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# UNION BUDGET

2020 - 2021 | IMPACT ANALYSIS

MSMEs



## MSMEs

- The Government proposed to set up an Investment Clearance Cell, which will work through a portal, to provide 'end to end' facilitation and support, including pre-investment advisory, and facilitate clearances at Centre and State level.
- Proposal to launch 'NIRVIK', a scheme to achieve higher export credit disbursement, which provides higher insurance coverage, reduction in premium for small exporters and simplified procedure for claim settlement.
- The government proposed to create a Centre in an Institute of Excellence, which would work on the complexity and innovation in the field of Intellectual Property.
- Proposal to set up Knowledge Translation Clusters across different technology sectors including new and emerging areas; Establishment of Test Beds and Small Scale Manufacturing Facilities for designing, fabrication and validation of proof of concept, and further scaling up Technology Clusters.
- Proposal to amend Factor Regulation Act, 2011 to extend invoice financing to MSMEs via NBFCs to enhance their economic and financial sustainability; Recommendations made for app-based invoice financing loan products.
- Proposal to introduce a scheme to provide subordinate debt for entrepreneurs of MSMEs. The subordinate debt provided by banks would be considered as quasi-equity and be fully guaranteed by Credit Guarantee Trust for Medium and Small Entrepreneurs (CGTMSE).
- Government will release the National Logistics Policy which will create a single window e-logistics market, and clarify the roles of the Union Government, State Government and key regulators.
- The Government has asked the RBI to consider extending the debt restructuring window till March 31, 2021
- Proposal to extend handholding support - for technology upgradation,

R&D, business strategy, etc. - to MSMEs, anchored by EXIM Bank and SIDBI; Allocation for the same is ₹ 10 bn. Both institutions will provide ₹ 500 mn each and the remaining would be made available via debt funding from banks.

- Proposal to defer tax payment on Employee Stock Option Plan (ESOP) for startups by five years or till employees leave the company or when employees sell the shares, whichever is earliest.
- Proposal to raise the turnover threshold for mandatory audit by five times to ₹ 50 mn from ₹ 10 mn. Further, the increased limit shall apply only to those businesses which carry out less than 5% of their business transactions in cash.
- The Government proposed to revise the turnover limit of the startups from ₹ 250 mn to ₹ 1000 mn for availing tax deduction of 100% of their profits for three consecutive assessment years. Further, the period of eligibility for claim of deduction was proposed to be raised from 7 years to 10 years.
- For promoting Make in India, the Government proposed to increase duty on household goods and appliances such as tableware and kitchenware, electrical appliances such as fans, food grinders, hair appliances, oven, coffee/tea maker, stationary and other miscellaneous items from 10% to 20% and Furniture goods from 20% to 25%.

### *Positive*

*Several proposals were made to boost the MSME sector, especially startups, aimed at easing the tax compliance, improving the availability of working capital and providing technological support. These measures will provide much required impetus to boost the startup environment and the MSME sector in India. Tax deferment on ESOP will improve the cashflow condition for the startups meanwhile increasing the turnover limit for the startups to avail the benefits of deductions will support sector. Handholding provided by EXIM Bank and SIDBI will increase the presence of MSME in the international market. The thrust provided to app-based invoice financing*

*of loan products, extending invoice financing to MSMEs via NBFCs and the availability of subordinate debt in the form of quasi-equity will boost supply chain finance penetration in India providing a credit trail. With the proposed change in customs duty, MSMEs are offered a level playing field which is positive for Make in India. Increase in the restructuring window for the MSME will provide adequate time to the stressed MSMEs to manage their books and obviate the problem of delayed payment and consequential cashflow mismatches. Apart from these benefits, the sector would further gain from the other measures which are targeted at improving the overall business environment and through increased allocation towards farm, infrastructure and social sector. Furthermore, the provision for removal of mandatory audit for MSME having 95% of their transactions cashless will lead to a formalization of MSME and increased transparency going forward.*



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