



New Provision related to payment of MSME supplier

February 2024

Provisions of MSME Act

The Micro, Small and Medium Enterprises Development Act, 2006 (MSME), has laid down rules to ensure timely payments to suppliers. As per the Act, the payment period agreed upon in writing between the buyer and the supplier should not exceed 45 days from the day of acceptance.

Consequences for not making the payment in the prescribed time

If the buyer fails to make the payment, the act imposes compound interest at three times the bank rate from the due date of payment of invoice.

There is no deduction of penal interest paid to MSME under the Income Tax Act and the amount of interest paid to MSME will be disallowed under the Income Tax calculations.

Disclosure

All the companies also need to disclose the transactions where the payment is delayed by more than 45 days in form MSME -1 under the Companies act.

New Provision inserted in Budget 2023 under Income Tax Act related to payment of MSME supplier

Now a new provision is inserted under section 43B of the Income Tax Act which says that if the payment is not made to micro or small enterprises within 45 days than the expense will be disallowed under the Income Tax Act. The expense will be allowed under the Income Tax calculations only when the same is paid to the MSME supplier.

Call to Action:

You must make sure to pay all the invoices up to 15th February to all Micro and Small Suppliers before 31st March so that invoices beyond 45 days do not show in your 31st March Balance Sheet.

In case of any questions, you can contact us at a.chaurasia@octagona.com.



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