

Ministry of Micro, Small & Medium Enterprises

Amendment in the basis of criteria of classification of Micro, Small and Medium enterprises under the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006

The criteria for classifying Micro, Small and Medium enterprises under the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 has been changed by the Union Cabinet as on 07.02.2018 from the existing criteria of 'investment in plant & machinery/equipment' to 'annual turnover'. The existing provisions and the amendment is summarized below:-

Existing Provisions/ Criteria:-The existing criteria for classifying an enterprise as Micro, Small and Medium enterprises was prescribed under the provisions of Section 7 of the MSMED Act, 2006 which classified 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 relevant extract of Section 7 is reproduced as follows:-

"7. Classification of enterprises- (1) Notwithstanding anything contained in section 11B of the Industries (Development and Regulation) Act, 1951 (65 of 1951), the Central Government may, for the purposes of this Act, by notification and having regard to the provisions of sub-sections (4) and (5), classify any class or classes of enterprises, whether proprietorship, Hindu undivided family, association of persons, co-operative society, partnership firm, company or undertaking, by whatever name called,—

(a) in the case of the enterprises engaged in the manufacture or production of goods pertaining to any industry specified in the First Schedule to the Industries (Development and Regulation) Act, 1951 (65 of 1951), as—

- (i) a micro enterprise, where the investment in plant and machinery does not exceed twentyfive lakh rupees;*
- (ii) a small enterprise, where the investment in plant and machinery is more than twenty-five lakh rupees but does not exceed five crore rupees; or*
- (iii) a medium enterprise, where the investment in plant and machinery is more than five crore rupees but does not exceed ten crore rupees;*

(b) in the case of the enterprises engaged in providing or rendering of services, as-

- (i) a micro enterprise, where the investment in equipment does not exceed ten lakh rupees;*

- (ii) *a small enterprise, where the investment in equipment is more than ten lakh rupees but does not exceed two crore rupees;*
- (iii) *a medium enterprise, where the investment in equipment is more than two crore rupees but does not exceed five crore rupees.*

Explanation 1.—For the removal of doubts, it is hereby clarified that in calculating the investment in plant and machinery, the cost of pollution control, research and development, industrial safety devices and such other items as may be specified, by notification, shall be excluded.

Explanation 2.—It is clarified that the provisions of section 29B of the Industries (Development and Regulation) Act, 1951 (65 of 1951), shall be applicable to the enterprises specified in sub-clauses (i) and (ii) of clause (a) of sub-section (1) of this section.....”

Amendment:- By virtue of the amendment, Section 7 of the MSMED Act, 2006 now defines the 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 Rs. 5 Crore;*
- *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.*

The Key

- This step is in line with the efforts of the Government towards “Ease of Doing Business” and is in sync with international norms. Accordingly, the Government has decided to adopt the turnover criteria as against the criteria of investment in plant and machinery and hopes that the simplification of definition will promote setting up of new MSMEs and expansion of existing MSMEs with induction of new technologies due to removal of cap on investment in plant & machinery. Further, with data being available with the GSTN, it would be easier for the Government to keep a track and formulate policies for this particular sector.