



Tax benefits to Micro, Small, and Medium Enterprises

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ABSTRACT-

The Micro, Small, and Medium Enterprises sector (MSMEs) plays a vital role in each economy kind of economy whether it is capitalist, socialist or Mixed Economy and it is backbone of the developing economy such as India, hence the MSME plays vital role on our economy by contributing huge share in GDP, by provide employment opportunities, by eliminating poverty and many more. The government provides various tax benefits under Direct Tax and Indirect Tax systems, the some tax benefits available under Income Tax Act 1961 are Concessional tax rate to the domestic companies with a turnover of up to 400 crore are eligible for concessional tax rates under the Income Tax Act, 1961. As per Sec 115BAA of Income tax act 1961 MSMEs can also avail of a tax rate of 22%, Presumptive tax scheme U/S Section 44AD, Tax Holiday to MSMEs producing certain goods, such as mineral oil, natural gas, and fertilisers, Investment Allowance: MSMEs investing in plant and machinery can avail of an investment allowance of 15% under Section 32AC of the Income Tax Act etc. On the other the government also provides Benefits under Goods and Service Tax (GST) law such as Exemption from registration, Composition Scheme etc. so that they can survive and perform in good manner.

Introduction-

The MSME sector is the main sector of the Indian economy and a key driver responsible for driving the country's economic growth. Micro, Small, and Medium Enterprises (MSMEs) account for a significant portion of India's GDP. In India, there are approximately 6.3 crore MSMEs, which employ approximately 11 crore people which is 2nd largest after agriculture and also contribute nearly 45% in export and 30% to our country's GDP (as per the Annual Report of the Ministry of Micro, Small and Medium Enterprises 2022-23).

Percentage Distribution of Enterprises in Rural and Urban Areas

(Male/Female ownership) category wise

Sector	Male	Female	All
Rural	77.76	22.24	100
Urban	81.58	18.42	100
All	79.63	20.37	100

Source: Annual Report ministry of micro small medium enterprises 2022-2023

Percentage distribution of enterprises owned by Males/Female

(Entrepreneurs Wise)

Category	Male	Female	All
Micro	79.56	20.44	100
Small	94.74	5.26	100
Medium	97.33	2.67	100
All	79.63	20.37	100

Source: Annual Report ministry of micro small medium enterprises 2022-2023

Estimated Employment in the MSME Sector (Activity Wise)

Broad Activity Category	Employment (in lakh)			Share (%)
	Rural	Urban	Total	
(1)	(2)	(3)	(4)	(5)
Manufacturing	186.56	173.86	360.41	32
Electricity*	0.06	0.02	0.07	0
Trade	160.64	226.54	387.18	35
Other Services	150.53	211.69	362.22	33
All	497.78	612.10	1109.89	100

Source: Annual Report ministry of micro small medium enterprises 2022-2023

Distribution of Workers by Gender in Rural & Urban Areas

(Numbers in lakh)

Source: Annual Report ministry of micro small medium enterprises 2022-2023

Classification of MSMEs

Sector	Female	Male	Total	Share (%)
Rural	137.50	360.15	497.78	45
Urban	127.42	484.54	612.10	55
Total	264.92	844.68	1109.89	100
Share (%)	24	76	100	

Enterprises whose investment is less than 1 crore or Turnover of up to 5 Crore that enterprise termed as Micro Enterprises.

An enterprise whose investment is more than 1 crore but less than 10 crores or turnover of more than 5 crore but less than 50 crore is termed a Small Enterprise.

An enterprise whose investment is more than 10 crore but less than 50 crore or turnover of more than 50 but less than 250 is termed a Medium enterprise.

TAX BENEFITS TO MSME

There are many benefits provided to MSMEs under Income Tax Act 1961 and Goods and Services (GST) law in which some are mention below...

Benefits available under Income Tax Act 1961

Following benefits are available to MSMEs under income tax act 1961.

Concessional tax rate:

- Domestic companies with a turnover of up to 400 crore are eligible for concessional tax rates under the Income Tax Act, 1961. These companies, coming under section 115BA of the Income Tax Act, are eligible for a tax rate of 25% instead of the usual 30%. Specified deductions, set-offs, and carry-forwards are not allowed to these companies. And other condition for availing concessional tax Rate Company must be set up and registered on or after March 1, 2016.
- As per Sec 115BAA of Income tax act 1961 MSMEs can also avail of a tax rate of 22% but condition is that their total income calculated without considering various deductions, depreciation, and set-offs. These companies are also exempt from the payment of maximum alternate tax under section 115JB.
- As per section 115BAB New manufacturing domestic companies can also opt for a 15% tax rate The requirement under this section includes all the conditions under section 115BAA and also some other conditions such as To be set up and registered on or after October 1, 2019, It cannot claim deductions under section 80-ID, It cannot be engaged in any other businesses.

Presumptive tax scheme:

There are several presumptive tax schemes that MSMEs can opt for and reduce their tax liability. All these schemes can be availed subject to the fulfilment of specific conditions For instance:

- Section 44AD is available to eligible businesses (Except below) with a total turnover or gross receipt of 2 crore or less.
- Presumptive taxation scheme under section 44ADA is available for professionals.
- Good carriage businesses can opt for section 44AE.

MSMEs can compare their tax liability under the applicable presumptive tax scheme and opt for it if beneficial.

Tax Holiday: MSMEs producing certain goods, such as mineral oil, natural gas, and fertilisers, are eligible for a tax holiday under Section 80-IB of the Income Tax Act. This tax holiday is available for 5 to 10 years from the year of commencement of production.

Capital Gains Exemption: MSMEs can avail of capital gains exemption under Section 54GB of the Income Tax Act. This exemption is available if the MSME invests the capital gains from the sale of a long-term asset in the equity shares of an eligible start-up.

Investment Allowance: MSMEs investing in plant and machinery can avail of an investment allowance of 15% under Section 32AC of the Income Tax Act.

Benefits available under Goods and Service Tax (GST) law

Following benefits are available to MSMEs under GST law.

Exemption from registration

Any business with a turnover of less than Rs. 40 lakhs is recognised as a GST-exempt business.

Composition Scheme

MSMEs with a turnover of up to 1.5 Crores can avail of the Composition Scheme under the Goods and Services Tax (GST) regime. Under this scheme, MSMEs are required to pay a lower tax rate and have reduced compliance requirements. Under this scheme tax rate 1% of the turnover for traders and other suppliers, 2% of the turnover for manufacturers (apart from manufacturers of products not eligible for GST composition scheme), 5% of the turnover for restaurant services, 6% of the turnover for businesses providing services/mixed services (other than restaurant services applicable from 1st April 2019 onwards).

Starting business becomes easier: online registration under GST law reduce bureaucracy which helps MSMEs to start their business become easier.

Ease in tax payments

Electronic payment of taxes bring transparency and also reduce compliances cost.

Ease in refund

Electronic refund process help to MSMEs get their refund fastly which enhance the liquidity of business.

Ease in filling return

Under GST system filling of return becomes easy and a person not having so much knowledge regarding filling of return is also able to fill return under GST law.

Transparent transaction: - Electronic compliance becomes more transparency to the system and it also reduces the compliance cost.

Purchase of Capital Goods:

In the previous system, only 50% of the input tax credit against purchase of Capital Goods is available in the year of purchase and the balance amount in subsequent years. Under GST regime, entire amount (100%) of input tax credit can be availed in the year of purchase itself.

Ease in claiming amortization deduction of preliminary expenditures: At present, the assessee or a concern approved by the Board should carry out the activity of an enterprise for claiming amortization of certain preliminary expenses. To simplify the process of claiming amortization of preliminary expenses, Budget 2023 proposed to remove the condition of a concern approved by the Board to carry out the activity in connection with these expenses. The government will prescribe the format for reporting such expenses by the assessee.

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