The Institute of Chartered Accountants of India

(Set up by an Act of Parliament)

Resource Handbook for MSME's

An Initiative by

MSME & Start-up Committee, ICAI

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for MSME's

MSME & Startup Committee
The Institute of Chartered Accountants of India
(Set up by an Act of Parliament)
New Delhi

Foreword

MSMEs constitute a vital segment of the Indian economy and their growth and resilience are closely intertwined with the nation's economic progress. MSMEs and Start-ups contribute nearly 31% to India's GDP, foster innovation, generate employment and strengthen the country's entrepreneurial ecosystem and global economic presence. Recognizing their pivotal role, the Institute of Chartered Accountants of India (ICAI) has positioned itself as a strong partner in fostering financial discipline and promoting sound professional practices among MSMEs across the country. Leveraging its nationwide network of members and branches, ICAI continues to extend professional guidance in key areas such as accounting, compliance, taxation and ethical governance, thereby contributing to the foundations of sustainable business growth.

MSMEs and Start-ups continue to face constraints relating to access to finance, digital readiness, compliance complexities and market linkages. In this context, timely access to reliable and practical information assumes considerable importance in enabling MSMEs to strengthen compliance, improve business practices and effectively leverage available opportunities. Considering these needs, the ICAI Committee on MSME & Start-up has developed the Resource Handbook for MSMEs as a comprehensive and practical reference guide for entrepreneurs and business owners.

The Handbook brings together critical information covering statutory and regulatory compliances, state and industry-specific requirements, procedural guidelines, government schemes, funding opportunities, tax incentives, and subsidies. By compiling these resources in a single, accessible guide, the Handbook enables MSMEs to better understand their legal and regulatory obligations, identify relevant government support programmes, and make informed business decisions. It also aims to serve as a reliable knowledge resource that strengthens the capacity of MSMEs to navigate regulatory requirements, leverage available opportunities and build resilient, competitive and growth-oriented enterprises.

I congratulate CA. Gyan Chandra Misra, Chairman and CA. Sanjay Kumar Agarwal, Vice-Chairman, MSME and Startup Committee of ICAI, along with all the members of the Committee for undertaking this significant initiative and bringing out the Resource Handbook for MSMEs in a comprehensive and lucid manner. I am confident that this publication will serve as a valuable resource for all its readers.

CA. Prasanna Kumar D
President, ICAI

Preface

The Institute of Chartered Accountants of India has long upheld its commitment to supporting India's economic progress, and a major part of this progress lies in the strength of its MSME sector. MSMEs fuel growth through entrepreneurship, innovation, and widespread employment, making them central to the nation's development story.

The importance of MSMEs extends beyond their contribution to individual enterprises and sectors. Their competitiveness, integration into domestic and global value chains, and capacity for employment and innovation are important to India's broader economic ambitions, including its vision of becoming a USD 5 trillion economy by 2027. While India is the chair of BRICS in 2026, the New Delhi Declaration, adopted by the BRICS nations at their 18th Summit in New Delhi on September 12, 2026, devoted significant focus to the needs of MSMEs and ways to help them move up the global value chain. While their contribution is vast, the challenges they face—from compliance requirements and financial constraints to the need for dependable professional guidance—remain significant and call for focused and sustained support.

The MSME & Start-up Committee, ICAI, has been at the forefront of this endeavour, undertaking initiatives that promote financial literacy, strengthen governance standards, enhance compliance awareness, and build entrepreneurial capabilities. The MSME Resource Handbook has been developed as a comprehensive and practical knowledge resource to support MSMEs and entrepreneurs in navigating various aspects of their business journey.

The Resource Handbook covers pertinent topics, including subsidies and government schemes for MSMEs and Start-ups, regulatory and compliance requirements and other critical aspects of establishing, managing, and scaling a business. By bringing together relevant information and practical guidance in a single resource, the Handbook seeks to help entrepreneurs better understand their responsibilities, identify available opportunities, and make informed business decisions.

I extend my sincere gratitude and appreciation to the leadership of ICAI for their vision and guidance in bringing this valuable resource to fruition. I also acknowledge the valuable contributions of the members and experts who have devoted their knowledge, expertise, and time towards preparing the content of this Handbook.

This MSME Resource Handbook is our commitment to empowering India's entrepreneurial community. We trust it will serve as an essential reference, enabling MSMEs and entrepreneurs to navigate challenges, seize opportunities, and play a meaningful role in India's journey toward sustainable growth and development.

CA. Gyan Chandra Misra
Chairman
MSME and Startup Committee, ICAI

CA. Sanjay Kumar Agarwal
Vice Chairman
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Acknowledgement

The MSME and Startup Committee of ICAI extends its sincere appreciation to the Resource Persons whose insightful contributions have supported the development of this Resource Handbook for MSME's. We gratefully acknowledge their efforts and contributions, which have significantly enhanced the knowledge base available to our members.

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Contents

MSME Amendment Act 2006

The Micro, Small and Medium Enterprises Development (Amendment) Bill, 2026, was passed by the Parliament in August 2026.The MSMED (Amendment) Act, 2026 strengthens the legal and institutional framework for MSMEs, promotes Ease of Doing Business, addresses delayed payments, simplify compliance and supports the growth and formalization of the sector. The importance of this amendment stems from the sector's growing role in India's economy. According to the Economic Survey 2025-26, MSMEs account for 31.1% of GDP, 35.4% of manufacturing output and 48.58% of exports. As on August 2026, 9.16 crore MSMEs are registered on the Udyam platform, employing more than 40 crore people.

Key Highlights of the MSMED (Amendment) Act, 2026

- MSME Classification: Incorporates the twin criteria of investment and turnover for MSME classification and gives statutory backing to the Udyam Registration Portal as a free, digital and voluntary registration platform.
- Delayed Payment Resolution: Introduces Online Dispute Resolution (ODR) and mandates payment of at least 50% of the awarded amount to MSE suppliers if a challenge to an award remains pending for over six months.

- Time-bound Dispute Settlement: Prescribes timelines of 90 days for mediation, 30 days for referral to arbitration, and 90 days for passing arbitral awards.
- Stronger Recovery Mechanism: Enables recovery of mediated settlements and arbitral awards as arrears of land revenue through designated authorities.
- Faster Payments through TReDS: Mandates CPSEs to route MSME invoice settlements through TReDS, improving liquidity and reducing payment delays.
- Strengthened MSEFCs: Rationalises the composition of Micro and Small Enterprises Facilitation Councils (MSEFCs), enabling States to establish more councils for quicker dispute resolution.
- Decriminalisation: Replaces conviction-based penalties for certain non-compliances with graded civil penalties and warnings, fostering a trust-based regulatory regime.

Section-wise Comparative Analysis

Section	Subject	MSMED Act 2006	MSMED (Amendment) Act 2026
Section 7	**MSME Classification**	MSMEs are classified on the	MSMEs are classified on the basis of:

		basis of prescribed **investment thresholds** for: a) plant and machinery in manufacturing; and b) equipment in services.	a) **investment** in plant and machinery or equipment; and b) **turnover.**
Section 8	**MSME registration**	**Medium enterprises engaged in manufacturing** are **required** to file a memorandum with specified authority. Filing of memorandum is voluntary for other MSMEs.	The Bill makes filing of the memorandum **free and voluntary for all MSMEs.** The Central Government shall notify a national platform for the purpose. State governments may also notify State digital platforms. State scheme benefits may be extended to MSMEs registered on the national and state-level platform.
Insertion New Section 15A	**Mandatory Settlement of Receivables through Trade Receivables Discounting System (TReDS) authorized by RBI**	Addressed through introduction of a new provision in the Bill.	All Central Public Sector Enterprises (CPSEs) are mandatory required to settle invoices for goods and services procured from MSMEs through the TReDS platform authorised by RBI. This aims to address payment-related issues faced by MSMEs.

			States may mandate their Public Sector Enterprises (PSEs), authorities, or entities to use TReDS for invoice settlement.
Section 18	**Mediation and Arbitration**	The Micro and Small Enterprises Facilitation Council (MSEFC) or referred mediation service providers are authorised to settle payment disputes by mediation. Where a mediation is not successful, the dispute may be **referred for arbitration**.	Central Government may establish an online mechanism for conducting online mediation or arbitration. Specific timelines have been introduced for mediation and arbitration: a) The MSEFC or mediation service provider must complete mediation within 90 days from the date fixed for the first appearance. b) If mediation is terminated, the MSEFC are required to refer the matter for arbitration within 30 days. c) The MSEFC or an institution or centre providing alternative dispute resolution services must make the arbitral award within 90 days from the completion of pleadings.
Insertion of New	**Recovery of Dues**	Addressed through	A mediated settlement agreement or arbitral

Section 18A		introduction of a new provision in the Bill.	award arising under Section 18 may be recovered as "arrears of land revenue." This provision covers settlements or awards made by the Facilitation Council, a mediation service provider, or an alternative dispute resolution institution. Such recovery may be initiated through the District Collector, Deputy Commissioner, or any other notified authority having jurisdiction over the location of the buyer's assets.
Section 19	**Dispute Resolution**	Application to set aside a Council's order/ award may be filed in court after depositing **75%** of the awarded amount.	The Bill also allows such applications. The Bill further provides that, while such an application is pending, the court may direct payment of a reasonable portion of the deposited amount to the MSME supplier. Where an application for setting aside a decree, award or order remains pending for more than six months, the court shall direct payment of **at least 50% of the awarded amount** to the Micro or Small

			Enterprise (MSE) supplier.
Section 20	**Micro and Small Enterprises Facilitation Councils (MSEFCs) Framework**	State Governments may establish **one or more** MSE Facilitation Councils.	**State Governments can establish multiple MSEFCs** to enable faster resolution of payment-related disputes. They are also **empowered to provide adequate infrastructure and resources**, including physical infrastructure, digital systems and trained manpower, as may be necessary
Section 21	**Composition of Micro and Small Enterprises Facilitation Council.**	Composition and functioning governed by statutory/state rules.	The Micro and Small Enterprises Facilitation Council shall consist of not less than three but not more than five members. Each Micro and Small Enterprises Facilitation Council constituted by the State Government shall include the following members, namely:— (*a*) an officer not below the rank of Joint Director as the Chairperson of the Micro and Small Enterprises Facilitation Council; and (*b*) one or more office-bearers or representatives of

			associations of micro or small industry or enterprises; and (c) at least one member from the field of law.
Insertion New Section 22A	**Reporting Compliance**	No equivalent provision.	(*1*) Every Central Public Sector Enterprise or any other authority, body or entity, notified by the Central Government, shall disclose the details of invoices of micro, small and medium enterprises routed and settled through Trade Receivables Discounting System platform. **(TReDS)** (*2*) Every State Public Sector Enterprise or any other authority, body, or entity, notified by the State Government, shall disclose the details of invoices of micro, small and medium enterprises routed and settled through Trade Receivables Discounting System platform. **(TReDS)**
Section 27	**Penalties for contravention of section 8 or section 22 or section 26**	Wilfully providing false registration information attracts a **fine of up to ₹1,000 for the first**	(1) Whoever **wilfully furnishes false information in the memorandum of registration filed under section 8** or fails to

		conviction and ₹1,000-₹10,000 for subsequent convictions. Failure to report unpaid dues to MSME suppliers in annual accounts attracts a **fine of at least ₹10,000.**	comply with the provisions of sub-section (2) of section 26 shall be— (a) **warned at the first instance** of non-compliance; (b) liable to penalty which shall not be less than **one thousand rupees but which may extend to fifty thousand rupees** in case of second or subsequent instances of non-compliance. (2) Where a buyer contravenes the provisions of **section 22,** he shall be— (a) **warned at the first instance** of non-compliance; (b) liable to penalty which shall not be less than **ten thousand rupees but which may extend to fifty thousand rupees** in case of second contravention; (c) punishable with fine which shall not be less than fifty thousand rupees but which may extend to one lakh rupees in case of third or subsequent contravention.

			(3) The penalties provided under this section shall be increased by **ten per cent. of minimum amount of penalty provided therefor**, after the expiry of every three years from the date of commencement of the Micro, Small and Medium Enterprises Development (Amendment) Act, 2026, as may be notified by the Central Government.
Insertion of New Section 27A	**Adjudication of penalties**	No equivalent dedicated provision.	Formal administrative adjudication replaces criminal-style enforcement for specified contraventions. Development Commissioner designated/empowered as Adjudicating Officer; appeal mechanism provided to the prescribed appellate authority.
Section 29	**Power to Make Rules by Central Government**	Central Government make rules to carry out the provisions of this Act	**Additional clauses added** Detailed implementation will depend on Central Government rules. New Bill expands rule-making matters to include registration, TReDS routing, online

			mechanism under Section 18, invoice disclosures and adjudication/appeal procedures.
Section 30	**Power to make Rules by State Government**	State Government make rules to carry out the provisions f this Act	State-level rules/notifications will be important for operationalization. This Bill expands State rule-making matters, including registration, TReDS, Facilitation Council procedure and invoice disclosures.

TReDS: A Game-Changer in MSME Receivables Financing and Compliance Ecosystem

1. The Evolution of TReDS and the Future of MSME Financing

1.1 Introduction

Micro, Small and Medium Enterprises (MSMEs) are widely regarded as the backbone of the Indian economy. They contribute significantly to the nation's GDP, exports, industrial production, innovation, and employment generation. Despite their immense economic importance, one challenge has consistently hindered their growth—delayed realization of payments from buyers.

Recognizing this structural problem, the Reserve Bank of India (RBI) introduced the Trade Receivables Discounting System (TReDS)—a technology-driven institutional mechanism designed to transform invoice financing in India. TReDS enables MSMEs to convert their approved trade receivables into immediate liquidity through a transparent, competitive, and fully digital marketplace where multiple financiers bid to finance invoices.

1.2 The Working Capital Challenge of Indian MSMEs

Working capital is often described as the lifeblood of any business. For MSMEs, uninterrupted cash flow determines their ability to purchase raw materials, pay salaries, meet statutory obligations, invest in technology, and expand operations.

The irony is that many MSMEs are financially stressed not because they lack business, but because they must wait months to receive payment for supplies already made. Their profits remain locked in receivables while operational expenses continue unabated.

Breaking this cycle required an institutional solution rather than another conventional loan product. TReDS was designed precisely to interrupt this cycle by converting approved receivables into immediate cash without additional collateral.

1.3 Evolution of Receivables Financing in India

Invoice financing is not a new concept. Bill discounting and factoring have existed in India for decades. Under traditional arrangements, suppliers approached individual banks or financial institutions to discount invoices against future receivables.

The limited number of financing institutions meant that MSMEs had few options and little bargaining power. Manual documentation created delays and increased the risk of errors or disputes. The absence of transparency made it difficult for suppliers to know whether they were receiving a fair discount rate. Lengthy approval processes often defeated the very purpose of seeking early finance. Competitive pricing was virtually non-existent because there was no market mechanism to discover the best rate. Significant operational delays further eroded the value of the financing.

1.4 Introduction of the Trade Receivables Discounting System (TReDS)

The Reserve Bank of India conceptualized TReDS as a regulated electronic ecosystem dedicated to financing MSME trade receivables. Unlike conventional invoice discounting, TReDS operates as an online exchange where approved invoices are financed through competitive bidding by multiple banks and financial institutions.

The financing decision is based primarily on the creditworthiness of the buyer rather than the financial strength of the MSME supplier. This fundamental shift enables small enterprises to access funding at competitive rates without additional collateral. The RBI issued detailed guidelines for setting up and operating TReDS under the Payment and Settlement Systems Act, establishing a transparent and standardized framework for receivables financing.

1.5 Objectives Behind TReDS

TReDS was introduced with multiple strategic objectives that go far beyond simple invoice financing. Each objective addresses a specific structural weakness in the traditional MSME financing landscape.

The first objective is to improve liquidity for MSMEs by converting approved trade receivables into immediate cash. The second is to eliminate the chronic delays that characterize realization of receivables from large buyers. The third is to promote formal credit access so that MSMEs are no longer forced into informal or high-cost borrowing channels.

A fourth objective is to reduce dependence on collateral-based borrowing. Because financing on TReDS is primarily buyer-credit driven, MSMEs with limited assets can still obtain funds. The fifth objective is to introduce transparency in receivables financing through electronic records and competitive bidding. The sixth is to encourage competitive financing by allowing multiple lenders to bid for the same invoice.

Further objectives include digitizing the entire invoice financing process, strengthening supply chain finance across the economy, improving financial inclusion for smaller enterprises, and enhancing the overall ease of doing business. Beyond pure financing, TReDS represents a broader policy initiative aimed at improving payment discipline across India's corporate sector.

1.6 TReDS: More Than an Invoice Discounting Platform

Although TReDS is commonly described as an invoice discounting platform, its significance extends far beyond financing. Today, TReDS functions simultaneously as a digital working capital marketplace, a supply chain finance ecosystem, a regulatory compliance mechanism, a technology-enabled payment infrastructure, a financial inclusion platform for MSMEs, and a transparent marketplace connecting buyers, suppliers, and financiers.

With every transaction being digitally authenticated and time-stamped, TReDS creates a reliable audit trail that supports governance, transparency, and compliance. This multi-dimensional character makes TReDS a unique instrument in India's financial architecture.

1.8 The Future of MSME Financing

The future of business finance is rapidly shifting from collateral-based lending to transaction-based financing. Emerging technologies such as Artificial Intelligence, Account Aggregator frameworks, the Open Credit Enablement Network (OCEN), embedded finance, digital public infrastructure, and real-time data sharing are expected to make receivables financing faster, more accessible, and more efficient.

TReDS is well positioned to become the central digital marketplace for supply chain finance in India. Continued regulatory reforms are expected to deepen lender participation, expand financing options, and enhance integration with other digital financial systems, further strengthening MSME access to working capital.

2. Legal and Regulatory Framework Governing TReDS

2.1 Introduction

The Trade Receivables Discounting System (TReDS) is not merely a digital financing platform—it is a regulated financial market infrastructure operating within a comprehensive legal and regulatory framework established by the Government of India and the Reserve Bank of India (RBI). Its legal architecture has been carefully designed to ensure transparency, legal certainty, financial stability, and protection of all stakeholders, including MSMEs, buyers, financiers, and payment system operators.

Unlike conventional invoice discounting arrangements that are based largely on bilateral contracts, TReDS derives its legitimacy from multiple statutes, RBI regulations, and government notifications. This integrated framework ensures that every transaction conducted on a TReDS platform is legally enforceable, electronically authenticated, and subject to regulatory oversight.

2.2 Evolution of the Regulatory Framework

The introduction of TReDS was driven by the persistent problem of delayed payments to MSMEs and the limited availability of formal receivables financing. Recognizing the need for a transparent electronic marketplace, the RBI issued guidelines for establishing and operating TReDS platforms under the powers conferred by the Payment and Settlement Systems Act, 2007. Since then, the regulatory framework has evolved through periodic RBI directions and policy measures aimed at expanding access, simplifying participation, and strengthening the financing ecosystem.

2.3 Principal Legislations Governing TReDS

The legal framework governing TReDS is founded upon several key legislations that work together to create a coherent regulatory structure.

1. Payment and Settlement Systems Act, 2007

This Act forms the legal foundation of TReDS. Since TReDS facilitates electronic settlement of payment obligations between buyers, sellers, and financiers, every platform must obtain authorization from the Reserve Bank of India before commencing operations.

2. MSMED Act, 2006

The Micro, Small and Medium Enterprises Development Act, 2006 provides the commercial and legal foundation for receivables financed through TReDS. The Act mandates timely payment to Micro and Small Enterprises, prescribes a maximum payment period of 45 days, imposes penal compound interest for delayed payments, and provides for statutory dispute resolution through MSE Facilitation Councils.

3. Factoring Regulation Act, 2011

TReDS transactions are fundamentally based on the principles of factoring. The Factoring Regulation Act provides the legal framework governing assignment of receivables, rights of financiers, registration of factors, regulation of factoring business, and recovery of assigned receivables. Banks and NBFC-Factors participating on TReDS operate within this statutory framework, ensuring that financing transactions are legally enforceable.

4. Income-tax Act, 1961

The importance of TReDS has increased substantially after the insertion of Section 43B(h). Where payments to Micro and Small Enterprises are delayed beyond the time prescribed under the MSMED Act, the related expenditure is allowable only on actual payment. TReDS assists businesses in maintaining payment discipline and provides a transparent audit trail that supports tax compliance.

5. Information Technology Act, 2000

Since TReDS functions entirely through electronic transactions, the Information Technology Act plays an important supporting role by recognizing electronic records, digital authentication, electronic contracts, digital signatures, and electronic evidence. This legal recognition enables invoices, acceptances, financing instructions, and settlement records generated through TReDS to possess legal validity.

2.4 RBI's Regulatory Role

The Reserve Bank of India is the principal regulator of TReDS. Its responsibilities include granting authorization to TReDS operators, issuing operational directions, prescribing governance standards, monitoring compliance, supervising payment settlement mechanisms, and protecting financial system stability.

2.5 RBI-Authorised TReDS Platforms

At present, the RBI has authorized five electronic exchanges to operate the TReDS framework in India. Although these exchanges are operated by different entities, each functions under the same regulatory framework prescribed by the RBI, ensuring uniform standards of transparency, settlement, governance, and participant protection.

1. RXIL (Receivables Exchange of India Limited) – promoted by SIDBI & NSE
2. M1xchange – operated by Mynd Solutions Pvt. Ltd.
3. Invoicemart (A.TREDS Limited) – joint venture of Axis Bank & mjunction
4. C2treds – operated by C2FO
5. DTX – operated by KredX

The presence of five authorised platforms creates healthy competition and gives MSMEs and corporates meaningful choice based on buyer networks, financier participation, technology interface, and service quality.

2.7 Rights and Responsibilities of Participants

The regulatory framework clearly defines the role of each participant so that accountability is unambiguous.

MSME sellers are responsible for uploading genuine invoices, completing KYC and registration requirements, and providing accurate transaction details. Buyers must verify invoices promptly, accept or reject invoices electronically, and honour payment obligations on the due date. Financiers undertake financing in accordance with RBI norms, participate through transparent bidding, and disburse funds and recover receivables as per agreed terms. TReDS operators maintain a secure electronic platform, ensure fair access to participants, facilitate settlement and reporting, and comply with RBI directions and governance standards.

2.8 Compliance and Governance

The TReDS framework incorporates robust governance mechanisms that include digital KYC and participant onboarding, electronic invoice verification, time-stamped transaction records, competitive bidding, secure settlement mechanisms, comprehensive audit trails, regulatory reporting, and risk management systems. These features promote transparency, reduce fraud, and create reliable evidence for audit, tax, and regulatory purposes.

2.10 Conclusion

The legal architecture governing TReDS is one of the most comprehensive regulatory frameworks in India's digital financial sector. It combines the Payment and Settlement Systems Act, 2007, the MSMED Act, 2006, the Factoring Regulation Act, 2011, the Income-tax Act, 1961, and the Information Technology Act, 2000 into a cohesive system that supports secure, transparent, and efficient receivables financing.

For MSMEs, TReDS offers access to timely liquidity. For buyers, it promotes payment discipline and statutory compliance. For financiers, it provides a structured and legally enforceable financing mechanism. Together, these laws and regulations make TReDS a cornerstone of India's evolving digital trade finance ecosystem.

3. Who Can Register on TReDS? – Participants and Eligibility

TReDS is a **tripartite digital platform** comprising the following key stakeholders:

A. MSME Sellers:

- Must have valid **Udyam Registration** under MSMED Act, 2006.
- Should be engaged in supplying goods or services to eligible buyers.
- PAN, GSTIN, bank details, and KYC documents are mandatory.

B. Buyers:

- Large corporates, PSUs, Government departments, and any buyer with turnover **above** ₹ 250 crore.
- Must be willing to accept trade payables digitally.
- Required to verify or reject MSME invoices in stipulated time.

C. Financiers:

- RBI-approved **Scheduled Commercial Banks**, **NBFC-Factors**, and **other licensed financial institutions**.

- Actively participate in the reverse auction process to offer competitive discounting rates.

RBI-Recognised TReDS Exchanges in India

At present, five platforms are licensed by the RBI to operate TReDS exchanges:

TReDS Platform	**Promoted/Managed By**
RXIL (Receivables Exchange of India Ltd.)	SIDBI and NSE
Invoice mart	Axis Bank and mjunction
M1xchange	Mynd Solutions Pvt. Ltd.
C2treds	Operated by C2FO
DTX	Operated by KredX

Each operates with common regulatory standards but offers varied onboarding processes and platform features.

3.1 Step-by-Step Procedure for Onboarding on TReDS

For MSME Sellers:

1. Obtain **Udyam Registration**.
2. Choose a TReDS platform (e.g., RXIL, M1xchange, Invoicemart).
3. Submit KYC documents, PAN, GSTIN, and bank details.
4. Execute the digital participation agreement.
5. Upload invoices after supply of goods/services.
6. Buyer digitally accepts the invoice.
7. Financiers bid to discount the invoice.
8. Funds are disbursed to MSME (usually within **48 hours**).

For Buyers:

1. Register with chosen TReDS platform.
2. Nominate authorized personnel for invoice approvals.
3. Verify invoices uploaded by MSMEs.

4. Accept digitally to trigger bidding process.

For Financiers:

1. Get empanelled with the TReDS platform.
2. Monitor accepted invoices and bid through auction.
3. Disburse discounted amount to MSME.
4. Recover full amount from buyer on due date.

Key Benefits – To All Stakeholders in the Ecosystem

Stakeholder	Benefits
MSME Supplier	☑ Timely access to funds without collateral ☑ Better negotiation power and credit rating ☑ Reduced credit cycle and improved cash flows
Corporate Buyer	☑ Strengthens vendor relationships ☑ Fulfilment of legal obligations (MSMED Act and 43B(h)) ☑ Enhanced procurement transparency and ESG compliance
Financier (Bank/NBFC)	☑ Low-risk financing based on buyer credibility ☑ Diversified asset base and assured payment from buyers ☑ Digitally verified, time-stamped transactions

3.2 TReDS: A Strategic Compliance Catalyst to Prevent Disallowance under Section 43B(h)

The introduction of **Clause (h) to Section 43B** of the **Income Tax Act, 1961** by the **Finance Act, 2023** marks a watershed moment in India's tax and regulatory landscape—particularly for enterprises engaged in procurement from **Micro and Small Enterprises (MSEs)**. Effective from **Assessment Year 2024–25**, this provision brings a sharp compliance focus on **timely payments to MSMEs**, aligning tax deductibility with ethical commercial conduct and statutory mandates.

Legal Text of Section 43B(h):

"Any sum payable by the assessee to a micro or small enterprise beyond the time limit specified in Section 15 of the MSMED Act, 2006 shall be allowed as a deduction only on actual payment basis, irrespective of the method of accounting followed by the assessee."

What This Actually Means for Taxpayers:

- **No Payment, No Deduction**: If an assessee fails to pay an MSME supplier within the statutory time limit**—15 days (default) or 45 days (with written contract)**—the expense shall be **disallowed** as a deduction, even if it is otherwise accrued and recorded in the books.
- **Deduction Deferred**: The only way to claim such expense is to **actually discharge the liability**, and that too **within the same financial year**—or else it gets deferred to the year in which the payment is ultimately made.
- **Irrespective of Accounting Method**: The restriction overrides the regular accounting methods—be it **cash** or **mercantile**. Thus, even if the business follows accrual accounting, the unpaid MSME dues become **inadmissible** as business expenditure under this provision.

Conclusion

The introduction of TReDS marks one of the most significant reforms in India's MSME financing ecosystem. It addresses a long-standing structural weakness by transforming unpaid invoices into immediately financeable assets through a secure, transparent, and RBI-regulated digital marketplace.

More importantly, TReDS is not merely a financing platform—it is a catalyst for improving liquidity, strengthening supply chains, enhancing financial discipline, and promoting responsible business practices. As India advances toward a digitally integrated financial ecosystem, TReDS is poised to become a cornerstone of working capital management and sustainable MSME growth.

TReDS marks a paradigm shift in how businesses manage receivables and working capital. It aligns commercial efficiency with legal compliance and technological innovation, creating a transparent ecosystem that benefits MSMEs, buyers, financiers, and the broader economy.

For India's MSME sector, TReDS is more than a financing mechanism—it is a catalyst for sustainable growth, financial discipline, and digital transformation.

As awareness and adoption continue to expand, TReDS is poised to become an indispensable pillar of India's trade finance infrastructure, supporting a more resilient, inclusive, and globally competitive business environment.

Compliances: Income Tax and Goods and Service Tax Classification and Taxation aspect of MSME

Introduction

In recent few years present Government has focused for the development of MSME, start-up and make in India Enterprises because such entities provide job opportunities, boost export and have major contribution in the Indian economy, accordingly there are different legal provisions to boost MSME enterprises by various statutes. In this article effort has been made to explain the definition of MSME under various statutes and related tax provisions under Income tax law and GST law so that readers may be aware of the taxation of MSME and related compliances.

Key Concepts

Meaning of Small company under Companies act, 2013: According to **Section 2(85)** of the Companies Act, 2013, a "small company" is a non-public company whose paid-up share capital does not exceed ₹4 crore, and whose turnover does not exceed ₹40 crore. These limits are effective from September 15, 2022, and can be increased up to a maximum of ₹10 crore for paid-up capital and ₹100 crore for turnover, respectively. However, this definition does not apply to holding or subsidiary companies, companies registered under section 8, or companies governed by a special act.

From the above it is clear that small company is defined on the basis of **paid-up share capital and turnover**.

Definition of micro, small and medium enterprises under MSME (Development) Act, 2006 is based on investment in plant and machinery and turnover of the enterprise, comparative chart as under:

MSME Revised classification limits for micro, small and medium enterprise (effective from April 1, 2025) for manufacturing and service providing enterprises vide notification no. S.O. 1364(E) issued dated 21/03/2025 under section-7 & 8 of MSME Act, 2006 as proposed by the union budget 2025 as under:

Category	Investment in plant and machinery Limit (amount in Rs.)	Turnover Limit (amount in Rs.)
Micro	Upto 2.5 Crore	Up to 10 Crore
Small	Upto 25 Crore	Up to 100 Crore
Medium	Upto 125 Crore	Up to 500 Crore

Note: the investment in plant and machinery **does not include** cost of pollution control, research and development, industrial safety devices and other items as notified.

From the above it is clear that micro, small and medium enterprises is classified on the basis of investment in plant & machinery and turnover but independent of capital investment, legal status of enterprise, number of employees, number of shareholders/partners or borrowings from bank and financial institutions or area of operation in different states or territory.

Recommendations: classification of entities into micro. Small and medium enterprises is different in different statutes, we strongly recommend uniform and broad definition taking into account the number of stakeholders, capital investment, turnover, area of operation, number of employees etc and the common definition may be made in general clause Act or MSME Act and reference could be made of the common definition in other statutes.

Taxation of MSME- Income Tax

Under income tax there are specific provision for small business or professional entities where presumptive taxation based on turnover/gross receipts without allowance for actual business expenditure while computing total income, such provisions are explained hereunder

Section	Applicability	Turnover limit	Presumptive income	Remarks
44AD/58 of IT Act 2025	Applicable to all the business entity except	Rs. 2 Cr. in general but if the cash receipts and	Presumptive income shall be 6% of none-cash	No audit required under

	LLP and company **Exclusion:** agency businesses, commission/brokerage income, and specified professionals	expenditure within 5% limit then Rs. 3Cr.	turnover/gross receipts 8% of cash turnover/gross receipts	section 44AD. Full advance tax is due by March 15 i.e., no need to pay advance tax in first three quarters. No opt- out in 5 Years otherwise mandatory audit and cannot opt in next five years
44ADA/58 of I T Act 2025	Specified professions include legal, medical, engineering, architectural, accountancy, technical consultancy, interior decoration, and others notified by the CBDT. **Exclusion: LLP**	Gross receipts must not exceed ₹75 lakhs (if 95% of receipts are through banking channels; otherwise, ₹50 lakhs).	A sum equal to 50% of total gross receipts is deemed as the taxable professional income.	For declaring lower profit audit and books of account required. In next assessment year assessee has freedom to opt-out of this section there is no restriction similar to

				section 44AD.
44AE/58 of I T Act 2025	business of plying, hiring, or leasing goods carriages. It is available to individuals, Hindu Undivided Families (HUFs), and partnership firms (excluding LLPs).	Assessee, does not **own** more than ten goods carriages **at any time** during the financial year	For heavy goods vehicles (over 12,000 kg GVW), income is ₹1,000 per ton of gross vehicle weight (or unladen weight) every month or part of a month. For other goods vehicles (up to 12,000 kg GVW), income is a fixed ₹7,500 per vehicle per month or part of a month.	Audit not required; regular books of accounts not required. No restriction on opt-out of this scheme in next A.Y.

Tax incentive to start-ups under section 80IAC (S-140 of IT Act 2025)**: important features of tax incentives to start-up as under:**

Who can claim benefits?	**Eligible start-up**
Meaning of eligible start-up	Eligible start-up may be a company or LLP engaged in eligible business which fulfils the following conditions, namely: -

	(a) incorporated between 1st day of April, 2016 and 31[st] March, 2030; (b) Total turnover of its business does not exceed Rs. 100 crores in the previous year relevant to the assessment year for which deduction is claimed]; and (c) and holds a certificate of eligible business from the Inter-Ministerial Board of Certification as notified in the Official Gazette by the Central Government;
Eligible business	eligible business" means a business carried out by an eligible start-up engaged in innovation, development or improvement of products or processes or services or a scalable business model with a high potential of employment generation or wealth creation.
Quantum of deduction	100% of profit from eligible business could be claimed as deduction from such business for 3 consecutive assessment years in any of the 10 consecutive A.Ys since the year of incorporation.

Tax incentive for new employee under section 80JJAA(s- 146 of I T Act 2025)**:**

Who can claim benefits?	Entities subject to tax audit under section 44AB carrying on business and incur additional employee cost for employing additional employee during the previous year
Meaning of additional employee cost	• additional employee cost," which is the emoluments paid to "additional employees". For existing businesses, there must be net increase in employee count during the previous year. • Exclusion: • Employees whose monthly emolument exceed Rs. 25000 per month to an employee, • employee working less than the minimum required days which is 240 days/150days, and

	• employees whose PF contributions are fully paid by the government are not considered "additional employees • employee who does not participate in the recognised provident fund
Certain conditions	• To claim this deduction, businesses entity must meet specific conditions, including operating for a minimum number of days and • not being formed by splitting of an existing business (with exceptions). • Requirement to file Form 10DA electronically by the tax audit due date. • New employee's monthly emoluments not exceeding ₹25,000 and working a minimum number of days in the previous year.
Quantum of deduction	30% on the additional employee cost for new hires for three assessment years allowed as deduction.

concessional optional corporate tax rate under section 115BAA(s-200 IT Act 2025) **for domestic company:**

Applicable entities	Available to any domestic company, by way of filling form-10IC for opting this scheme
Quantum of deduction	Tax rate 22% rate, with a 10% surcharge and 4% health and education cess, leading to an effective rate of 25.17%.
Mandatory Waivers	Companies must not claim certain deductions, including those for SEZ units (Section 10AA), additional depreciation (Section 32(1)(iia)), investment allowance (Section 32AD), scientific research expenditure (Section 35), and most deductions under Chapter VI-A (except Sections 80JJAA and 80M)
Treatment of Losses	Brought-forward losses and unabsorbed depreciation linked to the forgone deductions cannot be set off and are considered to have been fully utilized

MAT Exemption:	Companies under Section 115BAA are exempt from Minimum Alternate Tax (MAT), but any past MAT credit lapses
Irrevocable Option	Once chosen for a tax year, this tax regime is permanent and could not be opt-out.

Concessional Tax rate under section 115BAB (s-201 of IT Act 2025) **for newly established manufacturing companies as under:**

Applicable tax rate	15% plus 10% surcharge and 4% Health and education cess (effective tax rate 17.16%) to newly established domestic manufacturing companies which is relatively low as compared to the standard corporate tax rate for other domestic companies with a turnover up to ₹400 crore which is 25%.
Eligibility	The company must be a new domestic company incorporated on or after October 1, 2019, and must commence manufacturing or production by **March 31, 2024**.
Conditions	The company cannot claim certain deductions, exemptions, and incentives (such as additional depreciation, R&D allowances, and SEZ benefits)

General Compliance

Filling of income tax return for business entity:

Type of return		**Due date/last date**
ITR-3	Applicable for persons not opting 44AD/44ADA/44AE (s-58 of I T Act 2025)	Without audit 31st August of next financial year Audit case 31st October of next F.Y
ITR-4	persons opting 44AD/44ADA/44AE (s-58 of I T Act 2025)	Without audit 31st August of next financial year

ITR-5	Partnership firm/LLP carrying on business or profession	Without audit 31st August of next financial year Audit case 31st October of next F.Y
ITR-6	Company carrying on business	Audit case 31st October of next F.Y

Mandatory audit under section 44AB(s- 63 of I T Act 2025)

Type of entity	Turnover limit for tax audit under section 44AB
person carrying on business	Rs. 1 crore and above if other than digital transaction of expense/income is beyond 5%
	Rs. 10 crore and above if other than digital transaction of expense/income is within 5%
person carrying on profession	Rs. 50 lakh and above if other than digital transaction of expense/income is beyond 5%
	Rs. 75 lakh and above if other than digital transaction of expense/income is within 5%
Person carrying on business opted for presumptive taxation	If income offered is less than 6% for digital transaction of sale and below 8% for other than digital transaction

TDS return and TDS deposit related to business transaction:

Nature of transaction	TDS deduction	TDS statement
Salary	TDS if salary payment exceeds threshold limit	TDS to be deposited within 7th day of next month
		Quarterly statement by the end of last day of month next to end of quarter in form-24Q and TDS certificate to be issued in Form 16

Other than Salary	TDS if payment exceeds threshold limit	TDS to be deposited within 7th day of next month
		Quarterly statement by the end of last day of month next to end of quarter in form-26Q and TDS certificate to be issued in Form 16A

Provision related to GST

Threshold limit for registration under GST:

Aggregate turnover from supply of Goods Aggregate turnover means value of all the supply of an entity i.e., all the supply on a single PAN (Section-22 of CGST/SGST)	Rs. 40 Lakhs however incase of special category state such as north-east state the limit is Rs. 20 Lakhs only.
Aggregate turnover from supply of Service (Section-22 of CGST/SGST)	Rs. 20 Lakhs however in case of special category state such as north-east state the limit is Rs. 10 Lakhs only.
Mandatory registration required in the case of inter-state supply of goods (Section-24 of CGST/SGST). Export/import is inter-state supply	Threshold limit of Rs. 40Lakhs/20Lakhs not applicable.
casual taxable persons (Section-24 of CGST/SGST)	No threshold limit
persons who are required to pay tax under reverse charge (Section-24 of CGST/SGST)	No threshold limit

Supply through E-commerce operator (Section-24 of CGST/SGST)	No threshold limit
non-resident taxable persons making taxable supply (Section-24 of CGST/SGST)	No threshold limit
persons who make taxable supply of goods or services or both on behalf of other taxable persons whether as an agent or otherwise; (Section-24 of CGST/SGST)	No threshold limit
Input Service Distributor, (Section-24 of CGST/SGST)	No threshold limit
electronic commerce operator (Section-24 of CGST/SGST)	No threshold limit
person supplying online money gaming from a place outside India to a person in India; (Section-24 of CGST/SGST)	No threshold limit

Composition scheme under GST: besides tax concession under income tax law there is scheme known as composition scheme under GST for those having aggregate annual turnover upto 1.50 crore whereunder single annual return in form- GSTR 4 and quarterly tax payment through PMT-08 which is beneficial and less compliance for small businesses opting for such scheme but they are not entitle to avail any ITC and can supply only within state no inter-state supply could be made and have to issue bill of supply therefore cannot collect tax from the customers. Further if opted for composition scheme in a state automatically composition scheme in other states.

Turnover limit for composition scheme

Category of business entity	Turnover limit for opting composition scheme	Tax rate under composition scheme
Manufacturer other than notified goods such as ice-cream, tobacco product etc	Upto Rs. 1.50 crore	1% (0.5% CGST; 0.5% SGST)
Trader	Upto Rs. 1.50 crore	1% (0.5% CGST; 0.5% SGST)
Restaurant	Upto Rs. 1.50 crore	5% (2.5% CGST; 2.5% SGST)
Service provider	Upto Rs. 50 Lakhs	6% (3% CGST; 3% SGST)

Return filling requirements:

Category of business entity	Aggregate Turnover limit	Type of return	Frequency of return
Regular taxpayer	Upto Rs. 5 crores	GSTR-3B	Quarterly
		IFF	Monthly
		GSTR-1	Quarterly
Regular taxpayer	Beyond Rs. 5 crores	GSTR-3B	Monthly
		GSTR-1	Monthly
Composition taxpayer		GSTR-4	Annual
		CMP-08	Quarterly

Category of business entity	Aggregate Turnover limit	Type of supply	Type of invoice
Regular taxpayer	Upto Rs. 5 crores	B2B	Manual invoice
		B2C	Manual invoice
	Beyond Rs. 5 crores	B2B	E-invoice
		B2C	Manual invoice

Conclusion: it is advisable for SME's entities to avail the benefits, incentives and concessional tax rate so as to plan the maximum benefits and less compliance. Although various benefits and concession available to SME but there is extra incentive required for new SME so as to become normal enterprise quickly and contribute in employment generation and wealth creation.

Government Incentives for MSMEs and Start-ups

A Chartered Accountant's Practical Guide to Credit and Non-Credit Linked Schemes

The Indian government has built one of the most comprehensive incentive ecosystems in the world for small businesses. Most MSMEs don't claim even half of what they're entitled to — because no one sat down with them and explained it.

Executive Summary

India's Central and State governments together offer hundreds of incentive schemes for MSMEs, start-ups, and new entrepreneurs — spanning collateral-free credit, capital subsidies, production-linked cash incentives, export benefits, and sector-specific industrial policies. These schemes collectively represent billions of rupees in untapped financial support for small businesses across the country.

Yet the majority of MSME owners either do not know these schemes exist, or cannot navigate the applications without professional help. This is one of the most direct and high-impact services a Chartered Accountant can offer — one that often pays for the CA's annual fees many times over in a single successful application.

This chapter explains the current landscape of government incentives, walks through major schemes with realistic examples, and lays out exactly what a CA does at each step — from identifying the right scheme, through documentation and application, to accounting for the incentive once received and issuing the certificates government authorities require.

1. Understanding the Incentive Landscape

Government incentives for MSMEs and start-ups fall into two broad categories. Understanding this distinction is the starting point for any scheme advisory engagement.

Category	What it means	Examples
Credit-Linked Incentives	The government makes credit easier or cheaper — through guarantees, subsidies on interest, or direct lending support. The MSME still borrows from a bank; the government reduces the cost or risk.	CGTMSE, PM Mudra Yojana, CLCSS, Stand-Up India, PMEGP, New MSME Credit Guarantee Scheme (Budget 2025)
Non-Credit Linked Incentives	The government gives a cash incentive, tax benefit, or subsidy that does not require the business to take a loan. These are often performance-based or approval-based.	PLI Scheme, RoDTEP, GeM Procurement Preference, DPIIT Startup Recognition with Section 80-IAC tax holiday, State Capital Investment Subsidies, ZED Certification

In practice, many businesses need both — a credit-linked scheme to fund the investment, and a non-credit scheme to generate an incentive on the output. The CA who sees both sides of this picture delivers far more value than one who advises on each in isolation.

2. Credit-Linked Incentive Schemes: In-Depth

Credit-linked schemes work by reducing the single biggest obstacle most MSMEs face: getting a bank loan without property as collateral, or at an affordable interest rate. A CA who understands how these schemes work — and how to structure the loan application to qualify — can unlock funding for clients that would otherwise be turned down by a bank.

A. CGTMSE — Credit Guarantee Fund Trust for Micro and Small Enterprises

CGTMSE is one of India's most powerful and underused financial tools for small businesses. It is not a loan — it is a government-backed guarantee that allows a bank to lend to a Micro or Small Enterprise without asking for property as collateral. If the business defaults, CGTMSE compensates the bank for the guaranteed portion of the loan. Because the bank's risk is substantially reduced, it can lend to businesses that would otherwise not qualify.

Updated from 1 April 2025: The guarantee ceiling was enhanced from ₹5 crore to ₹10 crore. The Annual Guarantee Fee was reduced to as low as 0.37% per annum for smaller loans. DPIIT-recognised start-ups can access up to ₹20 crore under the separate Credit Guarantee Scheme for Start-ups (CGSS).

Key facts a CA must know:

- Coverage: 75% of the outstanding loan for general borrowers; 85% for Micro enterprises, women-led businesses, and units in backward districts
- Eligible borrowers: Micro and Small Enterprises only — not Medium; manufacturing, services, and retail/wholesale trade (since 2021)
- What the bank checks: financial viability of the project, clean credit history, valid Udyam registration — not collateral
- Who applies: the MSME applies to the bank; the bank registers the guarantee with CGTMSE — the borrower does not approach CGTMSE directly
- Critical misconception: CGTMSE does not mean automatic approval — the bank still evaluates the project; the guarantee only removes the collateral requirement

What a CA does here:

- Prepares the CMA data and Detailed Project Report (DPR) in the format the bank requires
- Confirms Udyam registration is active and correctly categorised as Micro or Small
- Reviews the loan sanction letter to confirm the guarantee has been registered with CGTMSE — not just mentioned verbally by the banker
- Advises on the Annual Guarantee Fee structure and its tax deductibility as a business expense

REAL-LIFE EXAMPLE Renu Packaging, Bhopal

A first-generation entrepreneur wanted to set up a paper-bag manufacturing unit with a project cost of ₹35 lakh. She had no property to offer as collateral

— two banks had already declined her application. A CA reviewed the project and confirmed she qualified as a Micro Enterprise under Udyam.

The CA prepared a full DPR and CMA data, and specifically requested the bank structure the loan under CGTMSE — something neither bank had mentioned. The loan was sanctioned at ₹28 lakh, at a rate 1.6% lower than the standard MSME rate, with no collateral required. Annual Guarantee Fee of 0.37% was added to the loan and treated as a tax-deductible business expense.

B. PM Mudra Yojana — Micro Units Development and Refinance Agency

PM Mudra Yojana provides micro-credit to small businesses, traders, artisans, and self-employed individuals through banks, MFIs, and NBFCs. As of April 2025, over ₹33.65 lakh crore has been sanctioned across 52.37 crore loan accounts since inception, making it the single largest micro-credit programme in Indian history.

Category	Loan Limit	Typical Borrower
Shishu	Up to ₹50,000	Very early stage — a tea stall, a roadside vendor, a small tailor
Kishore	₹50,001 – ₹5 lakh	Established micro business seeking growth capital
Tarun	₹5 lakh – ₹20 lakh	Growing micro enterprise — machinery, expansion, working capital

What a CA does here:

- Helps choose the right Mudra tier and lending institution for the borrower's profile
- Prepares a simple business plan or income projection — even for small borrowers, a basic document improves sanction prospects significantly
- Advises on maintaining clean repayment records to step up from Shishu to Kishore and eventually to Tarun and formal CGTMSE-backed financing

REAL-LIFE EXAMPLE Priya Handicrafts, Jaipur

An artisan making block-print fabric had been borrowing from a moneylender at 3% per month (36% per year). A CA identified her as eligible for a Kishore Mudra loan of ₹2 lakh from a nationalised bank.

The CA prepared a one-page income statement showing average monthly revenue and expenses, which the bank accepted as the required business plan. The loan was sanctioned at 10.5% per annum. Annual interest saving compared to the moneylender: approximately ₹50,000. The CA helped her repay consistently and upgraded her to a ₹5 lakh Tarun Mudra loan in Year 2.

C. Stand-Up India — Credit for SC/ST and Women Entrepreneurs

Stand-Up India mandates that every scheduled commercial bank branch sanction at least one loan of ₹10 lakh to ₹1 crore to one SC/ST borrower and one woman borrower for a greenfield enterprise in manufacturing, services, agri-allied activities, or trading. It provides composite loans — working capital and term loan in a single facility, with CGTMSE guarantee coverage.

What a CA does here:

- Confirms eligibility: the enterprise must be at least 51% owned by an SC/ST or woman promoter; enterprise must be greenfield (first venture in that sector)
- Prepares the project report — Stand-Up India applications fail most often at the DPR stage
- Advises on the Stand-Up Mitra portal (standupmitra.in) for direct application if the bank branch is unresponsive

REAL-LIFE EXAMPLE Sunita Textiles, Nagpur

A woman entrepreneur from an SC community wanted to start a readymade garments unit with a ₹32 lakh project. She had no property. Her CA confirmed Stand-Up India eligibility, prepared the DPR, and applied through the Stand-Up Mitra portal when the local branch was initially unresponsive.

The loan was sanctioned — ₹22 lakh as a term loan for machinery and ₹10 lakh as working capital — under CGTMSE guarantee with no collateral. Effective promoter contribution from her own savings: ₹3.2 lakh.

D. PMEGP — Prime Minister's Employment Generation Programme

PMEGP is a credit-linked capital subsidy scheme for new enterprises in non-farm sectors. It provides a subsidy of 15–35% of project cost, with the balance funded through a bank loan and a promoter contribution of 5–10%. The subsidy is held as a Term Deposit linked to the loan for 3 years and released on satisfactory operations.

Category	Urban Subsidy	Rural Subsidy	Project Cost Cap
General	15%	25%	₹50 lakh (mfg.) / ₹20 lakh (services)
Special (SC/ST, Women, PH, Ex-Serviceman, Minorities, NER)	25%	35%	₹50 lakh (mfg.) / ₹20 lakh (services)

What a CA does here:

- Prepares the DPR in the KVIC/DIC prescribed format — the quality of the DPR decides whether the scheme benefits are sanctioned
- Calculates the correct subsidy percentage and maximum eligible amount based on location and promoter category
- Ensures the promoter completes the mandatory EDP (Entrepreneurship Development Programme) training before disbursement — a frequently missed step
- Monitors the 3-year lock-in period; advises on correct accounting of the subsidy when released to adjust the loan account

REAL-LIFE EXAMPLE Mohan Spices, Bilaspur (Rural, Chhattisgarh)

A first-generation entrepreneur in a village near Bilaspur wanted to start a spice-grinding unit with a project cost of ₹18 lakh. As a rural SC-category borrower, he was entitled to a 35% subsidy — ₹6.3 lakh.

The CA prepared the KVIC-format DPR, guided the promoter through EDP training, and calculated that the promoter's own contribution was just ₹1.08 lakh (6%), with the bank funding ₹12.6 lakh and the government subsidising

₹6.3 lakh. The unit started with the promoter investing only ₹1.08 lakh of his own money.

E. CLCSS — Credit-Linked Capital Subsidy Scheme for Technology Upgradation

CLCSS provides a 15% capital subsidy (maximum subsidy ₹15 lakh on a ₹1 crore plant and machinery investment ceiling) to Micro and Small enterprises upgrading technology in specified sub-sectors: food processing, leather, hosiery, bicycle parts, sports goods, auto components, textiles, and others listed in the MSME Ministry's approved technology list.

What a CA does here:

- Checks whether the client's product/sub-sector appears on the CLCSS approved technology list
- Ensures the machinery qualifies as a technology upgrade — not just a replacement of existing equipment at the same technology level
- Coordinates the subsidy claim between the bank (Primary Lending Institution) and SIDBI — both are involved in processing
- Handles accounting correctly under Ind AS 20 / AS 12 when the subsidy is received — treatment as a capital grant reducing asset cost, not as income

REAL-LIFE EXAMPLE Goyal Leather Works, Kanpur

A leather goods manufacturer replaced manual stitching machines with computer-controlled units costing ₹68 lakh. The CA confirmed leather goods manufacturing appeared on the CLCSS list and that the new machines were a technology upgrade.

The bank loan was sanctioned and a CLCSS subsidy of ₹10.2 lakh (15% of ₹68 lakh) was processed through the bank and SIDBI. The subsidy was credited to the loan account, reducing outstanding debt and future EMI obligations. Incorrect treatment as revenue income would have attracted tax of approximately ₹2.5 lakh — the CA avoided this by crediting against the asset cost.

F. New MSME Credit Guarantee Scheme — Budget 2025

Announced in Union Budget 2025-26 and approved on 29 January 2025, this scheme provides a 60% guarantee cover to Member Lending Institutions for term loans to MSMEs for machinery and equipment purchases — for loans up to ₹100 crore, administered through the National Credit Guarantee Trustee Company (NCGTC). It fills a gap that CGTMSE (limited to ₹10 crore) did not address for mid-sized MSMEs making large machinery investments.

What a CA does here:

- Identifies eligible clients: those seeking term loans of ₹10–100 crore specifically for machinery where CGTMSE's ceiling is insufficient
- Prepares the fixed asset schedule and project report required for the term loan application under this scheme
- Advises the bank's credit team on NCGTC guarantee registration where the bank is unfamiliar with the scheme

3. Non-Credit Linked Incentive Schemes: In-Depth

Non-credit linked schemes are often more valuable than credit schemes — they give the business money or tax benefits without requiring additional debt. They also tend to be harder to claim, requiring careful documentation and professional interpretation of complex policy documents. This is where a CA's advisory value is highest.

A. PLI — Production Linked Incentive Scheme

The PLI Scheme runs across 14 key sectors with a total outlay of ₹1.97 lakh crore. It provides cash incentives of 4–18% of incremental sales above a defined base-year threshold, typically for 5–6 years. By September 2025, the scheme had attracted ₹2 lakh crore in actual investment and generated over ₹18.7 lakh crore in incremental production. Of 764 approved PLI applications, 176 are MSMEs — in food processing, drones, bulk drugs, medical devices, pharma, telecom, and white goods.

PLI Sector	Incentive Rate	Investment Threshold	MSME Access
Food Processing (PLISFPI)	6–10% of incremental sales	₹2–10 crore (SME slab)	Direct
Drones	20% of annual turnover	₹2 crore minimum	Direct

Bulk Drugs (APIs)	10–20% of incremental sales	₹5 crore (fermentation); ₹25 crore (chemical)	Direct — smaller threshold
Medical Devices	5% of incremental sales	₹10 crore minimum	Direct — smaller end
Automobiles / Auto Components	13–18% of incremental sales	₹100 crore	Indirect — as Tier-1 supplier
Mobile / Electronics	4–6% of incremental sales	₹250 crore	Indirect — as contract manufacturer

What a CA does here:

- Assesses whether the client's product and investment qualify for direct PLI participation in any sector
- Identifies indirect PLI access: a client that can't qualify directly may qualify as a contract manufacturer or component supplier for a PLI-approved anchor company
- For approved PLI beneficiaries, prepares the annual incentive claim — requiring audited incremental sales data, GST return reconciliation, and Project Management Agency (PMA) verification
- Advises on base-year benchmarking — errors in base-year sales reporting have cost some businesses their entire PLI claim for a year; a lower, correct base-year figure maximises incentive
- Issues the CA certificate for PLI incentive disbursement claims where mandated by the scheme documents

REAL-LIFE EXAMPLE Sunrise Drones, Pune

A small engineering company had been manufacturing drone frames for agriculture. When the PLI scheme for Drones was announced with a minimum investment of ₹2 crore and a 20% incentive on turnover, its CA assessed the application and found the company qualified.

> The CA structured an investment plan — ₹2.4 crore over 18 months in assembly capacity — prepared the PLI application, and established an accounting system to track incremental turnover from the PLI base year. In Year 1 after approval, the 20% incentive on ₹1.8 crore of incremental drone sales generated a PLI claim of ₹36 lakh — funding the next phase of expansion.

B. DPIIT Start-up Recognition and Section 80-IAC Tax Holiday

DPIIT recognition under the Startup India initiative is one of the most valuable and underutilised incentives for early-stage companies. Available to companies and LLPs incorporated after 1 April 2016 with annual turnover not exceeding ₹100 crore in any year, that are working on innovation or a scalable business model.

The key benefit — Section 80-IAC: A DPIIT-recognised start-up can apply for a 100% income tax deduction on profits for any 3 consecutive years out of the first 10 years of incorporation. This requires a separate approval from the Inter-Ministerial Board (IMB) — a step many founders miss entirely.

Other benefits of DPIIT recognition:

- Self-certification for 9 labour and environmental laws — reducing compliance burden in the first 5 years
- 80% rebate on patent filing fees with fast-track examination
- CGSS (Credit Guarantee Scheme for Start-ups) — collateral-free credit up to ₹20 crore through NCGTC
- Priority access to Fund of Funds for Start-ups (FFS) through SIDBI
- GeM Start-up Runway — separate onboarding path and preferred listing on the Government e-Marketplace

What a CA does here:

- Assesses DPIIT recognition eligibility: entity type, incorporation date, turnover, and whether the business model qualifies as innovative
- Prepares the DPIIT recognition application on the Startup India portal, including the business innovation narrative

- Files the Section 80-IAC IMB application — this is separate from recognition, must be filed before the ITR for the year of claim, and requires specific financial and operational documents
- Plans which 3 years to claim the deduction: the IMB gives flexibility to choose; selecting the 3 highest-profit years maximises the tax saving

REAL-LIFE EXAMPLE HealthTrack, Bengaluru

A health-tech startup building a patient monitoring SaaS platform had been DPIIT-recognised for two years but had never applied for Section 80-IAC — the founders did not know a separate IMB approval was required. In Year 3, the company turned profitable: ₹1.8 crore profit.

Its CA filed the IMB application before the ITR due date and secured approval. Tax saving in Year 3 at 25% rate: ₹45 lakh. The CA also structured the deduction claim for Years 3, 4, and 5 — projecting that Year 4 and 5 profits would be higher — saving an additional ₹28 lakh across those years.

C. RoDTEP — Remission of Duties and Taxes on Exported Products

RoDTEP replaced the earlier MEIS scheme as the primary export incentive for manufactured goods. It operates as a duty scrip credited to the exporter's ICEGATE account — usable to pay customs duty on imports or transferable to an importer. Rates range from 0.5% to 4.3% of FOB export value, determined by the product's ITC-HS code. RoDTEP is notoriously under-claimed: many exporters use incorrect ITC-HS codes or fail to declare RoDTEP eligibility on shipping bills.

What a CA does here:

- Reviews all shipping bills for the year to identify RoDTEP-eligible exports and the applicable ITC-HS code
- Files revised shipping bills where the RoDTEP declaration was omitted or the ITC-HS code was incorrect (within the permitted revision window)
- Advises on monetising scrips by transferring them to importers where the exporter has no import duty obligation
- Reviews product coding before new production lines begin — selecting the correct ITC-HS code from day one is far more valuable than correcting it retroactively

REAL-LIFE EXAMPLE Kumar Forgings, Ludhiana

A forged auto-component exporter had been claiming RoDTEP for two years using a generic ITC-HS code (7326) attracting a 1.3% rate. Its CA reviewed product specifications and found the correct specific code attracted a 2.8% rate.

Recoding current and previous shipping bills increased the annual RoDTEP benefit from ₹9.1 lakh to ₹19.6 lakh — a gain of ₹10.5 lakh on the same export volume. The CA also helped the exporter transfer accumulated scrips to a fertiliser importer at a 0.5% discount, converting them to cash within 10 working days.

D. State Industrial Policies and Sectoral Incentives

Every Indian state publishes its own industrial policy — and state incentives often far exceed what the Central government offers. These include capital investment subsidies (5–35% of plant and machinery cost), interest subvention (2–6% on term loans), GST refunds or rebates, power tariff concessions, land at subsidised rates, employment generation subsidies, and stamp duty exemptions. Separate sectoral policies cover IT/ITeS, electronics, textiles, food processing, pharmaceuticals, and defence manufacturing.

Practical reality: state policies have sunset dates and application windows. A business that sets up and operates for 6 months before a CA reviews the policy may have already missed the application deadline for that year's capital subsidy.

What a CA does here:

- Maps the client's industry, location, and investment against the applicable state industrial policy — this requires reading the actual notified policy, not a summary
- Identifies the correct nodal agency — State Industries Commissioner, DIC, or the state's investment promotion bureau — and the precise application format and timeline
- Prepares the investment claim documentation: fixed asset register, purchase invoices, employment records, and production/turnover certificates
- Issues the CA certificate for fixed capital investment — the most commonly required certification in state industrial policy claims

- Sets up a yearly compliance calendar for ongoing benefits such as interest subvention, electricity duty exemption, and employment-linked subsidies

> **REAL-LIFE EXAMPLE Skymet Plastics, Pithampur (Madhya Pradesh)**
>
> A plastic moulded auto-parts manufacturer set up in the Pithampur industrial area in M.P., qualifying under the M.P. Industrial Promotion Policy. The CA identified four applicable incentives: a 30% capital investment subsidy on machinery cost (up to ₹60 lakh), a 5% interest subvention for 7 years, a power tariff concession of ₹1.50 per unit, and a 100% stamp duty exemption on the factory lease.
>
> The first-year capital subsidy alone — ₹48 lakh on ₹1.6 crore of machinery — exceeded the CA's annual fee by a substantial margin. The CA issued the fixed capital investment certificate required by the policy, confirmed the power tariff concession with the state electricity board, and set up a yearly compliance calendar for the interest subvention claim.

E. GeM — Government e-Marketplace and Public Procurement Preference

The Government e-Marketplace (GeM) is the mandatory procurement portal for Central Ministries, Departments, and CPSEs. Under the Public Procurement Policy for MSEs, at least 25% of annual procurement must come from Micro and Small Enterprises. In FY 2023-24, government entities procured ₹74,717 crore from MSEs — 43.71% of their total procurement. For MSMEs that produce goods or services the government buys, GeM registration is a direct path to a large, reliable customer.

What a CA does here:

- Guides GeM registration — linked to PAN, Udyam, and GSTIN; the CA ensures consistency across all registrations to prevent rejection
- Reviews GeM orders and invoices for GST compliance — government buyers are TDS deductors; TDS applicability on GeM transactions confuses many MSME sellers
- Advises on the GeM Start-up Runway programme for DPIIT-recognised start-ups — separate onboarding path with priority listing

4. The CA's Four Pillars of Incentive Advisory

The CA's role in government incentive work rests on four pillars. Each requires a different skill and carries different professional responsibility.

Pillar 1 — Guidance: Identifying the Right Scheme

A business approaching a CA rarely knows which scheme it needs. The CA's first job is to map the client's profile against the available landscape. The following diagnostic questions should be part of any new MSME engagement.

Key questions to ask every new MSME client:

- Is the enterprise new (greenfield) or existing (expansion)? — PMEGP and Stand-Up India are only for new units
- What is the investment classification — Micro, Small, or Medium? — CGTMSE, Stand-Up India, and CLCSS apply only to Micro and Small
- What is the specific product or service? — PLI eligibility, CLCSS qualification, and state sectoral policies all depend on this
- Does the promoter belong to a special category — SC/ST, woman, PwD, ex-serviceman, minority? — higher subsidies are available in PMEGP, Stand-Up India, and most state policies
- What is the location — urban, rural, aspirational district, backward area? — subsidies are significantly higher for rural and backward-area units
- Is the entity DPIIT-recognised? — if yes, CGSS, Section 80-IAC, and GeM Start-up Runway are available
- Has any earlier scheme benefit been availed? — double-dipping restrictions apply; a CLCSS beneficiary cannot re-claim for the same machinery

Pillar 2 — Hand-Holding: Documentation and Application

Most incentive applications fail not because the business is ineligible, but because the documentation is incomplete, the application form is incorrectly filled, the project report is inadequate, or deadlines are missed. A CA who runs the application process end-to-end dramatically improves success rates.

Typical documents a CA prepares or reviews:

- Detailed Project Report (DPR) — the most critical document; must be tailored to each scheme's specific format and requirements

- CMA data for bank-linked schemes — projected balance sheet, P&L, and cash flow for 5 years in banker format
- Fixed asset register with purchase invoices, depreciation schedule, and valuation — required for capital subsidy claims
- Employment records (Form 16, PF/ESIC data) — required for employment-linked subsidy claims under state policies
- Turnover and production certificate — required for PLI annual claims, RoDTEP, and state turnover-linked subsidies
- Fund Utilisation Certificate — required post-disbursement under PMEGP, government grants, and SFURTI

Pillar 3 — Accounting: Getting the Books Right

The accounting treatment of government incentives is frequently wrong — either ignored entirely, or treated as taxable income in the wrong year. The correct treatment depends on the nature of the incentive received.

Type of Incentive	Standard	Correct Treatment
Capital subsidy (CLCSS, PMEGP, State capital grant)	Ind AS 20 / AS 12	Deduct from cost of qualifying asset and depreciate the net figure; OR recognise as deferred income released to P&L over asset life
Revenue subsidy (interest subvention, power tariff concession)	Ind AS 20 / AS 12	Recognise in the year the underlying expense was incurred — 'Other Income' or netted against the related expense
PLI cash incentive	Ind AS 20 / AS 12	Recognise when reasonable assurance of receipt exists and conditions are substantially met — typically the year the audited claim is filed
RoDTEP duty scrip	ICAI Guidance Note	Recognise at face value when credited to ICEGATE account; recognise discount as an expense if transferred at below face value

Section 80-IAC tax deduction	Ind AS 12 / AS 22	Reduces tax expense for the year; assess whether deferred tax timing differences arise on qualifying assets

COMMON ERROR — Capital Subsidy Mis-treatment

A PMEGP subsidy of ₹6.3 lakh is credited to the loan account after the 3-year lock-in. Many business owners and their accountants incorrectly book this as 'Other Income' and pay full tax on it. The correct treatment under AS 12 / Ind AS 20 is to treat the subsidy as a reduction in the cost of the qualifying fixed assets — reducing the depreciation base, not increasing taxable income. This error typically costs ₹1.5–2 lakh in avoidable tax.

Pillar 4 — Certifications: Professional Responsibility

Most government incentive schemes — Central and State — require submission of a Chartered Accountant's certificate for one or more purposes. These certifications carry professional responsibility under the ICAI Guidance Note on Reports or Certificates for Special Purposes. A CA must verify the underlying facts independently — a certificate is a professional attestation, not a clerical formality.

Certificate Type	Required For	Key Verification Points
Fixed Capital Investment Certificate	State industrial policies; CLCSS; PLI	Cross-check invoices vs fixed asset register vs depreciation schedule; exclude land and building where the policy requires plant and machinery only
Employment Certificate (headcount/payroll)	Employment-linked subsidies; state industrial policies	Cross-check with ESIC, EPFO, and payroll records; distinguish regular vs contractual employees per policy definition
Turnover / Sales Certificate	PLI incentive claims; state turnover-linked subsidies	Cross-check audited P&L vs GST returns vs e-way bill data; any mismatch will

		trigger a query from the nodal agency
Fund Utilisation Certificate	PMEGP; government grants; SFURTI cluster funds	Verify end-use of each disbursement tranche from bank statements and vouchers; ensure no diversion to non-project expenditure
Net Worth / Promoter Contribution Certificate	Credit-linked scheme loan applications	Verify from bank statements that promoter's contribution is from own funds — exclude amounts borrowed from family or money lenders

5. Common Pitfalls and How a CA Prevents Them

Pitfall	Consequence	CA's Preventive Action
Wrong ITC-HS / NIC code on Udyam or shipping bill	PLI exclusion; lower RoDTEP rate; state policy ineligibility	Review codes before application; verify against scheme schedule
Missed application window for state policy	Loss of capital subsidy entitlement for that year	Set up a yearly compliance calendar with hard deadlines
Medium enterprise applying for CGTMSE	Application rejection; wasted bank processing time	Confirm Micro/Small Udyam category before advising
Treating capital subsidy as revenue income	Excess tax payment of ₹1.5–2 lakh; audit risk	Apply AS 12 / Ind AS 20 correctly from year of receipt
No books for Mudra / PMEGP borrower	Bank flags as irregular; subsidy release withheld	Set up basic accounting from day one of the loan

PLI base-year sales overstated	Lower annual incentive across all future PLI years	Verify base-year figure rigorously; lower is better for PLI
DPIIT recognition without separate IMB approval for 80-IAC	No tax holiday despite recognition	File IMB application separately; track approval status
Signing fund utilisation certificate without verification	Professional misconduct; scheme recovery action against client	Always verify end-use from bank statements and project records

6. Quick Reference: Scheme Selector for MSME Clients

Client Situation	Schemes to Explore First
New micro unit, no collateral, any sector	CGTMSE + PM Mudra Yojana + PMEGP (if genuinely new enterprise)
Woman / SC/ST entrepreneur, greenfield unit	Stand-Up India + CGTMSE + PMEGP (higher subsidy slab)
Existing Small Enterprise, technology upgrade	CLCSS + CGTMSE for the upgrade loan
Manufacturing MSME in PLI-eligible sector	PLI (direct) + State industrial policy (dual benefit)
Exporter — any manufactured goods	RoDTEP + DGFT incentives (EPCG, Advance Licence) + LUT under GST
DPIIT-recognised start-up	Section 80-IAC (IMB approval) + CGSS (up to ₹20 crore) + GeM Start-up Runway
MSME in rural / backward area	PMEGP (35% rural subsidy) + State backward-area policy incentives
MSME selling to government / PSUs	GeM registration + 25% MSE public procurement quota

Mid-size MSME — machinery loan above ₹10 crore	New MSME Credit Guarantee Scheme (Budget 2025) via NCGTC

Key Online Resources for CAs

- DPIIT Industrial Policies: dpiit.gov.in/policies-rules-and-acts/policies/industrial-policy
- PLI Schemes Overview: investindia.gov.in/production-linked-incentives-schemes-india
- CGTMSE Scheme: cgtmse.in
- Startup India / DPIIT Recognition: startupindia.gov.in
- PMEGP / KVIC: kviconline.gov.in/pmegp
- PM Mudra Yojana: mudra.org.in
- GeM Marketplace: gem.gov.in
- RoDTEP Rates: DGFT portal — dgft.gov.in
- Stand-Up Mitra Portal: standupmitra.in
- MSME Samadhaan (Delayed Payment): samadhaan.msme.gov.in
- State Industrial Policies: Each State's Industries Department or Investment Promotion Bureau website

Conclusion

Government incentives for MSMEs and start-ups represent one of the most concrete, high-return advisory opportunities available to a practicing Chartered Accountant. When a CA helps a rural entrepreneur claim a ₹6 lakh PMEGP subsidy, restructures an exporter's RoDTEP claims to recover ₹10 lakh in foregone benefits, or correctly accounts for a CLCSS capital grant to save ₹2 lakh in unnecessary tax — the value delivered is immediate, measurable, and far greater than the cost of the advice.

The challenge is that this area requires ongoing learning. Schemes change, limits are revised, new programmes are launched, and state policies differ dramatically across districts and sectors. A CA who builds a practice around government incentive advisory must stay current — but the investment in that knowledge pays dividends many times over in client outcomes.

Most MSMEs are sitting on a pile of unclaimed government money — subsidies, guarantees, and tax holidays they've never applied for. The CA who opens that door is not just a compliance professional. They are a partner in building something that lasts.

MSME Needs, Challenges, Compliance Requirements and Practical Problem-Solving

(A Simple Guide for Entrepreneurs)

Introduction

Micro, Small and Medium Enterprises (MSMEs) form the backbone of India's economy. They create jobs, support local industries, and boost innovation.

But running an MSME is not easy — entrepreneurs face challenges such as access to finance, regulatory compliance, rising costs, and lack of technical knowledge.

This guide simplifies MSME needs, compliance requirements, and everyday challenges — along with practical steps to solve them.

Key Concepts and Procedures

A. Udyam Registration

- This is the basic identity of an MSME.
- Mandatory for availing schemes, subsidies and loans.
- Easy online registration on the Udyam Portal.

B. Book-keeping and Accounting

- Every MSME must maintain proper accounts, invoices, purchase records and expenses.
- Good accounting helps monitor cash flow and ease bank loan approvals.

C. GST Compliance

- GST is applicable to most MSMEs once their turnover crosses threshold limits.
- Regular monthly/quarterly returns are required.
- Proper input tax credit (ITC) records must be maintained.

D. Income Tax Compliance

- Filing income tax returns annually.
- Maintaining books as per Income-tax Act.
- Keeping TDS and advance tax obligations in check.

E. Labor Law Compliance Includes:

- Salary/wage records
- PF/ESI registration (if applicable)
- Shops and Establishments registration

F. Banking and Finance Procedures

- Applying for collateral-free loans under **CGTMSE**
- Accessing working capital limits
- Complying with bank documentation requirements
- Timely submission of stock statements/financials

G. Subsidies and Government Support MSMEs can claim:

- Interest subsidies
- Power tariff concessions
- Marketing support
- Technology upgradation support
- Cluster development support

Practical Steps, Checklists and Do’s / Don’ts

A. MSME Startup Checklist

- Register on Udyam Portal
- Open a dedicated Current Account
- Set up basic accounting (Tally/Zoho/QuickBooks)
- Apply for GST if required
- Register under Shops and Establishments
- Ensure PAN, Aadhaar, and KYC are updated

B. Monthly Compliance Checklist

- GST filing (GSTR-1, GSTR-3B)
- Payment to vendors/employees
- Bank reconciliation
- Updating sales and purchase registers
- PF/ESI payments (if applicable)

C. Yearly Compliance Checklist

- Income tax return
- Final accounts (Balance Sheet, P&L)
- Audit if turnover crosses threshold
- Renewal of licenses (where applicable)

D. Do's for MSME Owners

- Maintain invoices and records in real time
- Separate personal and business finances
- Use digital payments to track expenses
- Consult a CA for compliance planning
- Keep financial documents organized

E. Don'ts for MSME Owners

- Do not mix personal and business expenses
- Don't delay GST or tax filings (leads to penalties)
- Don't take loans without checking interest and guarantee terms
- Avoid working without written contracts

Common Issues Faced by MSMEs (and Solutions)

1. Cash Flow Problems

Cause: irregular payments, poor planning

Solution:

- Weekly cash flow tracking
- Follow-up system for debtors
- Use invoice discounting via TReDS

2. **Difficulty in Getting Loans**

Cause: lack of financial statements and documents

Solution:

- Maintain updated accounts
- Register under Udyam
- Ask banks for CGTMSE-backed loans

3. **GST Penalties**

Cause: late filing, mismatch of invoices

Solution:

- File returns on time
- Match vendor invoices regularly
- Use GST reconciliation tools

4. **Lack of Awareness About Subsidies**

Cause: Limited knowledge of schemes

Solution:

- Visit MAITRI, MSME Ministry, SIDBI portals regularly
- Attend MSME workshops/MSME Clinics set up by ICAI
- Consult CA/Industry associations

5. **Labor Compliance Issues**

Cause: unmaintained registers, non-payment of contributions

Solution:

- Maintain payroll software
- Generate PF/ESI challans on time

- Keep employee records updated

6. Poor Documentation

Cause: handwritten records, missing bills

Solution:

- Digitize documents
- Use cloud storage
- Implement a simple document management system

Conclusion / Summary

MSMEs thrive when they combine **good compliance practices, strong financial discipline, and awareness of available government support**.

This guide helps entrepreneurs understand the basics in simple language — from registration to subsidies, bookkeeping to tax laws, and everyday challenges to practical solutions.

A well-managed MSME is not only compliant but also better placed to grow, secure funding, and compete in the market.

References and Useful Links

Official Portals

- **Udyam Registration:** https://udyamregistration.gov.in
- **MAITRI (Maharashtra Incentives and PSI):** https://maitri.maharashtra.gov.in
- **MSME Ministry:** https://msme.gov.in
- **CGTMSE:** https://cgtmse.in
- **SIDBI:** https://sidbi.in
- **NABARD:** https://nabard.org
- **GST Portal:** https://www.gst.gov.in

Important Notifications / Documents

- MSME Classification Notification (1 July 2020)
- Annual Report of Ministry of MSME
- RBI Guidelines on MSME Lending
- SIDBI Credit Guarantee Framework Notifications

Selection of Right Accounting Software for MSMEs

Introduction

Micro, Small, and Medium Enterprises (MSMEs) operate within a dynamic business environment that demands efficient financial management, simplified compliance, and adaptability to evolving regulations. The right accounting software is a critical asset for MSMEs, ensuring regulatory adherence, streamlined operations, and data-driven decision- making. This document offers MSME entrepreneurs a structured roadmap to select effective accounting software suited to their unique requirements.

Key Concepts and Procedures

Selecting accounting software involves evaluating several technical and practical factors:

- **Business Requirement Analysis:** Before exploring options, MSMEs must identify their bookkeeping volume, compliance needs (such as GST, TDS, payroll), industry- specific workflows (inventory, invoicing), and future scalability.
- **Core Features:** Essential functions include GST-compliance, e-invoicing, expense tracking, inventory management, bank account integration, real-time dashboards, automated calculations, and customizable reporting.
- **User-Friendliness:** Since many MSMEs lack dedicated finance staff, intuitive navigation, simple language, and minimal training requirements are vital.
- **Vendor Credibility:** Consider the reputation, support infrastructure, update policy, and historical reliability of the software provider.
- **Security and Data Protection:** Look for encryption, regular backups, and role-based user permissions to protect sensitive business data.
- **Integration and Compatibility:** The software should seamlessly connect with existing tools like CRM, ERP, or e-commerce platforms. Future integration needs (such as payroll or project management) should also be considered.
- **Cost-Effectiveness:** Initial purchase price, ongoing subscription, support charges, and scalability for future business needs all impact long-term value.

Practical Steps, Checklist, and Dos and Don'ts Stepwise Approach

1. **Map Business Needs:** Define accounting and compliance tasks your MSME must perform (invoicing, GST filing, payroll, expense logging).

2. **Prepare a Feature Checklist:** List must-have and nice-to-have features (GST and TDS modules, bank reconciliation, inventory, cloud access, support for mobile devices).

3. **Shortlist Vendors:** Identify reputed software brands strong in the MSME domain (Zoho Books, TallyPrime, Fastax, Vyapar, Busy).

4. **Evaluate Trials and Demos:** Use free trials to assess usability, ease of integration, and feature fit. Gather feedback from staff who will use the solution daily.

5. **Check Regulatory Updates:** Ensure the software is updated quickly to reflect changes in GST, other tax laws, and statutory requirements.

6. **Assess Security:** Confirm secure logins, data encryption, reliable backup measures, and compliance with IT policy.

7. **Vendor Support:** Examine customer service quality—response times, onboarding help, training resources, and troubleshooting channels.

8. **Plan Migration:** Prepare for the transition, ensuring historical data import and minimal business disruption.

Checklist

Factor	**Requirements**	**MSME Priority**
GST and TDS Compliance	Automated invoicing, returns	Essential
User-Friendliness	Simple interface, tutorials	Essential
Inventory Management	Item tracking, stock alerts	High
Integration	Bank, CRM, ERP connections	High
Security	Encryption, backup	Critical
Support	Onboarding, helplines	Critical

Scalability	Adapts to growth	High
Costs	Transparent pricing, value	High

Do’s

- Prioritize compliance features over unnecessary bells and whistles.
- Seek user feedback on interface and ease of use during the trial phase.
- Ensure ongoing updates for statutory compliance (GST, TDS, ROC filings).

Don’ts

- Do not ignore data security provisions or regular backup mechanisms.
- Avoid products with poor customer reviews or delayed update cycles.
- Don’t select based solely on initial cost—factor long-term scalability and support.

Common Issues Faced by MSMEs

- **Complexity and Over-choice:** MSMEs may find too many software options confusing—filter based on localized support and core feature alignment.
- **Compliance Lapses:** Using outdated or limited software may result in missed tax filings, leading to penalties.
- **Poor Data Migration:** Switching software without proper planning can result in data loss and operational disruption.
- **Limited Vendor Support:** Inadequate customer service can hinder onboarding and troubleshooting during critical financial periods.
- **Hidden Costs:** Overlooked add-ons, usage charges, or support fees can stretch MSME budgets.

Overview of Different Accounting

Software for MSME

TallyPrime

- TallyPrime is a comprehensive business management and accounting software widely used in India, especially by small and medium-sized enterprises (SMEs).

- It is known for its robust offline functionality, making it ideal for businesses with limited or unreliable internet access.
- TallyPrime offers a wide range of features including accounting, inventory management, payroll, GST compliance, statutory reporting, and advanced analytics.
- Its user-friendly interface, multi-currency support, and customizable reporting make it a favourite among accountants and business owners.
- TallyPrime also supports deep customization through TDL (Tally Definition Language), allowing businesses to tailor the software to their specific needs.
- It is especially strong in inventory tracking, GST filing, and audit readiness, making it a go-to solution for Indian businesses with complex compliance requirements.

Zoho Books

- Zoho Books is a cloud-based accounting software designed primarily for small businesses, freelancers, and startups.
- It is part of the larger Zoho suite of business applications and is known for its ease of use, automation, and seamless integration with other Zoho products.
- Zoho Books offers features such as invoicing, expense tracking, bank reconciliation, GST compliance, inventory management, and multi-currency support.
- Its cloud-native architecture allows users to access their data from anywhere, making it ideal for businesses that require mobility and remote collaboration.
- Zoho Books also integrates with payment gateways, e-commerce platforms, and third- party apps, providing a streamlined workflow for modern businesses.
- It is highly customizable than TallyPrime and it excels in automation, mobile access, and integration with other business tools.

SAP FICO

- SAP FICO (Financial Accounting and Controlling) is a module within the SAP ERP suite, designed for large enterprises and multinational corporations.
- SAP FICO provides comprehensive financial management capabilities, including general ledger accounting, accounts payable and receivable, asset accounting, cost center accounting, profit center accounting, and financial reporting.

- It is highly scalable and supports complex business processes, multi-currency transactions, and global compliance requirements.
- SAP FICO is known for its robust integration with other SAP modules, such as SAP MM (Materials Management) and SAP SD (Sales and Distribution), enabling end-to- end business process automation.
- It is widely used by large organizations that require advanced financial controls, real- time reporting, and compliance with international accounting standards.

Other Notable Accounting/ERP Solutions

- **QuickBooks**: A popular cloud-based accounting software for small businesses, offering features like invoicing, expense tracking, payroll, and tax management. It is known for its user-friendly interface and strong integration with third-party apps.
- **Odoo**: An open-source ERP platform that includes accounting, inventory, CRM, and project management modules. Odoo is highly customizable and suitable for businesses of all sizes, offering both cloud and on-premise deployment options.
- **Xero**: A cloud-based accounting software designed for small businesses, offering features like invoicing, bank reconciliation, payroll, and inventory management. Xero is known for its ease of use and strong integration with third-party apps.
- **Vyapar**: A mobile-first accounting app popular among small businesses and traders in India. Vyapar offers features like invoicing, inventory management, and GST compliance, with a focus on simplicity and ease of use.

Each of these platforms has its strengths and is suited to different business needs, from small startups to large enterprises. The choice of software depends on factors such as business size, industry, compliance requirements, and budget.

Conclusion and Summary

Choosing suitable accounting software is a foundational step for MSMEs to ensure compliance, drive operational efficiency, and empower financial decision-making. The best solutions are those tailored to real business needs, offer intuitive user experiences, enable seamless compliance, and provide dependable support backed by local expertise. MSMEs are strongly advised to follow systematic selection practices, leverage checklists, and prioritize security and support for sustained growth.

References and Links

- ICAI Resource Hub (Accounting and GST): https://www.icai.org
- GST Portal: https://gst.gov.in
- Zoho Books MSME Support: https://www.zoho.com/in/books/infokey+1
- TallyPrime SME Guide: https://tallysolutions.comtallysolutions+2
- MSME Udyam Registration: https://udyamregistration.gov.in
- Busy Accounting: https://www.busy.in
- Useful checklist templates and advisory: Sumvaad (https://sumvaad.co.in) and Starter CFO (https://starterscfo.com)[16]sumvaad

Digital Marketing for MSMEs

Introduction

Digital marketing is no longer optional for Micro, Small and Medium Enterprises (MSMEs). It levels the playing field, helps find customers beyond local markets, reduces marketing cost per lead, and enables measurable returns. This write-up gives a compact, government aligned action plan MSMEs and start-up's.

Why digital marketing matters for MSMEs

Reach: online channels open national and international markets without a physical presence.

Cost efficiency: targeted ads, organic search and social media let small budgets deliver good ROI.

Measurability: analytics show which activities actually bring orders so businesses can scale what works.

Resilience: digital sales channels reduce dependence on foot-traffic and local disruptions.

Government support and trusted resources (official)

Digital MSME Scheme - grants, training and incentives to adopt tools and digitise business processes. Use the scheme guidelines to design a digital adoption plan.

MSME TEAM (Trade Enablement and Marketing) a recent Ministry of MSME initiative to onboard MSEs to e-commerce marketplaces and accelerate digital marketing/exports.

Startup India - free curated courses and go-to-market guides useful for early-stage startups learning digital marketing basics.

Digital India / MeitY national digital infrastructure, digital literacy and public digital platforms that MSMEs can leverage (payment systems, digital identity, cloud services).

Practical 6-step digital marketing roadmap (MSME-friendly)

1. Foundation — brand + online presence (Weeks 1–4)

Register/verify your business (Udyam/Startup India) needed for some government programmes.

Create a simple mobile-friendly website (one-page to start): services/products, prices, contact, GST/Udyam number, testimonials.

List business on Google Business Profile and key e-commerce/ marketplace(s) relevant to your product category.

2. Local and organic discovery (Weeks 2–8)

On-page SEO: clear titles, local address in footer, product/service keywords in headings.

Claim listings on government and industry portals.

3. Content and social media (Ongoing from Week 2)

Produce 2–4 posts/week: product photos, short demo videos, customer stories, FAQ posts. Use WhatsApp Business catalog for immediate orders.

Leverage Startup India learning modules and MSME webinars for content ideas.

4. Low-cost paid campaigns (Months 2–4)

Run small geo-targeted search and social ads (test ₹500–₹2,000/week) focused on best-selling SKUs or services.

5. Marketplaces and digital selling (Months 2–6)

Use TEAM/MSME marketplace onboarding support to list on relevant portals.

6. Measure, secure and scale (Month 3 onward)

Install Google Analytics / Search Console; review traffic, conversion, bounce rate.

Prioritise simple cyber-security: HTTPS, strong passwords, two-factor for critical accounts (banking, marketplace logins). Rely on Digital India guidance for secure digital practices.

Conclusion

Digital marketing gives MSMEs measurable, scalable tools to grow beyond local boundaries. Start small (website, listings, one ad test), measure results, and use official government programmes (Digital MSME, TEAM, NSIC, Startup India, Digital India) to subsidise training, tools and marketplace access. The ICAI MSME Clinic can guide enterprises through registration, claiming subsidies, bookkeeping for digital spends, and compliance—turning digital marketing experiments into sustainable revenue channels.

References (Government / Official sources)

1. Digital MSME Scheme — Scheme Guidelines. Office of DC (MSME). https://dcmsme.gov.in/CLCS_TUS_Scheme/Digital_MSME_Scheme/Scheme_Guidelines.aspx
2. MSME TEAM Initiative / RAMP portal. Ministry of MSME. https://ramp.msme.gov.in/ramp/team-scheme.php
3. Ministry of Micro, Small and Medium Enterprises — Official website (schemes and marketing promotion).
4. NSIC — Marketing Assistance and Digital Services. National Small Industries Corporation. https://www.nsic.co.in/schemes/MarketingAssistance
5. Startup India — Programs and online courses. Department for Promotion of Industry and Internal Trade (DPIIT). https://www.startupindia.gov.in/content/sih/en/reources/online-courses.html
6. Digital India / MeitY — Programme overview and digital infrastructure resources. https://www.digitalindia.gov.in/about-us

ZED Certification for MSME's

About ZED Scheme

Motivating our MSMEs to adopt a quality driven ecosystem

Vision

To improve MSME manufacturing systems & processes, enhance MSME competitiveness, make them sustainable and transform them as National and International Champions.

Eligibility

All MSMEs registered with the Udyam registration portal will be eligible to participate in MSME Sustainable (ZED) Certification Scheme and avail related benefits/incentives.

About ZED (Zero Defect Zero Effect)

Features

- Quality certification for systems & processes of Udyam-registered manufacturing MSMEs
- Three certification levels: Bronze, Silver, and Gold
- Conformity-assessment based model; MSMEs can apply for any level based on readiness
- Zero certification cost for Women-owned enterprises

ZED Visual

✓ **Zero Defect**	↻ **Zero Effect**
Quality, process discipline and customer confidence	Energy, environment and resource efficiency

The ZED Journey

Pledge	**Verify**	**Assess**	**Certify**

Scheme Reach

10,26,697 Registered MSMEs	**7,41,550** Certified MSMEs

Benefits / Incentives for the MSMEs

Benefits of ZED Adoption

A sustained practice of ZED principles will have multiple benefits

- Streamlined operations and lower costs
- Superior quality, reduced rejection and higher revenues
- Increased environmental & social benefits
- Credible recognition of the industry for international customers seeking investment in India
- Image of a Responsible Enterprise

Incentives

FINANCIAL ASSISTANCE	GRADED INCENTIVES
▪ Subsidy on Certification ▪ Financial support for Testing/ Systems/Product Certification ▪ Subsidy on Handholding ▪ Subsidy on technology upgradation for Zero Effect Solutions	Graded incentives as prescribed by States, Financial Institutions, other Ministry/Depts etc., for the three ZED Certification Levels

Incentives: Subsidy & Financial Assistance

Support	Extent of assistance
Financial Assistance in Testing/Systems/ Product Certification	Up to 75% of the total cost of Certification, with the maximum ceiling of subsidy being Rs. 50,000/-
Handholding Support	Up-to Rs.2 lakhs for consultancy for all ZED certified MSMEs

Support in Technology Upgradation for Zero Effect Solutions	Up-to Rs. 3 lakhs for all ZED certified MSMEs

The subsidy will be applicable on multiple Testing / Quality / Product Certifications obtained after the date of ZED registration **Subsidy on Cost of Handholding: Micro- 80%, Small-60%, Medium-50%**

Incentives — Other Ministries / Departments (In progress)

Railways	Banks	State Governments
Concessions on Parcel Special/ Vyapar Mala	Concession in Processing fee Concession in rate of interest Preference in lending	Various incentives

Incentives — Subsidy on Cost of Certification

Actual Cost of Certification

Rs 8,000/-	**Rs. 32,000/-**	**Rs. 72,000/-**

Subsidy on Cost of Certification

80%	60%	50%	100%
Micro Enterprises	Small Enterprises	Medium Enterprises	Women Owned Enterprises

Additional Subsidy

A limited-purpose joining reward of Rs. 10,000/- valid for 1 year after taking ZED	5% to MSMEs which are also a part of the SFURTI OR Micro & Small Enterprises -	10% to MSMEs owned by SC/ST Entrepreneurs OR MSMEs in NER/

Pledge which may be adjusted against any Certification	Cluster Development Programme (MSE-CDP) of the Ministry	Himalayan/ LWE/ Island territories/ aspirational districts

ZED Certification: Process & Parameters

Certification Levels

BRONZE	**SILVER**	**GOLD**

1 **Register & take ZED Pledge**	**2** After taking the ZED Pledge, the MSME can apply for any Certification Level if it feels that it can fulfil the requirements mentioned in each level

ZED Parameters — Maturity through Conformity Assessment

Each level builds cumulatively on the one before it — 7 parameters at Bronze, 14 at Silver and all 20 at Gold.

BRONZE **07** parameters **1.** Leadership **2.** Swachh Workplace **3.** Workplace (Occupational) Safety	**SILVER** **14** parameters (cumulative) **8.** Human Resource Management	**GOLD** **20** parameters (cumulative) **15.** Supply Chain Management **16.** Risk Management

4. Measurement of Timely Delivery **5.** Quality Management **6.** Energy Management **7.** Measurement & Analysis	**9.** Daily Works Management **10.** Planned Maintenance & Calibration **11.** Process Control **12.** Product Quality & Safety (Testing/Certification) **13.** Material Management **14.** Environment Management	**17.** Waste Management (Muda, Mura, Muri) **18.** Technology Selection & Upgradation **19.** Natural Resource Conservation **20.** Corporate Social Responsibility

PARAMETER GROUP 1 OF 4

People, Leadership & Workplace

No.	Parameter	What it requires
1	**Leadership**	Roles & responsibilities are documented, an organogram is in place, and senior management reviews organisational performance regularly.
2	**Swachh Workplace**	SOPs keep equipment, tools & work areas clean and organized, with cleanliness audited and emphasized across the supply chain.
3	**Occupational (Workplace) Safety**	A formal safety policy, PPE & training, safety KPIs, incident RCA/CAPA, mock drills, and periodic safety audits.
6	**Human Resource Management**	Defined HR processes, induction & ongoing training, and skill mapping across technical, safety and environmental areas.
7	**Daily Works Management**	Daily Quality-Cost-Delivery targets are set, displayed, tracked with RCA/CAPA, and reviewed for effectiveness.

PARAMETER GROUP 2 OF 4

Quality & Delivery Excellence

No.	Parameter	What it requires
4	**Measurement of Timely Delivery**	Adherence to delivery commitments is measured, monitored and reviewed periodically by senior management.
5	**Quality Management**	A quality policy, monitored quality requirements, training, periodic audits, RCA/CAPA and management review.
9	**Process Control**	Critical & non-critical processes are proactively planned, controlled via SOPs, monitored, and improved via RCA/CAPA.
10	**Product Quality & Safety (Testing/Certification)**	Product requirements are identified and fulfilled through requisite testing/certification, with RCA/CAPA and review.
14	**Measurement & Analysis**	Targets and trends for defects, rework, rejection, Cost of Poor Quality and customer satisfaction are tracked.

PARAMETER GROUP 3 OF 4

Operations, Assets & Supply Chain

No.	Parameter	What it requires
8	**Planned Maintenance & Calibration**	Preventive maintenance & calibration plans are executed on schedule, with MTTR/MTBF trends reviewed.
11	**Material Management**	Material planning, optimal inventory, and inventory control reduce contamination, damage and losses.
15	**Supply Chain Management**	Formal vendor selection & development, with sustainability practices propagated across the supply chain.

16	**Risk Management**	A comprehensive risk plan identifies, assesses and mitigates risks, reviewed periodically by senior management.
18	**Technology Selection & Upgradation**	Technology choices and upgrades are planned considering digitalization, IoT, sensors and smart machines.

PARAMETER GROUP 4 OF 4

Environment & Sustainability

No.	Parameter	What it requires
12	**Energy Management**	Energy sources are identified, consumption measured, efficiency targets set, and periodic energy audits held.
13	**Environment Management**	Emissions, effluents & waste are managed to regulatory norms, with environmental audits and training.
17	**Waste Management (Muda, Mura, Muri)**	A waste-reduction plan targets the 7 wastes, overburden and unevenness, with targets and trend monitoring.
19	**Natural Resource Conservation**	Systems reduce use of non-renewable resources and maximize renewables, with targets and progress review.
20	**Corporate Social Responsibility**	A CSR policy covers governance, labour practices, environment, fair operations & community development.

Certification Process

The route to certification differs by level. Document upload & verification applies at Bronze; Silver and Gold additionally require an onsite assessment.

Level	Process steps	Non-conformities
BRONZE	**1.** Pledge **2.** Undertaking of Compliances **3.** Document Upload & Verification **4.** Recommendation	**5 attempts to clear non-conformities, within 30 days**
SILVER	**1.** Pledge **2.** Undertaking of Compliances **3.** Document Upload & Verification **4.** Onsite Assessment **5.** Recommendation & Assessment Report	**5 attempts to clear non-conformities, within 60 days**
GOLD	**1.** Pledge **2.** Undertaking of Compliances **3.** Document Upload & Verification **4.** Onsite Assessment **5.** Recommendation & Assessment Report	**5 attempts to clear non-conformities, within 60 days**

Benefits of NPS for MSME's

About NPS

National Pension System (NPS) is a defined contribution pension system. NPS was introduced by the Government of India in 2004 and is regulated and supervised by the Pension Fund Regulatory and Development Authority (PFRDA). It is designed to enable systematic and regular savings during the working life of individuals to ensure a stable and adequate income post-retirement.

NPS is mandatory for Central Government employees joining services on or after 1st January 2004 and has been adopted by most of the State Governments for their employees.

NPS can be subscribed to by any **Indian citizen (resident/non-resident/overseas)** aged between 18 and 85 years on a voluntary basis.

NPS can be adopted on a voluntary basis by an **Employer (Corporate/ Micro Small and Medium Enterprises (MSMEs)** as a retirement benefit scheme for its **employees**.

Section 20(1) of the PFRDA Act, defines National Pension System (NPS) as 'the contributory pension system notified by the Government of India vide Ministry of Finance notification number F. No. 5/7/2003-ECB&PR, dated 22nd December, 2003, shall be deemed to be the National Pension System with effect from the 1st day of January, 2004, and such National Pension System may be amended from time to time by regulations".

NPS Benefits

The National Pension System (NPS) offers the following key features and benefits:

- **Low Cost -** NPS is one of the lowest-cost pension schemes globally, ideal for long-term retirement planning.
- **Flexible -** Subscribers can choose their Point of Presence (PoP), Central Recordkeeping Agency (CRA), Pension Fund, and asset allocation strategy. These choices can be modified as needed.

- **Portable** - The NPS account is fully portable across employers and geographic locations, ensuring continuity and convenience.
- **Tax Efficient** - Tax incentives are available to subscribers under the Income Tax Act, 1961.
- **Optimum Returns** - Offers market-linked returns based on the investment options selected by the subscriber or employer.
- **Transparent** - Provides 24x7 online access to NPS accounts, with regular updates and mandatory public disclosures for full transparency.

NPS for the MSMEs

The pension coverage in the MSME sector remains significantly underdeveloped. As per the Ministry of MSME (as on 09th September 2026), there are **9,53,59,687 crore registered MSMEs**, comprising nearly **9.4 crore micro enterprises**, **5.43 lakh small enterprises** and **41,879 medium enterprises**. Collectively, these units employ more than **42.26 crore** individuals, **contributing 31% to the GDP,** account for **48%** of India's total exports and **35.4%** of nation's total manufacturing output.

Objective

PFRDA has the following objective to expand NPS in the MSME sector:

- To extend affordable and sustainable retirement security to MSME employees or individuals through NPS.
- To enhance awareness, ecosystem readiness, and seamless onboarding through strengthened partnerships.

Benefits of NPS for the MSME Sector

NPS enables individuals to make regular contributions, thereby ensuring a sustainable pension upon retirement, while also providing flexible withdrawal options to address diverse financial needs.

For the MSME sector, which constitutes a heterogeneous and largely informal workforce, NPS offers distinct advantages:

Category	Benefits
For MSME Employees	• Ensures sustainable retirement income and old-age financial security

	• Portable across jobs, sectors, and states – ideal for mobile workforce • Affordable with low account maintenance costs and flexible contributions • Tax benefits under Sections **80CCD (1), 80CCD(1B), 80CCD (2)** of the Income Tax Act • Professionally managed funds with competitive long-term returns • Partial withdrawal facility for education, illness, house purchase, etc.
For Employers (MSMEs)	• Provides a structured retirement benefit to employees, enhancing retention and loyalty • Cost-effective, with no heavy administrative burden • Employer contributions (up to 14% of Basic + DA) deductible as business expenses • Enhances credibility and reputation by offering employee welfare benefits • Aligns with national financial inclusion and social security priorities

Accessibility for MSME Ecosystem

- Covers informal and semi-formal workers
- Simple access through Points of Presence (PoP), online portals, and simplified KYC
- Complements government MSME/startup schemes and welfare programs
- Builds a financially secure workforce, supporting productivity and enterprise stability
- Strengthens long-term resilience of the MSME sector
- Database from Udyam portal and integration with NPS platforms through intermediaries.

Distribution mechanism

- MSMEs can be onboarded under NPS platform through Points of Presence (PoPs)*
- The MSME employees, individuals can be onboarded through the
- MSME employer and Points of Presence (PoPs)
- Direct online onboarding of employees, individuals through e-NPS, StAR NPS and Tatkal NPS – UPI based digital onboarding
- Simplified KYC across all onboarding mechanism
- PFRDA has been collaborating with MSME associations through three Consulting firms in the identified 18 States namely Tamil Nadu, Kerala, Andhra Pradesh, Karnataka, Maharashtra, Telangana, Gujarat, Rajasthan, Uttarakhand, Delhi, Uttar Pradesh, Punjab, Himachal Pradesh, Haryana, West Bengal, Odisha, Madhya Pradesh and Bihar.
- All the Public Sector Banks, Private Sector Banks, few Regional Rural Banks, Pension Funds, Stock Broking & Financial Services companies and Non-Bank Finance Companies are registered as Points of Presence (PoPs). The MSMEs, their employees and MSME associations in all the States can access these POPs for adoption, implementation and enrolment of NPS.

Conclusion: Creating a 'Pensioned Society' – Viksit Bharat

The coverage of the MSME segment under NPS will contribute significantly towards addressing the socio-economic needs of the MSME workforce post-retirement which shall be a contributing factor in creating a **'pensioned society and also a step undertaken towards the vision of Viksit Bharat'**.

* **Points of Presence (POPs)** - Act as distribution and service channels for NPS in the non-government sector. PoPs facilitate subscriber registration, contributions, and servicing.

The Institute of Chartered Accountants of India

(Set up by an Act of Parliament)

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