / GST returns for the previous financial year on self-declaration basis.
- Category-wise classification of MSMEs to also be updated on the basis of information procured from Government's sources including ITR /GST returns.
- Communication to be sent to enterprise intimating it about the category-change.

Penal Consequences:

- Failure to update relevant information within the period specified, may lead to suspension of an enterprise's status;
- Intentional misrepresentation or attempts to suppress the self-declared facts appearing on the URP or in the process of updation, could attract penalty up to Rs. 10,000/-.

Facilitation and Grievance Redressal System:

- Government to set up Champions Control Room (CCR)/ District Industries Centres (DICs), which shall act as single window systems for facilitating the registration process and assisting MSMEs;
- CCR/DICs to also facilitate enterprises in obtaining an Aadhar Number, if unavailable and to assist it with any Udyam registration related queries;
- DICs to also assist with enquiries/verification relating to Udyam registration, empowered to issue notices and take up hearings, modify details or recommend cancellation of the URC.

Benefits of MSME Registration:

Credit Support:

- Credit Guarantee Fund Scheme for making available collateral-free credit to micro and small enterprises;
- Concessional interest rates on borrowings / facilities availed from banks;
- Ease in obtaining loans / credit facilities – banks earmark funds for priority sector lending;
- Pre and post-shipment finance for exporters at concessional interest rates;
- 100% credit guarantee cover and collateral-free term loans at concessional interest rates extended by Banks / NBFCs (for eligible MSMEs);
- Sub-ordinate debt for stressed MSMEs – provision of loans to Promoters of MSMEs for equity infusion into MSME;
- Equity support through funds of funds for MSMEs, desirous of listing on stock exchanges;
- Discounting facility of trade receivables due from corporates, Government departments, PSUs / other buyers, on an electronic platform – TreDs, through multiple financiers;

Concessions and Subsidies:

- Concessions in power bills (at the discretion of the State Governments);
- Re-imbursement for ISO certification expenses;
- Subsidies for Intellectual Property Rights registration costs;

Ease of Doing Business:

- Recovery of dues within 45 days from date of acceptance /deemed acceptance of goods supplied / services rendered. Delayed payments (beyond 45 days) would render MSME's customers / clients to pay interest;
- Special Insolvency Resolution Framework for MSMEs - minimum threshold limits for initiating insolvency proceedings against MSMEs raised to INR 1 crore;
- Other benefits including ease in obtaining licenses, approvals and product registrations, capital/grants for infrastructure development, support for participations in exhibitions abroad and marketing promotion schemes.

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Our Offices in India

Mumbai

Mistry Bhavan, 3rd Floor,
Dinshaw Vachha Road, Churchgate
Mumbai 400020
Tel No. +91 22 6623 0600

Mumbai (Suburban Office)

501/502, Narain Chambers,
M.G. Road, Vile Parle (East)
Mumbai 400 057
Tel No: +91 22 6457 7600/01/02

Ahmedabad

'Hrishikesh',
2nd Floor, Vasant baug Society,
Opp Water Tank, Gulbai Tekra
Ahmedabad 380 006
Tel. No. +91 79 2630 6530

Bengaluru

96, 7th Cross,
Domlur,
Bengaluru 560 071
Tel. No.+91 80 2535 1353

Chennai

Kochu Bhavan
Ground Floor, Old No 62/1, New No 57,
McNichols Road, Chetpet
Chennai 600 031
Tel No. +91 44 4384 9695

New Delhi

Suite 1101,
KLJ Towers, NSP
New Delhi 110 034
Tel No.+91 11 2735 7350

Vadodara

C-201/202, Shree Siddhi Vinayak Complex,
Faramji Road, Alkapuri,
Vadodara 390 005
Tel. No. +91 265 234 3483

Our Overseas Office

Dubai

Suite#17.06 Dubai World Trade Centre
Shaikh Zayed Road, Dubai, P.O. Box. 454442
Tel. No. +971 04 355 9533