

MSME ministry receives 'positive' feedback on 45-day payment rule

Any change in Finance Bill prerogative of finance ministry, says official

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The Ministry of Micro, Small and Medium Enterprises (MSME) has received "positive" feedback from industry regarding the 45-day payments cycle for MSMEs, according to a senior official familiar with the matter. The comment assumes significance amid concerns raised by some MSMEs that big companies may stop buying from small and medium suppliers and instead choose to make purchases from unregistered enterprises. This was because

a failure to adhere to the timeline would attract penalties, and buyers would be unable to deduct the payments made to MSMEs from their taxable income.

But, the official maintained that any change in the finance Bill was the prerogative of the finance ministry.



This comes amid concern raised by some MSMEs that big firms may stop buying from small, medium suppliers and instead choose to make purchases from unregistered enterprises

"So far, we have received positive feedback from the industry on the implementation of the 45-day payments rule. They are very happy. Whether to make any changes in the Budget is entirely the discretion of the finance ministry," said the official.

An email sent to the MSME

Ministry did not elicit any response till the time of going to the press.

In FY23 Budget, the government introduced Clause (h) under Section 43B of the Income Tax Act to tackle the issue of delayed payments faced by MSMEs, negatively affecting their working capital and business growth. Effective from April 1, 2024, for the assessment year 2024-25 (i.e.,

financial year 2023-24), clause (h) stipulates that expenses for buyers on invoices from micro and small enterprises can only be claimed if paid within 45 days where an agreement exists, and within 15 days if there is no agreement.

The India SME Forum (ISF), a non-governmental, not-for-profit organisation for small and medium businesses, conducted a survey among 102 council members within a 15-day timeframe. According to the survey, 93 members support the rule, five suggest modifications, and four are in favour of dropping the income tax amendment.

"For two decades, we have been trying to get buyers to adhere to the 45-day limit, and delayed payments have become a curse for MSMEs. This provision in the IT Act is a very timely step by the government and will be highly beneficial for the entire micro and small entrepreneurial ecosystem in India," said Vinod Kumar, president, ISF.

Sumit Singhanian, partner, Deloitte India, said the Finance Act of 2023 introduced a change to the tax deductibility rule with the intention of encouraging timely cash flows for MSMEs. "However, the implementation of this legislative change has thrown up several issues to be resolved, as payers are subject to various commercial aspects in addition to ensuring MSME eligibility, such as performance-based retentions and provisional year-end accruals/expense bookings," he added.

Yuvraj Kashiva of YMK Solutions, who participated in the survey, said this rule fosters financial discipline among buyers and safeguards SMOEs from payment delays.

"Strengthening it further will ensure adherence over time and prevent disastrous consequences if rolled back," he added.

Riddhi Majithiya of Jalaram Exports said the 45-day payment rule is a lifeline for new entrepreneurs without established client relationships.

