

Delay in making payment to micro, small enterprises means deferred I-T deduction for corporates

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Companies not making payment to micro and small enterprises during the current fiscal will have to wait for a year for deductions under the Income Tax Act. The amendment in the law will come into effect from Assessment Year 2024-25 starting April 1, 2024.

Section 15 of the Micro, Small and Medium Enterprises Development Act 2006 mandates payments to micro and small enterprises within 45 days in case of written agreement and 15 days in case of no-written agreements. There have been numerous instances, when payment was delayed.

In order to resolve this, while announcing Budget for

Fiscal Year 2023-24, Finance Minister Nirmala Sitharaman said: "To support MSMEs in timely receipt of payments, I propose to allow deduction for expenditure incurred on payments made to them only when payment is actually made."

APPLICABLE FOR MSMEs

An explanatory memorandum made it clear that this will be applicable for small and medium enterprises only. Micro enterprises mean a unit where the investment in plant and machinery or equipment does not exceed ₹1 crore and turnover does not exceed ₹5 crore rupees. For small enterprises, these figures will be ₹10 crore and ₹50 crore, respectively.

Section 43B of the Income Tax Act provides for certain



NEW RULES. The amendment in the law will come into effect from April 1

deductions to be allowed only on actual payment. Further, the proviso allows deduction on accrual basis, if the amount is paid by due date of furnishing of the return of income. In order to promote timely payments to micro and small enterprises, Finance Act 2023 provided to include payments made to such enterprises within the ambit of sec-

tion 43B of the Act. Accordingly, a new clause (h) in section 43B of the Act was inserted to provide that any sum payable by the assessee to a micro or small enterprise beyond the time limit specified in section 15 of the Micro, Small and Medium Enterprises Development (MSMED) Act 2006 shall be allowed as deduction only on actual payment. However, it is also proposed that the proviso to section 43B of the Act will not apply to such payments.

Maneesh Bawa, Partner with Nangia Andersen India, said the biggest and persistent challenge faced by MSMEs is the collection of payments. It is estimated that value of delayed payments from buyers to MSMEs is ₹10.7-lakh crore annually.