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लघु उद्योग भारती

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ALL INDIA ORGANISATION IN SERVICE OF SMALL SCALE INDUSTRIES

Ref. No.LUB/2021-22/325

Dated: 03/01/2022

Smt. Nirmala Sitharaman ji,
Hon'ble Minister of Finance
and Corporate Affairs,
Govt. of India,
North Block,
New Delhi –110001

Sub: **Pre-Budget Suggestions focusing Micro, Small & Medium Scale Industries.**

Respected Madam,

Greetings from Laghu Udyog Bharati, an all India Organisation with vision to Promote, Protect, Preference and Progress of Micro and Small Industries having presence in around 400 districts throughout the Country.

We express our sincere thanks & gratitude for the support extended by your goodself to the various sectors of the society including MSMEs in the difficult times of Covid 19 situations. **We are grateful for bringing necessary relief to Fibre Drum manufacturers, Heena Powder, Heena Paste and textile sector.** LUB have always played a vital role in taking up the matters directly or indirectly affecting MSME Sector and have also bridged the Gap of communication between Government and MSMEs.

We also appreciate the vision statement of "VOCAL FOR LOCAL", "Make in India", "Atmanirbhar Bharat" given by Hon`ble Prime Minister, which itself speaks about the focus of Government to create environment for increasing Manufacturing activities and Ease of Doing Business for MSMEs. But it seems there is still lot to do specifically for MSMEs as it could be seen that youths instead of becoming Job Providers are becoming Job Seekers. This mindset need to be changed and for that Government of India would have to play very important role.

We are hereby submitting Pre-Budget Suggestions, some of them have been submitted earlier also for your kind consideration:-

Allocation of Budgetary fund for MSME

A) **Credit Linked Capital Subsidy Scheme (CLCSS):**
It is observed that CLCSS scheme of MSME Ministry was very useful for MSMEs who wanted to upgrade their Production technology and make themselves competitive and for that the Scheme provided Subsidy in form of Maximum amount of Rs. 15 Lakh (i.e.15% of Rs. 1 Crore of Institutional Finance Availed).
The Upper Cap of Rs. 1 Crore of Institutional Finance need to be increased as it is not at par with current Up-gradation of Plants & Machinery requirements and also not at par with the Changed Definition of MSME.

We would propose that the Budget allocation for this Scheme should be enhanced and also the Upper Limit of Rs. 1 Crore be increased to Rs. 10 Crore.

B) Motivation to Green Industrialization:

It is now very clear that Government of India is very aggressive in promoting Non-Conventional ways of Energy (Fuels) and Renewal Energy, which can also be seen by various measures taken by GoI for Solar Power Plants etc.

1) In spite of these measures, still maximum manufacturing sectors have not yet started having their Solar Power Plants for Captive Consumption.
2) Further there is need of use of Enzymes based Effluent Treatment Plants which can not only help in better treatment of waste water but would also help in use of the bye-product of such plants for agriculture purposes.
3) Use of Agro waste pellets to replace coal as fuel should be promoted, which would not only help to develop substitute for coal but would also help in reducing pollution due to burning of agro waste in open air.

We Propose to Bring in Policy that MSMEs should be allowed to

1) Purchase Solar based Electricity from Domestic Solar Power Plants and/or should be allowed to bring their own Solar Power Plant for Captive Consumption. Those bringing their own Solar Power Plant for Captive Consumption must be given benefit in form of GST Subsidy.
2) To promote Enzymes based ETPs and Use of Agro waste pellets, necessary steps must be taken either by way of capital subsidy or by way of Additional Depreciation in Income Tax or by way of GST Subsidy.

C) Enhancement of Fund Allocation for ATUFS Scheme to promote Textile Sector.

D) Working Capital Crunches is affecting cash flows of MSMEs:

MSME Sector usually suffer from insufficient cash flows and the last 2 years of Covid pandemic has further deepen the impact. It is noted that although GoI through various ministries is trying to resolve this major issue of MSMEs but the ground realities speaks differently.

Whole Chain of Cash Flow includes, Government Sector (Procurements), Corporate Sectors, MSMEs, Consumer, etc. In this whole chain the major impact is noted due to delay in release of Funds or payments by Government Undertakings, PSU, Government departments. Further it is noted that there is no check on these delays due to which whole MSME sector is getting affected.

There is need to take some of measures to resolve the burning issue:-

1) All such Government Departments, undertakings, PSUs, etc. delaying payment beyond 45 days should be compulsorily be asked to pay Interest on such delays as per MSMED Act. Such Interest should also be applicable to delays made by Corporate or Vendors through whom such vendors procure goods and services to make supplies to these Govt. departments, PSUs, etc.
2) Bank Finance should be available on outstanding amount due from Govt. Department, PSUs, Undertaking even if the due is beyond 90 days.
3) Expansion of TReDS should be made mandatory for PSU's and Govt. organisations.

E) To extend financial facilities to MSMEs in letter and spirit: Considering the adverse impact of Corona Pandemic, Ministry of Finance has announced many financial facilities for the benefit of

MSME sector, but many bankers avoid to extend such benefit on one pretext or the other. Micro and Small Entrepreneurs even after completing the banking formalities are not given finance.

Therefore, RBI should declare Scheme proposed in the Budget / announced by Govt. to make it acceptable to all banks

F) CGTSME fund to be increased:

CGTSME loan Budget of Rs. 2200 crore is constant from seven years same should be increased to help Micro and Small industries.

Direct Taxes

1. **Income Tax on Earnings from Business Partnership & LLP Firms-**

We request for the revision of tax slab rate for the partnership Firm/LLP and revision in remuneration limit to a partner u/s 40 (b) (v).

- Rate of income tax for the partnership firm should be revised to new slab rate as

NO	SLAB OF INCOME	RATE OF TAX
a)	Total income does not exceed ₹ 10, 00,000	10 Percent
b)	Total income exceeds Rs 10 Lakhs but does not exceed Rs 15 Lakh	15 Percent
c)	Total income exceeds Rs 15 Lakh	25 Percent

- Remuneration to a working partner
- As per sub clause (v) of clause (b) of section 40 of income tax act the remuneration allowed to a working partner should be revised and should be as under

a)	On the first ₹ 5,00,000 of the book profit	Rs 1,50,000 or 90% of book profit whichever is more
b)	On the next Rs 5,00,000 of the book profit	75% of the book profit
c)	On the balance of the book profit	60% of the book profit

The above provision shall be extended atleast for the Manufacturing Units who are in partnership and LLP constitution.

2. **Income Tax on Earnings from Business & Profession by Proprietary Firms-**

We recommend to extend an option in addition to the current tax calculation for the individual assesses having income more than threshold limit be taxed with maximum 20 % tax rate on the income or gain from the business & professional activity. This may be restricted to the GST registered assesses for the confirmation of the income source.

3. **Tax Deducted at Source provision –**
   We suggest to give relief by removing mandatory TDS PROVISIONS when both are GST registered assesses. This will ensure EoDB (Ease of Doing Business) to the great extent. Also, it will give relief for working capital requirement of MSMEs.
4. **Tax Collected at Source-**
   It is introduced recently w.e.f. 1st Oct 2020. It is increasing a complexity in the overall commercial system due to selective applicability. It is further adding lot of work to the assesses in the routine business activity. We request for total withdrawal of the recently introduced provisions of TCS.

   It is further noticed that in various TDS/TCS provisions, the applicability of tax rates is linked with the deductee's income tax return filing status, which is also impractical for the Assessee. First, the window for checking the return status of the deductee is not provided and if it will be provided, it would be difficult for the business entities for verifying the status of each and every party/vendor before making any business transaction.

5. **Incentive scheme for investment in the made in India capital goods of P&M**
   It is observed that there is need of Capital Infusion in the Plant & Machinery of manufacturing industry to be at par with the current IR-IV scenario. It is also important with respect to the AtmaNirbhar Bharat Abhiyan to make the manufacturing sector at par with the international standard with respect to capacity, quality & competitiveness to become Global Manufacturing Hub. To promote the LOCAL CAPITAL GOODS OF P&M manufacturing. This will promote the Make in India program and will give boost to the local Plant & Machinery manufacturing sector which has very much important role in the Atmanirbhar Bharat Abhiyan & Vocal for Local. We suggest to extend two options as below-
   - Higher rate of depreciation on LOCAL CAPITAL GOODS OF P&M for two years.
   - One-time capital incentive deduction in the taxable income.
6. **DSIR recognition of R&D FACILITY installed at Partnership & LLP Firms-**
   We observe that there are many SMEs who are involved in the R&D of different products in all the industry segments. During the COVID 19 period we have seen that many SMEs have developed many products like PPE KITS, VENTILATORS, OXYGENRATORS, SANITIZEERS, SANITIZER DISPENSORS etc. & have exhibited their ability of R&D to suffice with the change in the market requirements.
   We all are aware that the majority of the MSMEs are non-corporate & are Proprietary or Partnership or LLPs. We wish to bring to your notice that, it is a precondition to be a company registered with ROC to receive the DSIR recognition of R&D facility. The DSIR registration enables the firm to receive the different fiscal & other government scheme benefits for R&D activity.

We wish to request to remove this discrimination towards proprietary, partnership & LLP firms & permit the recognition of DSIR of R&D facility enabling to receive fiscal & other government schemes by them.

7. **MAT/AMT rate for Special Category States which are exempt from Income Tax:** Units of this region which are exempted from Income Tax has to pay MAT / AMT @ 18.5% which should be reduced and to be brought at par with normal rate of 13.5%.
8. **Capital Gain Tax-**
   In the course of business, the MSE's are required to sale the assets to fulfil financial commitments of Banks or institutes or creditors or for the purpose of new business opportunities. In such cases the "CAPITAL GAIN TAX" is charged which directly evaporates substantial gained amount by 20% resulting into the loss of funds availability to that extent. We suggest to withdraw "Capital Gain Tax" on such sale of asset similar to sale of agriculture land. This shall be available with two options. A) Sale of asset for the purpose of repayment of financial dues of institutes which will reduce the NPA as a result and B) for the purpose of reinvestment in the business as capital or quasi capital with lock in period of 3 to 5 years. This will provide source of fund to the new projects within the business.

   It is also requested to wave of Long Term Capital Gains for Micro and Small Scale industries

9. **To Promote Domestic Companies Already Incorporated but has still not started its production**:
   "AtmaNirbhar Bharat Abhiyan" launched by Hon`ble Prime Minister Shri Narendra Modi Ji has given lot of inspiration for increasing consumption of domestic products and which in turn have started creating demand for domestic productions. Section 115BAB (1) of Income Tax Act 1961 have been introduced to levy Tax @15% on certain new domestic manufacturing companies registered on or after 1st October 2019 and has commenced manufacturing on or before the 31st day of March 2023.
   Our Sincere Request to Hon`ble FM is that, in order to increase the outreach of reduced Income Tax Rate for increasing domestic production, Companies already incorporated but have still not commenced its production should also be motivated to set up manufacturing capacity and commence their production on or before 31st day of March 2023.
   Hence, **Eligibility Condition in Section 115BAB (2) of Income Tax Act 1961, Domestic Companies already incorporated before 1st October 2019 and has commenced manufacturing on or before the 31st day of March 2023 should also be added.**
10. **Deposits & unsecured loans from friends & relatives-**
    It is a regular practice & tradition of our business community to use financial resources as unsecured loans from relatives & friends to start & run the activity. This is a very important source typically for MSMEs who do not receive the financial facilities from Banks & financial institutes for their own reasons.

Since some years ago this has been not allowed & is considered to be illegal by law. We strongly request to withdraw this regulation & permit the "unsecured loans from relatives & friends". It may be regulated with mandatory requirement of PAN & other details of depositor with declaration.

11. **PF/ ESI payment after due date.**

    It is suggested that the due date defined under Explanation to Section 36(1)(va) should be amended and accordingly the due date shall mean the due date for filing return of income under section 139(1),thereby bringing it at par with the due date specified for the Employer's contribution under Section 43B of the Act.

12. **44AD.**

    It is suggested that due to the growth of economic activity and the volume of business, the rate of 6% may be reduced to 5% for certain contractors and turnover ceiling may be increased to Rs. 5.00 crores for infrastructure Activity

13. **Section 54 -**

    Capital gain on sale of property used for residence

    In order to encourage the housing sector and meet the shortage of housing, it is suggested that the restriction on investment in one residential house in India u/s 54 may be broadened to more than one house.

14. **Section 80EEB -**

    Tax incentive for electric vehicles/Deduction in respect of purchase of electric vehicle

    It is suggested that section 80EEB may be suitably amended so as to incorporate the condition of not owning any other electric vehicle at the time of sanction of loan as envisaged in the Explanatory Memorandum.

15. **Deduction in respect of interest on deposits in savings account - Section 80TTA**

    It is suggested that interest on all types of deposits (eg. FDRs) may also be included within the scope of section 80TTA and deduction should be raised to 50000.

Banking & Finance:

1. **NPA Norms:** Currently the average period of credit enjoyed by the buyers from the suppliers is 120 days. Which is extraordinary and is pain full and root cause of the difficulties of MSE's resulting into financial crisis for the MSE's.

   We request & demand that the NPA norm for the MSE's finance from the Banks to be revised to 180 days from 90 days. It is also important that the NPA classification is done annually and not quarterly as the "Business Cycle of MSE's are totally dependent on the buyers and market scenario.

2. **Mark off period for current assets against debtors list-**

   It is a normal practice of Banks to extend credit limit of 90 days against the receivable current assets while calculating the permissible Drawing Power. It is observed that the average credit period in the current situation of disturbed economy has increased to almost 180 days to realize the outstanding from the market. This affects the working of MSMEs & create a liquidity crunch. We request you to redefine this standard norm of 90 days to average credit period with max limit of 180 days to be followed by all the Banks & issue such notification from RBI.

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Amount outstanding as GST refund should be eligible for drawing power in Bank CC limit.

3. **CGTMSE Scheme:**
It is observed that this scheme is extended selectively to those who seek it while taking loan from the banks. It is not promoted by the banks to the loan seeking MSME's. It is observed that the fund for the scheme is also insufficient & get exhausted and not available to all who seek it. As a result Banks continue to seek the collateral security from the MSME's.
We request & demand to make CGTMSE SCHEME mandatory & automatically applicable to all MSME loans which will avoid requirement of collateral security. This will promote & build confidence & create good atmosphere for MSME's.
4. **Pre Payment Charges to be abolished for MSME Finance**:
It is noted that various Private and Nationalised Banks impose heavy Pre Payment Charges from its borrowers. The Situation comes when the borrower gets competitive Interest Rates from another financial institution and wants to capitalize it but is unable to do so due to heavy pre payment charges levied by financial institutions. Hence, it is proposed that either there shall be NIL Pre-Payment Charges on loans given to MSMEs or the Upper Cap on such charges should not be beyond Rs. 5000/- .
5. **Lower commitment charges for MSMEs:** Corona Pandemic has comprehensively impacted businesses throughout the Country. Resultantly there have been lower turnover and lower profitability also. Therefore, many units could not utilised the sanctioned credit facilities attracting commitment charges by the banker. In this context, we request to abolish / lower the bank commitment charges on the loan sanctioned to Micro and Small Scale units without affecting their credit ratings.
It would also be relevant to state here that credit rating agencies are fixed by banks, should reduce their cost especially in case of Micro and Small Industries.
6. **Re-structuring of Financial facilities:** Last year re-structuring of financial facilities were provided due to Corona Pandemic. However, some of the entrepreneurs are not in a position to pay the instalments as the business activities had not picked-up. Kindly consider to extend the re-structure facility for one more year enabling them to repay the loan.
7. **Technical issues faced by the MSME with respect to processing of Income Tax Return under by CPC under New Income Tax Portal (letter attached).**

With warm regards

Yours Sincerely,

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