



CMA BHOGAVALLI MALLIKARJUNA GUPTA*

MSME's – How to Thrive in Chaos

Micro, Small & Medium, Enterprises play a very key role in the Indian economy in employment generation in the growth of the GDP. MSME's are broadly classified into three categories, Manufacturing, Trading, and Servicing. MSME's play a key role in the Indian economy and in the whole supply chain cycle. As per the National Sample Survey conducted during 2015-16 the number of MSME registered in India is around 630 lacs, contributed about 29% GDP and provided employment opportunity to 1110 Lacs in the rural and urban India.

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Goods and Service Tax has provided a golden opportunity for the MSME's to come into the tax net and avail the benefits of it. In case if the MSME's are not registered in the Goods and Service Tax regime, they cannot avail the input tax credit benefits and as a result they have to absorb the cost of the taxes paid on their inward supplies or pass it on in the value chain with a higher cost to their customers who are predominately the OEM's or end consumers.

Under the previous tax regime, most of the MSME were not registered in the Central Excise as the threshold is Rs 150 lacs and as a result of it they are outside the Central Excise and not able to avail the CENVAT Credit. In GST, the same has been reduced to Rs 40/20 Lacs thereby providing a level playing field along the large taxpayers and lock horns with them on the pricing and able to improve their financials.

Based on the decision taken in the 32nd GST Council

meeting held on 10th of January 2019, it has been decided that in case of supply of goods the threshold for GST is being increased to Rs 40 Lacs and it will be effective from 1st April 2019. The same is notified wide Notification No.

10/2019-Central Tax dated 7th March, 2019. This benefit is not applicable to MSME's/ taxpayers in the states of Arunachal Pradesh, Manipur, Meghalaya, Mizoram, Nagaland, Puducherry, Sikkim, Telangana, Tripura, Uttarakhand. In case if the MSME opts for the Rs 40 Lacs threshold limit then, it will have a direct impact on their top lines and bottom lines as their supplies will be expensive compared to the registered MSME and they will face more hardships. MSME's have to take judicious decisions before opting of GST in case if they have their customer base who are registered taxpayers.

From the above analysis it is clear that MSME's if they have customers in B2B segment they should be in the tax net and in case of B2C like retail traders or service providers to end customers like service centers/

Once the MSME enter/embrace the tax net they have teething troubles in areas of compliance, finance and IT Infra / Applications. Some of the teething troubles they have to face is filing of tax returns regularly, increase in compliance work, increased in the accounting work as they have to maintain regular books of accounts in detail for all the transactions apart from the cash flow constraints. MSME's have to remit the taxes by 20th of the subsequent month and realization happens after a period of 60 - 90 days. These are the new challenges the MSME's are facing after the rollout of the GST and adoption of it along with their existing challenges of marketing, procurement & quality issues.

To address these issues, the Government of India has initiated various schemes from time to time to give a

helping hand to MSME's for their growth and prosperity as they are one of the key stakeholders for the development of the nation.

To overcome these challenges in the areas of compliance and increased accounting work, they can take the leverage of the Digital MSME Scheme launched specifically for promotion of Information and Communication Technology Scheme, wherein the units opting for this scheme can have cloud-based solutions in the areas of Enterprise Resource Planning, Accounting & Regulatory Compliance Including GST. Cloud computing helps the enterprises to save their

Particulars	CATEGORY OF SELLER		
	Registered	Composition	Unregistered
Input	50,000	50,000	50,000
GST - 18%	9,000	9,000	9,000
Total Cost	50,000	59,000	59,000
Profit	5,000	5,000	5,000
Selling Price	55,000	64,000	64,000
GST 18%	9,900	0	0
Price Paid By Customer	64,900	64,000	64,000
Tax Paid by Composition Dealer		634	
Actual Profit	5,000	4,366	5,000
Cost to B2B Customer	55,000	64,000	64,000

capital expenditure else they have to invest in expensive servers and hardware. With this scheme they will be investing in the software basis on the usage under the model "pay as use." Under this scheme, the MSME can choose from the available products they want to implement from the shortlisted vendors by applying at www.digitalsme.gov.in Under this scheme the MSME's can avail subsidy in the subscription charges for about 60% of the user fee for first two years up to a limit of Rs 1.00 Lac. Nowadays there are a lot of cloud-based solution available in the market where the entrepreneur can use any of them to track his inventory, amounts to be received from his customers or his order position or his liability towards the vendors at any given point of time and at the same time helps him in meeting the increased transaction recording and GST compliance.

The Digital MSME scheme will help the MSME's to be in the GST tax net and reduce the burden of compliance

and at the same time avail the benefits of GST by way of quarterly filing of Returns if their turnover is less than Rs 150 lacs in the previous financial year as per the existing scheme. It is also proposed to increase the same to Rs 500 lacs from the next fiscal year. Availability of the input tax credit helps the MSME's to pass on the benefits of the taxes on their inward supply of goods or services or both to their vendor by pricing their products/services at a competitive price which they were deprived in the previous tax regime. With the regular filing of the GST Returns, the entrepreneur can have additional funding basis of the credibility and profile. As on date, many banks have started offering loans to taxpayers who are filing the returns on time with a lower rate of interest.

Another major problem faced by the MSME's is delay in the payments from their customers and to address this the Government has initiated various steps like at the time of disbursement of loans to the large corporates where the working capital limits are above Rs 10 Crs, based on the projections submitted there will be separate sub-limits for the MSME units and the same is being monitored at the time of

renewal. This is notified by Reserve Bank of India wide IECD. No.5/08.12.01/2000-01& IECD. No. 20 /08.12.01/2002-03. In order to give a flip to the MSME's in the current work of liquidity crisis, Reserve Bank of India has issued a circular on 1st Jan 2019 to provide a one-time restructuring of the loans of MSME's below Rs 250 lacs without classifying them as default asset but classifying them as Standard Asset.

Apart from these as per the provisions Section 16 of the MSME Act 2006, there is a harsh penalty of three times the rate of interest notified by the Reserve Bank of India on the delayed payments compounded on a monthly basis. Ministry of Corporate Affairs has notified under Companies Act 2013 on 4th September 2015, the corporates have to be disclosed separately in Notes to Accounts the amounts payable to MSME's, the amount paid late, interest to be paid, interest paid, amounts due and interest accrued and not paid in the balance sheet separately. The amount receivable by the MSME are also operations creditors and the MSME can approach the Insolvency and Bankruptcy Board for delayed payments. These provisions should not be misused else it will impact the whole ecosystem. The amount of interest paid by the buyers is not allowed a business expenditure as per provisions of Section 37 of the Income Tax Act 1961.

Recently MCA has notified the -Form MSME 1. This form is yet to be enabled on the MCA portal. All the dues payable to the micro and small enterprises have to be reported in this on half yearly basis going forward from 1st April 2019 and as a one-time activity a special reporting has to be done once it is made available on the MCA portal.

Apart from this, to address the issues of the delayed payments / disputes of MSME's the MSME Ministry has launched a grievance portal <http://samadhaan.msme.gov.in/>, where the MSME's can register the payment disputes online. All the Central Ministries and State Governments have been provided access to the portal to pending payments in their jurisdiction and take remedial measures accordingly.

Even though the vendors pay on time, the challenge faced by the MSME is the cash flows as the taxes have to be remitted within a period of max 50 days and the realizations are beyond this period due to the prevailing market conditions. For this, the MSME's and the industry have to change their practice which will be win-win for all the stakeholder's likes

“For raising of funds the MSME's can also explore various bill discounting platforms available in the public domain.”

- The tax amount is released to the MSME by 20th of the next month, i.e., the due date of filing of the GST Returns and the balance amount to be released as per the commercial agreement
- The basic amount can be released promptly as per the payment terms and the tax amounts to be released on submission of the GST Returns filing proof.

This becomes very critical as matching is proposed to be introduced again in the new return formats proposed to be rolled out from 1st April 2019. To address this, both the MSME's and the corporates have to change their process so that the MSME can be in the tax net and avail

the input tax benefits.

For raising of funds the MSME's can also explore various bill discounting platforms available in the public domain. One such portal is Invoicemart.com where MSME's can go and upload the invoices, Once the invoice is accepted by the buyer, the financier bids for the invoices and once it is approved, the funds are received in the MSME's bank account within 48 hours and financier is to be paid on the due date of the invoice. This is the difference between factoring and funding though bill discounting platform.

Another challenge faced by the MSME's is the pricing, as the big players can have lower prices due to economies of scale, have muscle power in terms of the marketing budgets or pricing due to the volume or bigger network whereas the MSME lack these things and if they are not in the tax net or do not register themselves in the GST then they cannot avail the input tax credit and this results in an increase in the cost of the goods or services, which in turn hurts their pricing competitiveness and they will be displaced from the market slowly.

There are more than 150 plus schemes for MSME's, and they can utilize to the best possible extent to overcome their challenges, and in this, the Cost and Management Accounts can play a vital role. Apart from this the fin-tech companies or the financial institutions can come

forward and set up an exchange platform where the MSME's can register their invoices and finance institutions can bid on the reverse auction basis for buying the invoices of the MSME's. This arrangement is similar to factoring but in a much bigger manner and in a bigger platform where the financiers, corporates and the MSME's will be participating and reaping benefits using the technology. As of now, this practice is available in limited space only, and now the same has to be taken to the next level.

The Government can also explore the option of enabling the filing of the returns and payment of taxes on a quarterly basis by the MSME Registered taxpayers under GST, this would solve the cash flow issues to some extent and also increase the tax GDP ratio of the country which is really very low and at the same time the MSME can be in the value system. ■

* **CMA Bhogavalli Mallikarjuna Gupta** is the Founder of India gst.in and Speaker, Author & Advisor on GST

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I am happy to note that, the Institute of Directors, a pioneer institute for professional development of corporate India, has taken the initiative for hosting capacity building programmes for MSMEs in India

RAM MOHAN MISHRA, IAS
Additional Secretary & Development Commissioner
Ministry of MSME

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INSTITUTE OF DIRECTORS

M-56 A, Greater Kailash Part - II (Market), New Delhi-110048, India • Board Nos.: +91-11- 41636294, 41636717, 41008704
Fax: +91-11- 41008705 • Email: info@iodglobal.com

For More Information, Please Email: info@iodglobal.com

www.iodglobal.com