

IMPACT OF COVID-19 AND LOCKDOWN ON THE BUSINESSES IN GENERAL WITH PARTICULAR EMPHASIS ON MICRO, SMALL & MEDIUM ENTERPRISES (MSMES)

MEMORANDUM HIGHLIGHTING PROBLEMS & SUGGESTIONS



THE INSTITUTE OF COST ACCOUNTANTS OF INDIA
(Statutory Body Under An Act of Parliament)



Impact of COVID-19 and Lockdown on

THE BUSINESSES IN GENERAL WITH PARTICULAR EMPHASIS ON MICRO, SMALL & MEDIUM ENTERPRISES (MSMES)

Memorandum highlighting problems & suggestions



Foreword

All of us are facing a challenging phase of life. The COVID-19 fallout is unprecedented. With more than half of the world's population is forced into lockdown and countries struggling to get a grip on the fast-evolving health crisis, the economic implications of the pandemic have started emerging in the form of muted growth projections. All industrial segments are suffering. Small-scale industries are under severe pressure. Large industries can't run without ancillary companies and supply chain support. Our government has been handling the issue very sensibly, right from the beginning, compared with other affected countries. We should strictly adhere to advisories, stay calm, move around responsibly, work hard to contain and fight COVID-19. The Institute is following the directives issued by Government of India and State Government regarding preventive measures to control the spread of COVID-19.

I am pleased to note that the Professional Development Department of the Institute has prepared a Memorandum highlighting problems & suggestions regarding Impact of COVID-19 and Lockdown on the businesses in general with particular emphasis on Micro, Small & Medium Enterprises (MSMEs). I am sure that this Memorandum will help the Government to bring back economy on track quickly post the lockdown.

I sincerely acknowledge the efforts of CMA Vijender Sharma, Chairman and other members of Professional Development & CPD Committee, Secretary of the Committee and entire PD team in bringing out this memorandum.

My best wishes to the endeavours of the Professional Development & CPD Committee.

Stay Indoor, Stay safe and healthy!

With warm regards,

CMA Balwinder Singh

President

May 7, 2020

CMA Biswarup Basu

Vice President



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Foreword

The lockdown brought economic activity to a grinding halt and the survey findings indicate that a significant majority of the firms expect revenues to fall more than 40% in the current quarter. Stock markets are down globally. The rupee is under attack.

As the government prioritize health and social welfare during this unprecedented pandemic situation and economic slow-down. Both the Indian Government and the Industry have been reacting in a pro-active manner, in close coordination with each other, to face any economic, technical or even contractual impact of the Coronavirus on the Indian Economy.

I am happy to note that the Professional Development Department has prepared a Memorandum highlighting problems & suggestions regarding the Impact of COVID-19 and Lockdown on the businesses in general with particular emphasis on Micro, Small & Medium Enterprises (MSMEs). I am sure this Memorandum will prove to be very useful for the Government in supporting the Industries in this difficult situation.

I would like to thank CMA Vijender Sharma, Chairman and other members of the Professional Development & CPD Committee for their efforts and contribution in bringing out this Memorandum. I also appreciate the effort of entire Professional Development Team for bringing this Memorandum on MSMEs within a short period of time.

With best regards,

Biswarup Basu

CMA Biswarup Basu

Vice-President

May 7, 2020

CMA Vijender Sharma
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Preface

I am privileged to introduce the Memorandum highlighting problems & suggestions regarding Impact of COVID-19 and Lockdown on THE BUSINESSES IN GENERAL WITH PARTICULAR EMPHASIS ON MICRO, SMALL & MEDIUM ENTERPRISES (MSMES). The document contains the impact of pandemic and lockdown on MSMEs and Remedial Measures and Suggestions to support the efforts of Government to overcome this difficult situation.

The COVID-19 is an unprecedented public health emergency affecting every Industry. The Institute welcome the steps taken by the Government to control & monitor the COVID 19 Pandemic Critical Situation Prevailing in the Country. We whole heartedly assure our full support in this difficult and critical situation.

I take this opportunity to express my gratitude to CMA Balwinder Singh, President of the Institute and CMA Biswarup Basu, Vice President of the Institute for being the mentors to the Committee as always. I am also grateful to all the members of the Professional Development Committee for their continuous guidance and support.

I also appreciate CMA Nisha Dewan, Secretary of the Professional Development & CPD Committee and Professional Development Team for their sincere and dedicated efforts.

With warm regards,

CMA Vijender Sharma

May 7, 2020



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To curtail the spread of COVID-19, Government of India imposed 54-days (21+19+14) lockdown. During these lockdown(s), all businesses were closed except those dealing with vital goods and essential services. However, after May 03, more businesses are allowed to operate subject to complying with the prescribed conditions. These lockdown(s) have disproportionately hurt the poor and marginalized communities due to loss of livelihood and lack of food, shelter, health, and other basic needs. To mitigate the impact, Government of India and Reserve Bank of India (RBI) announced various relief measures.

In India MSMEs are the major employers of direct labour force. They contribute more than 35 per cent of the GDP. In the changing economy, large sized enterprises use robotic automation, artificial intelligence (AI) etc. for major operations. This results in curtailing employment opportunities to only semi-skilled and unskilled workers. For supply of many goods and services including auxiliary services, manpower supply etc., these large enterprises deploy service providers and contractors who are mostly MSMEs. Therefore, comparing their size of operation, the proportion of direct employment generated by MSMEs is much higher than these large enterprises. However, due to lack of liquidity and working capital credit shrink, majority of MSMEs were already in the bricks. The LOCKDOWN due to COVID-19 has further cut their opportunities.

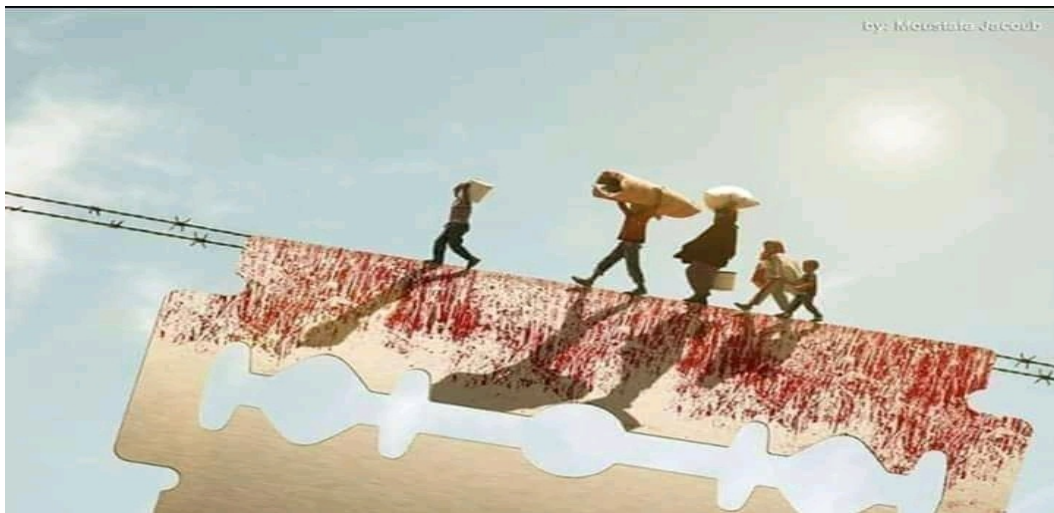
In this lockdown, all businesses have been adversely affected; but above all, the worst hits are the MSMEs and small traders. Their revenues have dropped by 50 to 60%. There is severe effect on the cash flows as all major payments are held-up. Thousands of cash-starved small businesses have either deferred or cut their workers' wages and many workers, mainly on contract, have suffered wage losses. Many have been given pink-slips. Commodity exporters are taking a double blow from the collapse in commodity prices and remittances. Sale orders are either cancelled or postponed (deferred); fresh orders have dried-up, more so in case of exports. Supply (value) chain is disrupted – no supply of raw materials & other inputs; and there is no availability of required labour force. Industries/sectors having high dependency on China for procurement & sourcing of raw materials and parts are severely affected. Further, there is complete uncertainty around the duration and severity of the pandemic.

Unorganized MSMEs are under heavy stress due to total stoppage of activity due to Lockdown. Work from home is not possible in the manufacturing industry & typically in case of MSMEs since they are not equipped with such facilities & not practiced to such distant working methods. Rather majority of MSMEs are run by the Entrepreneur himself with 5/6 workers every day. It is

more critical in case of such MSMEs which are already in trouble for a couple of years due to economic slowdown.

Recessionary pressures across the globe are expected to have direct impact on the level of global exports. Given that MSMEs contribute to over 40% of India's exports, the impact will be severe and may linger for a longer time. MSMEs are expected to experience severe liquidity problems due to delayed payments from their customers. Further, strain in the banking system is expected to increase the credit gap for MSMEs.

Today the business problems faced by MSME businesses are depicted in the following picture:



Post COVID-19 & LOCKDOWN, one can expect that the economic activity would start in full swing only during the third quarter on 2020. Even we cannot foresee any demand increase due to festive seasons in that quarter unless it is supported with cash assistance and also favourable monsoon. The Indian enterprises especially MSMEs would face the following problems, as the economy virtually has to start from scratch.

- Expenditure due to payment of salaries & wages to employees & workers and incurring other fixed costs during the lockdown period without any revenue generation. Further beyond lockdown, incurring full fixed costs with much lesser revenue & cash inflows.
- Most of the Receivables would turn into doubtful as every business is facing the same problem. There would be quantum jump in bad debts owing to business failures, held-up consignments, fall in prices, and fall in demand etc. This will have cascading effect in terms of uncertainty in business opportunities, supplies, and growth.



- Majority of MSMEs lack adequate support of working capital – most are own financed by the entrepreneurs and they have very thin resources. Working capital financing at cheaper cost is not available. The problems faced by MSMEs in availing financial assistance is (i) non-availability of any earmarked credit rating agency to evaluate their credit worthiness at a cheaper cost; (ii) difficulties to complete lot of paper-work; and (iii) their inability to access market for cheaper finance due to lack of products like bonds, debentures, FDs etc.
- The existing Credit Guarantee Scheme (CGS) is very much limited. The limit under the scheme is Rs. one crore which was raised to Rs. two crore in December 2019 only. It is used to finance both capex as well as working capital needs. The nodal agency SIDBI is having a corpus of only Rs. 2500 crore. Though recently RBI injected Rs. 50K crore in the financial system; but out of this SIDBI is going to get only Rs. 15K crore. This is not sufficient corpus. Banks are also not willing to avail the scheme for fear of increasing their NPAs. Therefore indifferent attitude of banks and FIs to finance them. Moreover, CGS exposure limit is fixed at the maximum of Rs. 25 crore per bank or financial institutions. This itself is a stumbling block for working capital credit flow.
- Since credit limits were already exhausted, there is very little room to re-commence business. Further, there is lack of credit insurance or bill discounting/ factoring facilities to get payments out of receivables. Nil or very little money in the hands MSMEs may not be sufficient to pay the taxes in time or even with interest due to uncertainty in receivables. Hence, many MSMEs may even wind up.
- Imports and exports would be affected mainly as the world economic activities will take its own time to pick up post COVID 19. They would not come to normal in the near future. Therefore, the manufacturing and service sectors as well as supply chain are going to be affected.
- MSMEs engaged in industries/sectors such as tourism, air travel, recreation, culture & entertainment, hotels & restaurants, passenger rail & road transport, etc. are going to take a big hit. There may be permanent loss of production capacity in these industries/sectors owing to impositions of conditions prescribing changes in product/ service usage, changes in consumer preferences, changes in economic & social considerations, changes in the circumstances [such as impact of COVID-19] etc.



- There would be loss of business due to non-availability or cancellation of orders; disruption in the inward supply chain for raw materials, process materials, chemicals, purchased utilities, consumable stores & spares & other inputs; non-availability of skilled/un-skilled labour force; plant & machinery waiting for normal repairs & maintenance; non-availability of outsourced job-work operations or services, and disruption in outward supply chain due to lack of transportation & other logistic facilities, etc.
- Orders may also be cancelled due to revised business plans by big enterprises and there is complete uncertainty to get fresh orders. Until such time, fixed costs would continue to be incurred without any revenue generation.
- Due to remodelling of business plans by majority of bigger enterprises, the MSMEs in services sectors would lose business. MSMEs in Auxiliary services like cab services, security, cleaning, canteen, horticulture, manpower placement, etc. would lose business. This would result in substantial increase in unemployment.
- Further, due to cancellation of orders, there would be build-up of inventories (raw materials, work-in-progress, & finished goods). To recover these costs, they have to be carried at a higher cost. In reality, there would be decrease in their value owing to prolonged shut-down of production facilities, general depression across domestic & global markets, cancellation of orders, supplies held-up in transit or no takers for materials stuck at ports, change of customer preferences, perishable materials locked-up in stores, higher storage losses, etc. Further, goods produced as per customer's design specifications [apparels, furnishings, furniture, etc.] are left with no market value.
- For filing various returns with the Ministry of Corporate Affairs (MCA), corporatized MSMEs have to depend on professionals at a high cost. In addition, they are periodically required to comply with too many regulatory compliances under other statutes, despite filing annual compliances. Hence, more time is spent in complying with these regulations instead of time spent on business. There is virtually no ease of doing business for MSMEs.
- During this lockdown period and due to fear of food, shelter & other basic needs, majority of the migrant labour and marginalized workforce return to their permanent homes in towns/villages. There is



loss of jobs for millions of daily-wage earners who walked hundreds of miles back to their villages along deserted highways. Hence, there is great fear of losing such trained labour after lifting of lockdown. This in turn would increase unemployment rate.

- Due to cost cutting measures in large size enterprises, some categories of employees working from home will not be coming to office regularly. This in turn would save the transport and canteen expenditure, to some extent. However, due to this, large part of office space would also be released in the metro cities. This in turn, would reduce the activities in construction sector. As the Real Estate sector is already in doldrums, it had already created a lot of unemployment in the construction sector as well as lot of housing stock remains unsold. Further, due to revising their business modules by big businesses and supply of office space becoming surplus, the office rental values are also going to fall and property prices will also be in downward curve.
- Owing to general economic slowdown and other structural reasons, the automobile sector, which is large employment generation sector, was already facing slowdown. With COVID-19 & lockdown, it has taken further big hit. Due to this, many ancillary units in MSMEs manufacturing spare parts as well as Auto Dealers will also be affected. This group of enterprises are one of the major contributors for employment generation as well as economic activity.
- Enterprises with mass consumption products will postpone their expansion due to demand curtailment, which in turn would affect the capital goods industry, ITES and service industries.
- Majority MSMEs have no insurance coverage for loss of profit due to stoppage of business.

All these would result in reduction in GDP growth to 1.8 per cent (as per IMF study) in 2020-21 as well as growing the unemployment.

To consider the challenges faced by businesses, more so by the MSMEs, Government announced certain fiscal measures and reduced compliance burdens on all businesses under different statutes, and extended due dates for various statutory filings along with reduced or no interest on delayed payments of taxes, statutory payments etc. These measures, in no doubt, would help the common man, trade, and industry to a large extent. However, in order to shield the economy from going into recession and majority units becoming bankrupt, it is necessary to give adequate fiscal & monetary



support, protect job losses, and create demand for non-essential goods and services.

It is therefore suggested that following measures may be taken by the concerned agencies/ Ministries of Government of India to retain the health of MSMEs so as to boost the economic activities in the country.

MINISTRY OF FINANCE/RBI

The stimulus so far announced both by the Finance Ministry as well as by RBI are welcome. Still some of the following are to be added to revive economic activities especially by MSMEs.

- **GOI to resort to higher fiscal deficit to push demand & employment:** To give big push to the demand for consumer goods, public services, & other products, and generate employment opportunities for all category of workforce, there should be liquidity in the hands of the common public and business enterprises. This would require Government to provide continuous cash support to the masses. Owing to revenue limitations & further decline due to slowdown, deficit-financing need to be encouraged to the extent of atleast Rs one lakh crore to improve liquidity over a period of atleast one year.
- **Banks, FIs and SIDBI to provide working capital support:** Working capital access will be more problematic to all types of enterprises post lockdown. The Banks/FIs and SIDBI may be instructed to allocate a blanket (without credit profiling) working capital comfort to the MSMEs for short term and link their receivables from large customers as a guarantor. RBI may also allow banks to increase the WC limit of atleast 20 per cent over the existing limits for MSMEs. The business loans may be split into capex and WC portions and only for the WC portion, this additional limit to be allowed. This will help the wheels of many MSMEs to move without a cash flow & supply chain disruption. This should be done for a minimum period of 24 months by which time the economy would get stabilised and start to grow.
- **Banks, NBFCs and FIs to encourage Microcredit finance companies:** Banks, NBFCs and other financial institutions should encourage the existing and new Microcredit finance companies by providing them with cheaper funds, which in turn can lend to the MSMEs and give them working capital support at the State specified interest rates (concessional ones). Micro finance companies have enough learning and competence in managing the recoveries of the



MSME sector and hence they can be used as an interface. This would become a medium term solution.

- **MUDRA Loans as Temporary Business Assistance:** Banks / Financial Institutions should be directed to offer working capital loans based on relaxed policies and procedures to the MSMEs. Bank Managers at Zonal /Regional level should be given wider powers to implement the easy availability of working capital loans. For this purpose, amend the existing guidelines & reduce the margin money from 25% to 10%. The implementation methodology should be MUDRA LOANS offered by the Government. To ensure effective functioning of the same, banks can form a consortium to offer working capital advances or loans. Preferential rate of interest shall be applied for the loan scheme. In some cases, tax relief or a moratorium on debt repayments are strongly recommended. Government is requested to introduce, extend or simplify the provision of loan guarantees, to enable commercial banks to expand lending to MSMEs. Measures aimed at stepping up direct lending to MSMEs through public institutions are also suggested in the current context.
- **Complete waiver of bank charges & fees:** Considering the lockdown period & 3-months post lockdown as force majeure, all MSMEs should be given complete waiver of bank charges & fee on all types of loans & advances provided by the Public & Private Banks, Cooperative Banks, NBFCs, State Financial Corporations, SIDBI, etc. for a minimum period of 6 months with effect from 1st March 2020 i.e. until the restart of production.
- **RBI declaration for MSMEs:** We welcome the step for recalculation of drawing power by reducing margin for the cash credit & demand loan facilities extended by the Banks. However, we submit that the Reserve Bank of India should issue necessary instructions to all banks to recalculate the Drawing Power (DP) of each client as per the formula suggested by it and that should be strictly implemented. Any irregularity in the drawing power and working capital so found, due to reduction of DP should be converted to Working Capital Demand/ Term Loan (WCDL/WCTL) on a clean basis. To be more candid, we suggest extending 25% ad hoc working capital limits to those who seek for it until the shutdown is lifted. It will extend support to MSMEs to comply with the payment of wages and other fixed expenses during the shutdown period.



- **Funding of unpaid Interest:** Interest accrued on all type of loans, whether paid or unpaid, for the quarter ending 31st March 2020, during the lockdown period & two quarters after the lockdown period should be segregated and converted into Funded Interest Term Loan (FITL) with 0% interest & repayable in atleast 36 monthly installments, with moratorium period of 6 months beginning after the lock-down period.
- **Enhancing TReDS:** Most of the MSMEs are in the unorganized sector, and they do not have access to funds through the banking channel, and especially with the current situations, it will be even more challenging. To provide the liquidity and also ensure that they are in the formal economy, the recipients of MSME products & services, including the Government and the PSU, should be asked to register on the TReDS platform so that the MSMEs can get funds on their invoices immediately. This will also ensure that they do not pull down their shutters and keep the business running. It would also mean fewer or no job losses.
- **Regularization of Unincorporated MSMEs' Developmental Activities:** There are around 6.34 crore unincorporated MSMEs engaged in non-agricultural economic activities (excluding construction sector) employing more than 11 crore workers in the unregulated sectors. At this juncture, measures should be taken to regularize the unincorporated MSMEs and to provide them with facilities such as providing various incentives, easy bank loans and advances, access to procurement policies for the Government departments and PSUs. The Banks & Development institutions should be made to offer loans at preferential rates for the unincorporated MSMEs that are proposed to be regularized under this scheme.
- **One-Time Seed Assistance to MSMEs:** One time Seed Assistance in the form of COVID-19 Subsidy should be given to all MSMEs to meet with their dead cost of salary & wages including statutory payments of EPF, ESI, etc., fuel electricity & water bills, local taxes & duties, rent, property tax, and other fixed expenses, atleast to the extent of 50% if not full, paid/incurred during the lockdown period and balance period of first three months of current FY 2020-21 as the normalcy in business operations may not get restored till then. This subsidy would serve as a booster to keep them in level of operations and also to take



care of the employees and workers. In addition, the minimum guaranteed payment for power & fuel supplies should be waived off.

- **Release all outstanding dues to MSMEs:** All Government departments and PSUs should be directed to immediately release all outstanding receivables by MSMEs and for future procurements, shall release at least 50% payment before the end of the credit days given by the producers. The Government should also direct the Private Sector Corporates to immediately release all outstanding payments of MSMEs. This would enable the availability of liquid funds with the producers for carrying out other operational activities, and meeting with the day-to-day administrative expenditures, etc. There should be policies framed to facilitate and enable the trade advances for industry across sectors and the government could perhaps explore options of a moratorium on interest and principle for the next six months.
- **PSUs' & Government Procurements from MSMEs:** Around 60 to 80% of all procurements of major Ministries of Government of India [such as Ministry of Defence, Home, Finance, Railways, Surface Transport, Khadhi & Village Industries, Aayushman Bharat etc.] should be made from MSMEs under the initiatives of MAKE IN INDIA. Further, in order to facilitate their working capital requirements, advances to the extent of 60% of the total value of orders can be released to MSMEs, subject to strict terms and conditions. Also, if possible, advances can be offered through industrial banks and development banks.
- **EXIM Authority & Insurance Scheme:** To improve on the foreign exchange, Government should ease facilitation and clearance of exports by setting up "MSME Facilitation Centers". Exchange promotion council of India and EXIM Apex Authority should reach to the manufacturers /producers and facilitate with the banks / financial institutions to help MSMEs to export under LOC / other mechanism with safeguard measures. The Insurance facility available under ECGC scheme should be extended to the MSME exporters who are facing the loss of sales order, deferment of orders due to global economic slowdown prevailing all across the world.
- **Government to encourage household savings & overseas remittances to help capital formation:** In any economy, capital formation is very important. Injection of additional capital would always have a multiplier effect based on the saving rates. This capital



formation can be either through pooling of internal savings from public or borrowing within the country or outside or both. In addition to this, investments from Persons of Indian Origin as well as foreign enterprises can be encouraged.

- **Government to permit issue of Tax-free Bonds:** Finance Ministry had already indicated that expenditure to the extent of nearly Rs. 100 lakh crore be incurred during the next five years in creation of new infrastructure in the form of Roads, Airports, Ports, Waterways, Telecom etc. To part finance this as well as financing new capex by the private sector, Tax free bonds may be allowed with maturity of 10 or more years to be issued by agencies like SIDBI NHB, NHAI, REC, POWER FIN, and Financial Institutions to finance both infrastructure and industry. Only Government owned Industrial and Infrastructure promotion companies be allowed to float such bonds with Government guarantee. These funds should be provided only for capex with full security to large entities as well as MSMEs and Infrastructure companies/ SPVs. To provide liquidity, these tax-free bonds may be listed in the exchanges.
- **Trade Credit Insurance, & Factoring Facility for Working Capital Requirements:** MSMEs working capital needs can be addressed through Trade Credit Insurance & Factoring Policy. Insurance for working capital financing often comes into the picture when current lines of credit are insufficient for the working capital needs for export transaction. The purpose of working capital financing insurance cover is therefore to create financial headroom, thereby enabling to conclude more business and credit transactions. Not only Insurance & factoring supports the business finance & working capital requirements, it also builds up more confidence in the financial position. Factoring facility to manage the debts / receivables with certain conditions can be extended under the Government Insurance Scheme for a specified period to improve on the transactions on credit terms between Business to Business. In the Long run, this would revive the business transactions and help to reinstate the business transactions to normalcy. Grants and subsidies can be offered to MSMEs and other companies to bridge the drop in revenues.
- **Factoring Companies:** Factoring companies offer services of funding, credit protection, sales ledger administration, and collections. Timely provision of working capital funds at cheaper cost would reduce the



cost of goods and services, which in-turn will be one of the boosting factors of demand push. To overcome this, more number of Factoring Companies be allowed to underwrite the supply bills. To avoid mounting of NPAs, these factor companies should have an exposure of only six to nine times of their net worth. Each factoring company should have a limit of underwriting of maximum 100 enterprises only, including the MSMEs. They should be barred to underwrite the bills of their promoters or their major shareholders. FDI in this sector may be allowed with appropriate restrictions.

- **Credit Rating Agencies:** To assess the creditworthiness of the borrowers for capex as well as for working capital, more number of rating companies/agencies may be encouraged to be formed within the RBI framework. FDI can also be allowed to attract foreign capital as well as global expertise. Even smaller companies be allowed to be formed. They should be of three categories like functions of merchant bankers – one exclusively for evaluating MSMEs upto a net worth of Rs. 10 crore for both capex as well as working capital needs; second for rating of larger companies; and yet another only to evaluate the companies (SPVs) formed solely for creation and operation of Infrastructure projects.

TAXATION & TRADE

- **GST Rebate to End-consumers:** Under GST, end consumers with mass consumption of products may be allowed refund of upto five percent GST demand push consumer products, which would help increase the overall production in the country. The consumer should quote his PAN in the GST portal and upload copy of the invoice for purchase of specified consumer goods and he would get refund of 5 per cent within a specified time. But this should not be treated as income in the hands of the consumer. In this method, all consumers would be getting tax invoices to avail rebate so that tax evasion at the final point of sale could be curtailed. In this way, on the one side all the end user sales would be accounted and on the other side, the end user customer would be getting rebate. This would be a win-win situation for both tax collector as well as tax payer. The goods of mass consumption may be listed and the GST council can give approval quickly to this.
- **ITC and Refund Claims:** In the monthly/quarterly GST returns, details of ITC claims to be filed by the respective assessee instead of waiting the counter party to file his return and claim ITC. This would enable



the department to counter check the claims also. There would be no need for reconciliation at the assessee part. Refund claims of SGST as well as Export Benefits should be settled immediately. The schemes of NEIPP/NEIDS refunds and claims, for North East region should also be settled on priority.

- **GST Tax Payments in Installments:** MSMEs are the worst hit due to the lockdown, and they are already running short of working capital. For MSMEs the provisions of Section 80 of CGST Act should be extended by default or through an application, and the taxes can be paid in installments either without payment of interest or payment at concessional rates. This will give them necessary breather and also bring in more liquidity with minimal job losses. This, in turn, will create the demand and save the economy from going into recession. As of now, Section 80 of CGST Act prescribes the procedure for the taxpayer to make an application to the Commissioner. To implement the same, the provision may be modified & rolled out on easy terms. The concerned officers should be instructed to accept the applications and approve based on the previous track record of the taxpayers.
- **Input Tax Credit & Credit Notes:** As per the provisions of the law, the input tax credit has to be availed before the filing of the annual return or the due date of the September month return, whichever is earlier. Similar provision exists with respect to issue of credit notes. In the normal course, the provision is fair enough for the taxpayers to comply with the law. Still, due to the 40-days lockdown and disrupted working of the industry at a very low level of utilization, it is recommended to extend the deadline for availing the input tax credit to 31st March 2021. The extension will act as a tool to manage the working capital more effectively as it will reduce the cash outflow, which is the most scares resource at this point to the business. Further, with the current uncertainty in the business, the recipients may ask for additional discounts or cancel the orders or invoke the Force Majeure clause. In all such cases, mostly the credit notes will be issued, and in some cases, it may happen post-September as well. Keeping in view of all these, it is recommended to extend the date up to 31st March 2021.
- **Late deliveries under GST:** The delivery schedules of orders in process should be extended until the situation is normalized & Late Delivery penalties should be kept aside for the same period. All such pending orders should be kept alive & continued without cancellation.



- **TDS and Advance Tax Payment:** The due date for the deposit of TDS and for payment of advance tax or other Government Taxes should be extended, without any interest and/or penalty, until the situation is normalized for all MSMEs. The time limit for the submission of all the Government returns should also be extended.
- **Tax Holidays, Rebates, and Waivers:** As the businesses are impacted on account of lockdown, it is necessary to bring them back to operations and put the economy on the trajectory path. For this, tax holiday is a recommended approach to ensure that the taxpayers have some cash to run their business. This option should be given to the large taxpayers who in-turn support a lot of MSMEs. It can be given to specific sectors for all taxpayers who are having Udyog Aadhar Registration and having a turnover of less than Rs 5 crores. This will ensure that the scheme would benefit the MSMEs. Safeguard measures can be prescribed, so that the Government is shielded from revenue losses.
- **Income Tax Deduction for Employee Benefits:** It is recommended to allow deduction at 150% of the salaries and wages paid during the lockdown period while computing the final tax payable. This will be reciprocating in nature; the MSMEs are paying the salaries during the lockdown based on the Government directions to ensure that there is no loss of employment and also people have money to spend for the essentials during the lockdown. Alternatively, government may give cash support to all MSMEs upto the extent of atleast 50% of the total cost of salary & wages paid/payable during the lockdown period and for another two months thereafter till the normalcy in business operations is restored i.e. till June, 2020.
- **Carry Forward of Losses under Income Tax Act:** FY 2019-20 ended with lot of disruptions in the last quarter leading to under performance in revenues and under realization of profits. Therefore, it may not be possible to avail the set-off facility of the past carry forward losses during this year. Even the current FY 2020-21 is also not expected to be a normal business year. Accordingly, the existing provision to set-off carry forward of losses that are lapsing by 31st March 2020 should be extended by minimum two additional years as it will encourage all business entities, especially the MSMEs, to remain in the system and avail the benefits.



POWER & ELECTRICITY

- **Waiver of Fixed Charges:** Central Electricity Regulatory Commission should direct and also ensure the implementation of a nation-wide policy of complete waiver of fixed charges during the entire period of the lock-down avoiding unnecessary burden on already closed and stressed MSMEs units.
- **Moratorium on Electricity Bill Payment:** In light of above facts and to safeguard the interest of the local industries, provide 3 (three) months moratorium on electricity bill payment, reduction on the Demand charges amount by half & not to charge any penalty on late payment in this moment of crisis.

LABOUR & EMPLOYMENT

- **ESI Benefit of Medical Leave:** As per the ESIC provisions, any Insured Person under ESIC is liable to receive salary for the medical leave of absence, on the basis of Medical certificate issued by authorized medical practitioner registered with ESIC. We suggest the absence of the employees due to the “COVID19” lockdown period to be considered as “medical absence” & the medical leave salaries to be paid to all the employees who are Insured Persons under ESIC until the production is started.
- **DIRECT BENEFIT TRANSFER TO THE UNORGANISED MSMEs** - It is estimated that over 90% of industry employment is through Micro & Small Industries who ARE NOT COVERED UNDER ESI & PF as they employ less than 10 employees. The estimated employment by this segment is spread over all parts of the country. They are at all stake due to the “COVID19” lock down. It is beyond the capacity of this category of MSMEs to pay the salaries to the employees. It is very much important that this segment is supported with DIRECT BENEFIT TRANSFER FROM THE GOVERNMENT TO MAKE THE SALARIES OF EMPLOYEES & WORKERS UNTIL THE PRODUCTION IS RESTARTED. If not for full salary at least 50% of the salary paid by them during the “COVID19” lockdown period shall be considered for such DBT (Direct Benefit Transfer) for the period starting from April 2020 & so on.
- **Declaration of PF Contribution:** It was announced that Government will bear the cost of EPF contribution of both employer and employee (24 per cent) for the next three months. However, this is only for those



establishments which have up to 100 employees and 90 per cent of them earn less than Rs. 15,000. This is like to benefit around 4.8 crore employees. These limits on the total number of employees (not beyond 100) and their earnings not exceeding Rs.15000 per month will be a major hurdle in reaching the benefit to the targeted MSMEs. Hence, these limits may be removed or relaxed.

POST LOCKDOWN ROLLBACK & LONG TERM POLICY SUGGETIONS

- **Health & Fitness Certification:** Mechanism for health/fitness confirmation/certification from ESIC/similar health centers of covid-19 of the employees & human manpower which will return to the work at the workplaces in groups in a very short time. They will try to maintain the social distance at the workplaces.
- **Transportation of Labourers:** As per MHA order the roll back of the “lockdown” from small towns & villages which are less affected by the “COVID19” pandemic has started. This will enable micro economy to start & give support to the grass root population. We request you to allow transportation of Labourers to enable production.
- **State Procurements from MSMEs:** All State Governments should amend their procurement policy by SPSEs and increase the 50% norm of procurement from local manufacturers to 75% & promote development. Similarly, procurement reservation for MSMEs should be increased from 25% to 50% for all the procurement. For such procurement preference to local MSI in the vicinity of the Public Sector Undertakings to be extended which will give promotion to MSI segment and give an opportunity to new self -employment in de-centralized manner.
- **Regional Development & Self-Employment:** “Smart Industrial Village” policy is important to achieve an inclusive and equitable growth model with percolation of wealth. Hence, need to promote de-centralized economic structure to avoid concentration of the population resulting into the exodus of migrant workers as was seen recently. Further, Policy of promoting Self-employment to be implemented rather than economy depending upon job-oriented development.
- **Restoration of Workers & Employees to Working Conditions:** After announcement of nationwide complete lockdown, majority of the



workforce consisting of daily wagers, migrant workers & casual labour working in the unorganized sector as well as in the MSMEs have left to their native places in search of food and shelter. They shall return only after complete withdrawal of lockdown/curfew and restoration/operation of transportation facilities. With the help of district administration, the workers may be transported back to the industrial parks/cities and provided with basic amenities and other lodging requirements till the situation returns to normalcy. This would help the workers to go back to their jobs / industries and contribute to the production.

- **Restoration of Transportation and Logistics Facilities:** For smooth operation of both inward and outward supplies to all business entities, especially the MSMEs, it is necessary to restore transportation and all logistic facilities. For this purpose, trucks carrying essential goods should be allowed smooth movement by easing bottlenecks; paste sticker “Essential Goods” on such lorries; prioritize their clearance at all check posts; make arrangement of the free movement, food & water for Drivers & helpers; and allow availability & movement of the loading staff. Validity of already generated e-way bills should be further extended to cover the reasonable time beyond the lockdown period.
- **Generic Revival Benefits:** In addition to above, there are few other areas that require government support to all MSMEs. This includes trade facilitation by relaxing all conditions for import/export & custom clearances; operation at ports; scanned documents for banks & other authorities; allow storage & movement without any hindrance, etc. Further, reopening plan of all business/ service units should be drawn by the state governments / local bodies in a phased manner and also keeping in mind the social distancing, hours of business operations etc. Business units delivering goods / services at the door step of consumers should be given special incentives and encouraging electronic payments. Government should encourage use of e-platforms for education, commerce & trade, financial transactions, buying services, tickets, etc. Wherever possible, employees may be encouraged to work from Home and attend office on rotational basis during few days in a week.

INFRASTRUCTURE MINISTRIES

- **Infrastructure Projects:** All Ministries/Departments of Government of India [and State Governments] should speed up the process at every



stage like conception, preparation of DPRs and their approval, environment clearance, selection of executing agency, land acquisitions, funding etc., so that spending in infrastructure sectors may be substantially enhanced that would give boost to construction activities as well. All the viable and needy pending projects wherever DPRs are already prepared should be approved on priority and work should start. A task force may be constituted to speed up the procedure of approval, land acquisition, State support, environment clearance etc.

- It should be ensured that after approval of DPR of the infrastructure projects, the work to be awarded within six months in order to speed up them. Once the DPR is approved, the sources of raw material like cement, steel, bitumen, quarries for black stone, sand etc. to be approved and required quantity to be tied up, environment clearance etc., before award of work or the contractor who had tied up to allowed to function. This would give unhindered supply.
- For ongoing projects, undisputed bills to be paid within the agreed period to give liquidity to the contractors. Responsibility of quality in execution according to specifications as well as correctness of the bills to be fixed on the Project Engineering Consultants.
- All viable projects should be encouraged to be executed under the BOT/BOOT model. The concession agreement should be revisited every five years and should be revised on mutually agreed terms as the business cycles change. In this way the risk and reward could be shared by Government as well as the concessioners.

MINISTRY OF INDUSTRY AND COMMERCE

- Under the 'Make in India' policy, encourage setting-up of more & more manufacturing and service industries alongwith technology transfers. Foreign partners should set up industries in collaboration with Indian partners. The capital limit may be restricted to 74 per cent only. Though latest technology is preferred, but companies providing more employment to local population should be encouraged. Such industries may be allowed incentives such as land allotment at below the market rate, preference in supply of electricity, water and other infrastructure,
- Allow higher rate of Depreciation as a tax concession for new investments in manufacturing sectors. Similar concession be allowed for new units to be established in EPZ/SEZs where goods and services



are exported. Existing Industrial Estates to be relooked and land could be taken over from the closed units and allotted to new ones in a free manner. Capital-intensive heavy industries may be allowed with clear environment technology with foreign direct investments upto 74 per cent.

- Accord quick approval to all proposals for the setting-up of private warehouses with cold-storage facilities for storage of vegetables and food grains to help the agriculturalists.

MINISTRY OF HEALTH

- National Health Mission is progressing on an expected level. PM Ayushman Bharat Yojana is covering nearly 10 crore households which translates into health insurance coverage of nearly 50 crore of the population. This scheme mainly covers the BPL families. The total population so far covered under any health insurance schemes including the Government schemes is around 41 crore only (as of March 31, 2019). Therefore, Government can extend the scheme to all households by linking the AADHAR and can get insurance subscription of say Rs. 5000/- per APL family for coverage of Rs.5.00 lakh per family per year. In this way, the scheme can cover additionally some 20 to 30 crore households and can pool additional funds of more than Rs. One lakh crore into the health administration. The State-owned insurance companies can be roped in to administer the insurance system.
- Today in the Health Insurance Sector, the premium rates are regulated by IRDA but the treatment costs are not regulated. There is no or little regulation for health service providers except registration etc. On priority basis, it is requested that Government may appoint a committee of experts from the medical field to regulate the costs of treatment of different treatment procedures. The Institute of Cost Accountants of India can be co-opted to prepare cost sheets for different treatment procedures.

MINISTRY OF CORPORATE AFFAIRS

After the announcement of nationwide lockdown from March 25, 2020, Ministry of Corporate Affairs (MCA) made number of changes in the relevant rules/regulations and extended relaxations in almost all major compliance requirements relating to approval of financial statements & Directors' report, holding Annual General Meeting (AGM), appointment of directors, filing of



reports & returns, etc. However, with a view to ease the working of companies, Institute gives following suggestion:

- In case of private companies including those that are not subsidiary to public/listed companies, there should only one Annual return instead of multiple/periodical reports/returns to be filed with MCA.
- All returns should be simplified and there should be no need for certification by another professional as the directors are already responsible for the activities of the company.
- In case of closure/windup, quick process of exit route has to be made at respective ROC level and one of the promoters or appointed person by AGM would act as liquidator to complete all formalities within a span of one year of filing up of closure.
