

# INTERNATIONAL JOURNAL OF RESEARCH IN COMPUTER APPLICATION & MANAGEMENT

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**AN ANALYSIS OF THE ROLE OF SMALL SCALES INDUSTRIES' SECTOR IN INDIA**

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**ABSTRACT**

*This paper explains the various tax policies and their impact on Small Scales Industries' Entrepreneurs in India. The effect of taxation on SSI's entrepreneurs is one of the central questions in both public finance and development. This effect matters not only for the evaluation and design of tax policy, but also for thinking about economic growth. In this paper, we present new intra-country evidence on the Taxation Policies for Small Scales Industries' Entrepreneurs in India are correlated with investment in manufacturing but not services, as well as with the size of the informal economy. The results are robust to the inclusion of many controls.*

**KEYWORDS**

Entrepreneurs, SSI, Fiscal Incentives, Excise, CENVAT.

**INTRODUCTION**

In this chapter, we will focus on entrepreneurship development within the Small Scale Industry in India. The Small Scale Industry has often been termed the 'engine of growth' for developing economies. We begin with an overview of this sector in India and look at some recent trends which highlight the development and significance of this sector vis-à-vis the Indian economy. Over the last few years, there have been major policy changes at the federal and state level aimed at consolidating and developing this sector. The Small scale industry Development Act of 2006 is perhaps the most crucial of these recent policy changes. In the fourth section of this paper, we will critically analyze this legislation and look at its main achievements as well as the remaining challenges. We also discuss a few policy recommendations which have been commonly suggested to settle some of the ongoing debates in this sector which the Small scale industry Development Act of 2006 has been unable to resolve. In the second part of this paper, we do an impact assessment of specific government policy interventions on the growth of entrepreneurship in the Small scale industry sector in India. The policies of interest are state outlays and subsidies targeted towards this sector. More specifically, we analyze the impact of total financial subsidies to the sector, total state investment in industrial parks and clusters aimed at this sector and the total state expenditure to support technology within the Small scale industry sector. We do a state level analysis based on data from 1991 until 2002 and study some key outcomes of interest such as total number of units, total output, total employment and total exports from the Small scale industry sector. Our main findings are that while specific policies that are aimed at the Small scale industry sector have basically no significant impact on the growth of this sector, more general development policies such as expenditure on infrastructure and access to finance have significantly positive impact on growth of the Small scale industry sector across states in India over the last 15 years.

Entrepreneurs shape economic destiny of nations by creating wealth and employment, offering products and services, and generating taxes for governments. That is why entrepreneurship has closely been linked to economic growth in the literature on the subject. Entrepreneurs convert ideas into economic opportunities through innovations which are considered to be major source of competitiveness in an increasingly globalizing world economy. Therefore, most governments in the world strive to augment supply of competent and globally competitive entrepreneurs in their respective countries. While developed nations have a reasonably good pace of entrepreneurial supply, most developing countries suffer from dearth of such entrepreneurs. This is one of the reasons for the poverty in developing countries, despite their rich resource endowments.

**OVERVIEW OF SSI' ENTREPRENEURS**

A Small Scale Industry (SSI) is an industrial undertaking in which the investment in fixed assets in plant & machinery, whether held on ownership term or on lease or hire purchase, does not exceed Rs. 1 Crore. However, this investment limit is varied by the Government from time to time. Entrepreneurs in small scale sector are normally not required to obtain a licence either from the Central Government or the State Government for setting up units in any part of the country. Registration of a small scale unit is also not compulsory. But, its registration with the State Directorate or Commissioner of Industries or DIC's makes the unit eligible for availing different types of Government assistance like financial assistance from the Department of Industries, medium and long term loans from State Financial Corporations and other commercial banks, machinery on hire-purchase basis from the National Small Industries Corporation, etc. Registration is also an essential requirement for getting benefits of special schemes for promotion of SSI viz. Credit guarantee Scheme, Capital subsidy, Reduced custom duty on selected items, ISO-9000 Certification reimbursement & several other benefits provided by the State Government.

**SUPPORTING BODIES FOR SSI**

The Ministry of Micro, Small and Medium Enterprises or SSI acts as the nodal agency for growth and development of SSIs in the country. The ministry formulates and implements policies and programmes in order to promote small scale industries and enhance their competitiveness. It is assisted by various public sector enterprises like:

1. Small Industry Development Organisation (SIDO) is the apex body for assisting the Government in formulating and overseeing the implementation of its policies and programmes/projects/schemes.
2. National Small Industries Corporation Ltd (NSIC) was established by the Government with a view to promoting, aiding and fostering the growth of SSI in the country, with focus on commercial aspects of their operation.
3. The Ministry has established three National Entrepreneurship Development Institutes which are engaged in development of training modules, undertaking research and training and providing consultancy services for entrepreneurship development in the SSI sector. These are:-
4. National Institute of Small Industry Extension Training (NISIET) at Hyderabad,
5. National Institute of Entrepreneurship and Small Business Development (NIESBUD) at NOIDA
6. Indian Institute of Entrepreneurship (IIE) at Guwahati

7. The National Commission for Enterprises in the Unorganised Sector (NCEUS) has been constituted with the mandate to examine the problems of enterprises in the unorganised sector and suggest measures to overcome them.

8. Small Industries Development Bank of India (SIDBI) acts as apex institution for financing SSIs through various credit schemes.

In a developing country like India, Small Scale Industries play a significant role in economic development of the country. They are a vital segment of Indian economy in terms of their contribution towards country's industrial production, exports, employment and creation of an entrepreneurial base. These industries by and large represent a stage in economic transition from traditional to modern technology. Small industry plays a very important role in widening the base of entrepreneurship. The development of small industries offers an easy and effective means of achieving broad based ownership of industry, the diffusion of enterprise and initiative in the industrial field.

Given their importance, the Government policy framework right from the First plan has highlighted the need for the development of SSI sector keeping in view its strategic importance in the overall economic development of India. Accordingly, the policy support from the Government towards Small Scale Industries has tended to be conducive and favourable to the development of small entrepreneurial class. Government accords the highest preference to development of SSI by framing and implementing suitable policies and promotional schemes.

The most important promotional policy of the Government for the SSI's is fiscal incentives in the form of tax concessions and exemptions of direct or indirect taxes leviable on production or profits.

### FISCAL INCENTIVES FOR SSIs

Fiscal incentives are provided through tax concessions granted in the form of exemptions of direct or indirect taxes leviable on production or profits, besides special tax concessions. These incentives have been provided to promote the SSIs. With effect from financial year 2005-06, SSIs can claim deductions in respect of profits and gains (under section 80IB of Income tax Act) at the following rates:-

1. If SSI unit is owned by a company, the deduction available is 30% for first 10 years.
2. If SSI unit is owned by a co-operative society, the deduction available is 25% for first 10 years.
3. If any other person owns SSI unit, the deduction to be claimed is 25% for first 10 years. SSI unit can avail this tax exemption after fulfilling following conditions:
  - (i) They should not be subsidiary of, or owned or controlled by other industrial undertakings. They should not be formed as a result of splitting up or reconstruction of any industrial undertaking/business. SSI units can manufacture any nature or type of goods, which they are permitted to do so. They should have commenced business between 1st April 1991 and 31st March 2002. They should employ at least 10 workers in a manufacturing process carried out with aid of power or at least 20 workers without aid of power.
  - (ii) This tax exemption from total income is allowed from the assessment year in which the unit begins to manufacture goods.
  - (iii) No small scale or ancillary undertaking shall be subsidiary of, or owned or controlled by other industrial undertaking.
  - (iv) SSI unit can manufacture any nature/type of goods/article to avail deduction.
  - (v) The SSI unit should commence business between 1st April 1991 and 31st March 2002.
  - (vi) They should employ at least 10 workers in a manufacturing process carried out with the aid of power or at least 20 workers in a manufacturing process carried out without the aid of power.
  - (vii) This tax exemption from total income is allowed from the assessment year in which the unit begins to manufacture or produce goods or articles.

### EXCISE CONCESSIONS

Small Scale Industries are subjected to excise duties under the Central Excise Tariff Act, 1985 (5 of 1986). The eligibility for excise concessions for SSIs has been based on annual turnover rather than SSI registration. SSI units having turnover less than Rs. 4 crores are only eligible for concessions. Government of India has provided various concessions to SSIs by granting full exemption from payment of central excise duty on a specified output and thereafter slab-wise concessions. Thus concessions in this regard are:-

1. SSI units producing goods upto Rs. 100 lakhs are exempted from payment of excise duties.
2. SSI units having turnover less than Rs. 60 lakhs per annum need not have a separate storeroom for storing finished products.
3. They are not required to maintain any statutory records such as daily stock accounts, etc. Their own records are adequate.
4. SSI exemption is available for goods for home consumption as well as goods exported to Nepal and Bhutan.

Government of India has provided a major relief by granting full exemption from the payment of central excise duty on a specified output and thereafter slab-wise concessions. The following concessions are available to them in this regard:

- (I) SSIs are also not required to maintain any statutory records such as daily stock account of production and clearances, raw material account, personal ledger account etc. Their own records are adequate for excise purposes.
- (II) There is no distinction between registered and unregistered units for SSI concessions. Further, the eligibility for excise concessions for SSIs has been based on annual turnover rather than SSI registration. Duty liability is to be discharged by 15th of the following month.
- (III) Normally, excise officers are not expected to visit SSI units paying less than Rs. 11 lakhs duty annually.
- (IV) With effect from 1-4-1994, Gate-Pass System was replaced by manufacturer invoice to cover clearances of goods as the duty-paying document.

### VARIOUS CONCESSIONS/EXEMPTIONS REGARDING CENVAT

1. SSI Scheme (without CENVAT) :- Units can avail full exemption upto turnover or value of clearance of Rs. 100 lakhs and pay normal duty thereafter in the slab-rate of Rs. 100-300 lakhs. This option can be exercised automatically. Such SSI units can avail Cenvat credit on inputs only after reaching turnover of Rs. 100 lakhs. This scheme is applicable to all those units mentioned under SSI exemption notification no.8/2003-CE. This notification grants exemption in respect of basic excise duty and special excise duty. The manufacturer may opt for not availing exemption contained in this notification and instead pay normal rate of duty on the clearances. But once the option is exercised, it shall continue till the financial year ends.
2. SSI Scheme (with CENVAT) :- Units can avail Cenvat credit on inputs on all its turnover. Upto the value of clearance of Rs. 100 lakhs, units have to pay 60% of normal duty and thereafter for value of clearance of Rs. 100-300 lakhs, they have to pay normal rate of duty. 'Assessable value' is used to calculate limit of 100 and 300 lakhs which is equal to wholesale price at factory gate, exclusive of taxes. A manufacturer can opt this option any time determining his eligibility for concession and the concessional rate of duty. While exercising this option, the manufacturer should inform in writing to the Assistant Commissioner of Central Excise with a copy to its Superintendent giving following details: (a) name and address of manufacturer; (b) Location/locations of factory/factories; (c) description of inputs used in manufacture of specified goods and its description thereafter; (d) date from which option under SSI exemption notification has been exercised; (e) Aggregate values of clearances of specified goods (excluding the value of clearances not covered under SSI exemption notification) till the date of exercising the option.

### CONCLUSION

Small Scale Industry sector has emerged as India's engine of growth in the New Millennium. The SSI sector accounts for nearly 40 per cent of value added in the manufacturing sector and 34 per cent of total exports from the country. Through 95 per cent of industrial units in the country, the sector provides employment to about 20 million persons. The Government has recognized its importance for the economy and its intention towards promotion of SSIs is reflected in various Industrial policy Resolutions right from the year 1948. The primary objective of the Small Scale Industrial Policy during the nineties was to impart more vitality and growth-impetus to the sector to enable it to contribute its mite fully to the economy, particularly in terms of growth of output, employment and exports.



The sector has been substantially delicensed. Further efforts would be made to deregulate and debureaucratise the sector with a view to remove all fetters on its growth potential, reposing greater faith in small and young entrepreneurs. All statutes, regulations and procedures were reviewed and modified, wherever necessary, to ensure that their operations did not militate against the interests of the small and village enterprises.

Government is aware of the challenges faced by SSIs and has been trying to improve their competitiveness through various measures. These consist of the following:

- a) Tax concessions have been provided to SSIs to promote investment in this sector and also to grant relief to small entrepreneurs.
- b) Technological facilities have been increased.
- c) In order to facilitate adequate flow of credit efforts have been done.
- d) Measures have also been taken to improve infrastructure facilities and promote marketing of products.

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