



Important Update on Interest Payments to MSME Lenders Under Income Tax Act Section 43B(h)

Description

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We are writing here about a crucial update that impacts the treatment of interest paid to lenders classified as Micro, Small, and Medium Enterprises (MSMEs) under the Income Tax Act.

As we are all aware of the amendment in Section 43B(h) of the Income Tax Act, we would like to further present our view that any interest payable to lenders who are categorized as MSMEs must also to be paid within the timelines defined under the MSME Act. As this interest payment also comes under the preview of the section 43B(h).

Impact :

As per the business practice, the interest paid to unsecured lenders is generally added back to the loan account and not paid out of pocket. Taxpayers must be aware that after amendment now the deduction of such interest payments to MSME from their income is contingent upon the actual payment of the interest within the specified time limits set by the MSME Act. Failure to comply with these payment deadlines may result in the disallowance of the interest deduction for tax purposes.

Action Required:

Taxpayers are advised to review their accounts payable to MSME lenders and ensure that interest payments are made within the prescribed timelines. This proactive approach will not only ensure compliance with the Income Tax Act but also support the liquidity and operational continuity of MSMEs. **We are of the view that as per trade practice this interest is generally added back to the loan amount. In case the lender acknowledges that this interest is not required to be paid and added back to the loan account then the disallowances under section 43B(h) will not arise.**

Attached Draft Letter Format:

For your convenience, we are attaching a draft letter template. This letter can be used by MSME lenders to inform their borrowers to acknowledge that they are not immediately required to receive interest payments. Instead, they acknowledge that this interest amount is to be capitalized under the loan amount.

FORMAT OF DRAFT LETTER**[Lender Company Letterhead]**

[Date]

[Borrower Name]

[Borrower Address]

Subject: Acknowledgement of Interest Adjustment for Loan Account

Dear [Borrowers Name],

We hope this letter finds you well. As per our records, your loan account with us has an interest amount due on March 31st for the current financial year ending.

We would like to inform you that, we have decided to make an adjustment regarding the interest due on your loan. Please be informed that the interest due on March 31st will not be required to be paid out of pocket, this interest amount will be capitalized, meaning it will be added back to the principal amount of your loan. This adjustment is intended to provide you with additional financial flexibility during this period.

The specifics of the interest due and the adjusted principal amount are as follows:

Interest Due on March 31st: [Specify Amount]

Total Loan Amount after Interest Capitalization: [Specify Adjusted Amount]

Please note, this adjustment will affect the calculation of future interest. Thank you for your continued trust in [Lender Name]. We look forward to serving you with your financial needs.

Warm regards,

[Your Name]

[Lender Company Name]

[Lender Contact Information]

Word Format of Draft Letter Format

MSME Interest Letter

We urge all concerned parties to take note of this update and adjust their financial and tax planning accordingly.

Thank you for your attention to this matter.

Category

1. Income Tax

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