



Paradigm Shift for Promoting timely payments to Micro and Small Enterprises Section 43B

Description

Paradigm Shift for Promoting timely payments to Micro and Small Enterprises Section 43B

The Finance Bill 2023 has proposed an amendment in section 43B to promote timely payments to Micro and Small Enterprises. Section 43B of the Act provides for certain deductions to be allowed only on actual payment. **This amendment will be applicable for FY 2023-24 and onwards.**

What is the proposed amendment in section 43B?

It is proposed to insert a new clause (h) in section 43B of the Act. The exact text is as under: –

after clause (g), the following clause shall be inserted, namely: –

*“(h) 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 Act, 2006,”*

Provided that nothing contained in this section 1[except the provisions of clause (h)] shall apply in relation to any sum which is actually paid by the assessee on or before the due date applicable in his case for furnishing the return of income under sub-section (1) of section 139 in respect of the previous year in which the liability to pay such sum was incurred as aforesaid and the evidence of such payment is furnished by the assessee along with the such return.

Proposed through Finance Bill 2023

What is Impact?

Section 15 of the **MSMED Act** mandates payments to micro and small enterprises within the time as per the written agreement, which cannot be more than 45 days. If there is no such written agreement, the section mandates that the payment shall be made within 15 days. Thus, the proposed amendment

to section 43B of the Act will allow the payment as a deduction only on a payment basis. It can be allowed on an accrual basis only if the payment is within the time mandated under section 15 of the MSMED Act. **It is important to note that parties only covered in 43B are Micro and Small and not Medium.**

Practical Example

Sr. No.	Bill Date	Payment Due Date as per Agreement	Due date of Payment As per MSMED Act	Actual Payment
1.	01/02/2024	17/03/2024	17/03/2024	30/03/2024
2.	01/02/2024	17/03/2024	17/03/2024	02/04/2024
3.	01/02/2024	02/04/2024	*17/03/2024	30/03/2024
4.	01/02/2024	02/04/2024	*17/03/2024	02/04/2024
5.	01/03/2024	No Agreement	15/03/2024	30/03/2024
6.	01/03/2024	No Agreement	15/03/2024	02/04/2024
7.	17/02/2024	02/04/2024	02/04/2024	01/04/2024
8.	17/02/2024	02/04/2024	02/04/2024	05/04/2024
9.	17/02/2024	17/04/2024	*02/04/2024	01/04/2024
10.	17/02/2024	17/04/2024	*02/04/2024	05/04/2024
11.	18/03/2024	No Agreement	02/04/2024	01/04/2024
12.	18/03/2024	No Agreement	02/04/2024	05/04/2024

* The Agreement for the due date of payment is for 60 Days but the maximum time allowed is 45 days only as per MSME Act.

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