

## **Cabinet approves proposal for Amendment to the Micro, Small and Medium Enterprises Development Act, 2006 to change the criteria of classification and to withdraw the MSMED (Amendment) Bill, 2015 – pending in Lok Sabha**

**The Union Cabinet chaired by Hon'ble Prime Minister Shri Narendra Modi has approved change in the basis of classifying Micro, Small and Medium enterprises from 'investment in plant & machinery/equipment' to 'annual turnover'. This will encourage ease of doing business, make the norms of classification growth oriented and align them to the new tax regime revolving around GST (Goods & Services Tax).**

Section 7 of the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 will accordingly be amended to define units producing goods and rendering services in terms of annual turnover as follows:

- A micro enterprise will be defined as a unit where the annual turnover does not exceed five crore rupees;
- A small enterprise will be defined as a unit where the annual turnover is more than five crore rupees but does not exceed Rs 75 crore;
- A medium enterprise will be defined as a unit where the annual turnover is more than seventy five crore rupees but does not exceed Rs 250 crore.
- Additionally, the Central Government may, by notification, vary turnover limits, which shall not exceed thrice the limits specified in Section 7 of the MSMED Act.

At present the MSMED Act (Section 7) classifies the Micro, Small and Medium Enterprises (MSMEs) on the basis of investment in plant and machinery for manufacturing units, and investment in equipment for service enterprises. The criterion of investment in plant and machinery stipulates self declaration which in turn entails verification if deemed necessary and leads to transaction costs.

Taking turnover as a criterion can be pegged with reliable figures available e.g. in GST Network and other methods of ascertaining which will help in having a non discretionary, transparent and objective criteria and will eliminate the need for inspections, make the classification system progressive and evolutionary, help in overcoming the uncertainties associated with the classification based on investment in plant & machinery/equipment and employment, and improve the ease of doing business.

In addition the amendment will provide flexibility to the Government to fine-tune the classification of MSMEs in response to changing economic scenario without resorting to the amendment of MSMED (Micro, Small & Medium Enterprises Development) Act. The change in the norms of classification will enhance the ease of doing business. The consequent growth and will pave the way for increased direct and indirect employment in the MSME sector of the country.

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Warm regards,

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