

A Primer on MSME Export Benefits



A slew of measures are in place to strengthen and enable Micro, Small and Medium Enterprises (MSMEs) to flourish and grow in India. Whilst the most obvious one pertains to MSME being paid within 45 days by large companies doing business with them, a number of other benefits are also available, which are too often not availed by the MSME due to lack of awareness. This article throws light on some of these benefits and how to avail them, and the role of CA firms for MSME. The emphasis of this article is on manufacturing / production MSME units which are also involved in export activity, though service MSME units also are eligible for similar benefits. Read on...

Background

"Micro, Small and Medium Enterprises (MSME) sector has emerged as a highly vibrant and dynamic sector of the Indian economy over the last five decades. MSMEs not only play crucial role in providing large employment opportunities

at comparatively lower capital cost than large industries but also help in industrialisation of rural & backward areas, thereby, reducing regional imbalances and assuring more equitable distribution of national income and wealth. MSMEs are complementary to large industries as ancillary units and this sector contributes enormously to the socio-economic development of the country.

Establishment of specific funds for the promotion, development and enhancing competitiveness of these enterprises, notification of schemes/ programmes for this purpose, progressive credit policies and practices, preference in Government



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procurements to products and services of the micro and small enterprises, more effective mechanisms for mitigating the problems of delayed payments to micro and small enterprises and assurance of a scheme for easing the closure of business by these enterprises are some of the other features.” (quote from website msme.gov.in).

Though Government of India has announced 12 historic initiatives over the past few months, the most hyped one is the loan of ₹ 1 crore within 59 minutes through online portal. The key insights that generally emerge from experiences of working with MSME companies are (i) lack of awareness in MSME of the various benefits and how to claim (ii) CA firms auditing MSME companies can add significant value in this regard.

CA firms providing audit and tax services to MSME can support and serve their MSME clients beyond the traditional audit and tax work by enabling and encouraging MSME to register and claim such benefits. Availment of such benefits can place the

Annual Turnover Based Classification

Enterprises	Existing Classification based on investment in plant and machinery/Equipment		Proposed classification based on Turnover as approved by the Cabinet but yet to be notified.
	Manufacturing Unit Investment in plant and machinery	Service Unit Investment in equipment	Manufacturing/Services(Both) Annual turnover
Micro enterprise	≤ ₹ 25 Lakhs	≤ ₹ 10 Lakhs	≤ ₹ 5 Crore
Small enterprise	> ₹ 25 Lakhs and ≤ ₹ 5 Crore	> ₹ 10 Lakhs and ≤ ₹ 2 Crore	> ₹ 5 Crore and ≤ ₹ 75 crore
Medium enterprise	> ₹ 5 Crore and ≤ ₹ 10 Crore	> ₹ 2 Crore and ≤ ₹ 5 Crore	> ₹ 75 crore and ≤ ₹ 250 crore

A Primer on Key Benefits

EXPORT BENEFITS

All Industries Rate (AIR) drawback is available at rate applicable to the Customs Tariff (HSN-ITC) of the export product on the FOB value to neutralise the burden of the duties and taxes paid on the input and input services used for the export, the amount being directly credited to exporter bank account, processed via the registered port of export. At present, the Rate of drawback varies from 0.15% to 9% depends on the types of goods exported.

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CA firms providing audit and tax services to MSME can support and serve their MSME clients beyond the traditional audit and tax work by enabling and encouraging MSME to register and claim several benefits given by Government. Availment of such benefits can place the MSME on a stronger financial footing, and meet the objectives set forth by the Government.

What is MSME?

The MSME Development Act of 2006 was enacted for the promotion and development and enhancing the competitiveness of Micro, Small and Medium Enterprises. It includes enterprises engaged in both manufacturing / production and in services, and defines investment threshold in plant & machinery / equipment for MSME to qualify as Micro, Small or Medium. However it is proposed to upgrade the classification of the same based on annual turnover.

and local business, then refund can be claimed in ratio of export turnover to total turnover. Few MSME enterprises selling products attracting NIL GST rate mistakenly believe they cannot get GST refund on export, but that is not so.

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MEIS (Merchandise Exports from India Scheme) benefits are available for export of goods, on the FOB value of exports (should be realised

Industry-Specific

in free convertible currency). MEIS benefit is currently available at varying rates from 3% to 7% on the FOB value of exports, depending on the product (HSN-ITC) and country of export. To avail this benefit MSME has to be registered with relevant Export promotion council, e.g. EEPCC, APEDA etc.

SEIS (Service Export from India Scheme) benefits are available for export of services, at the rate of 5% or 7% of net foreign exchange realised, depending on the type of services exported. MSME has to be registered with SEPC (Services Export Promotion Council).

Both MEIS & SEIS benefits are given not in the form of money but in the form of duty credit scrips which can be used for payment of custom duties or can be freely sold to another enterprise. The scrips are valid for 24 months from date of issue.

Marketing Assistance Scheme

A. Organising Technology Exhibitions in Foreign Countries

This scheme allows reimbursement of space rent/ shipping /transportation charges/ air fare maximum up to ₹ 2.70 lakhs and for Advertisement and publicity maximum up to ₹ 2 lakhs.

B. Participation in International Exhibitions/ Trade Fairs held in Foreign Countries

This scheme allows reimbursement of space rent/ shipping /transportation charges/ air fare maximum up to ₹ 2.50 lakhs and for Advertisement and publicity maximum up to ₹ 5 lakhs.

Transport & Marketing Assistance (TMA)

Exporters of agriculture products falling under chapter 01 to 24 of the Customs Tariff except for few products such as Meat/animal/Milk/Cream etc. are entitled for benefits under this scheme in Direct Benefit Transfer (DBT) ranging from ₹ 700 TEU to ₹ 31500 TEU to mitigate the disadvantage of higher cost of transportation of agricultural products for exports effected from 01.03.2019 to 31.03.2020.

Advance Authorisation Scheme

This is pre-export benefits scheme allows duty free import and indigenous procurement of input and

raw material required for manufacture of export items.

Export Promotion capital goods

This is pre-export benefits scheme allows duty free import and indigenous procurement of capital goods required for manufacture of export items subject to fulfilment of export obligation equivalent to six times of duty saved in six years.

FINANCING BENEFITS

Interest Equalisation Scheme on Pre and Post Shipment Rupee Export Credit

To amplify the scope of access to credit for MSME exporters reimbursement of interest increased to five percentage points per annum (5% p.a.), on outstanding balance of pre shipment or post shipment Rupee Export Credit has been approved.

Capital Subsidy

Credit Linked Capital Subsidy Scheme (CLCSS) is available to MSME for technology upgradation, through some nationalised banks and organisations like SIDBI etc. The ceiling for loans under the Scheme is ₹ 1 crore and the subsidy available is to the extent of 15% thereof.

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Different Government Ministries at both Central and State Government levels also operate a number of schemes which MSME can evaluate and apply for. For example, under the National Seed Policy 2002, credit linked back-ended capital subsidy at the rate of 25% of the project cost subject to a maximum limit of ₹ 25.00 lakh per unit on seed infrastructure development is available, with objective to boost seed production in private sector.

OTHER BENEFITS

The schemes/ programmes undertaken by the MSME Ministry and its organisations seek to facilitate/provide: (i) adequate flow of credit from financial institutions/banks; (ii) support for technology upgradation and modernisation;

(iii) integrated infrastructural facilities; (iv) modern testing facilities and quality certification; (v) access to modern management practices; (vi) entrepreneurship development and skill upgradation through appropriate training facilities; (vii) support for product development, design intervention and packaging; (viii) welfare of artisans and workers; (ix) assistance for better access to domestic and export markets and (x) cluster-wise measures to promote capacity-building and empowerment of the units and their collectives.

The website MSME.gov.in contains a host of useful information in this regard.

Challenges

The main challenges observed are in (i) awareness (ii) documentation (iii) follow-up, and (iv) execution.

A large number of MSMEs are not aware of the range of benefits available, the source and how to go about claiming the benefit. Though MSME is nominally a member of some industry association or the other, sufficient dissemination of benefits has been lacking, particularly at local level.

Complete documentation is essential to claim the benefits, e.g. in export shipping bill, declaration about claiming MEIS benefits is required to be mentioned; FIRC (foreign inward remittance certificate) document needs to be obtained from bank and retained carefully by MSME, failing which benefit is not claimable.

Many MSMEs are also found to lack sufficient internal resources to follow-up because of which benefits are not claimed in time or get lapsed.



Accounting systems used are also not set up to recognise, claim and follow-up on these benefits, for example, rigorous recording of GST ITC; accrual of export benefits with each export invoice booking; proper matching of incoming export remittances against export invoices etc., are generally found lacking in many MSMEs.

Conclusion

CA firms engaging with MSMEs can play an invaluable role in identifying various benefits and enabling MSMEs to address the challenges noted above so that the benefits are availed efficiently and effectively. For example, in a production MSME having balanced mix of export and local business, the bottom line increased by 20% merely by becoming aware and availing the Interest Equalisation Scheme and MEIS / SEIS benefits.

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Useful Links

<https://msme.gov.in/>

<http://www.dgft.gov.in/policies/interest-equalization-scheme>

<http://www.servicesepp.org/seis/>

<http://www.dgft.gov.in/policies/merchandise-exports-india-schememeis>

Revised All Industry Duty Drawback Rates Schedule applicable w.e.f. 19 Dec. 2018: CBIC Notification No. 95/2018 Customs (NT) dt. 6 Dec. 2018

<http://www.dcmsme.gov.in/schemes/sidoscheme.htm>