

**ARNK**  
Group of Chartered Accountants  
and Associates LLP  
Chartered Accountants

**SECTION 43B(H)  
IN INCOME TAX ACT:  
ENSURING PROMPT  
PAYMENTS TO  
MSMES**



# Amendment addresses the following key point:

- ▶ This amendment aims to address the issue of **working capital scarcity** in the MSME industry and **promote prompt** payments to micro and small businesses.

# Which Entities can be categorised as MSME for SEC 43B(h)

## Micro

- ▶ Net investment in plant and machinery or equipment does not exceed Rs.1 crore; and
- ▶ Net turnover does not exceed Rs.5 crores.

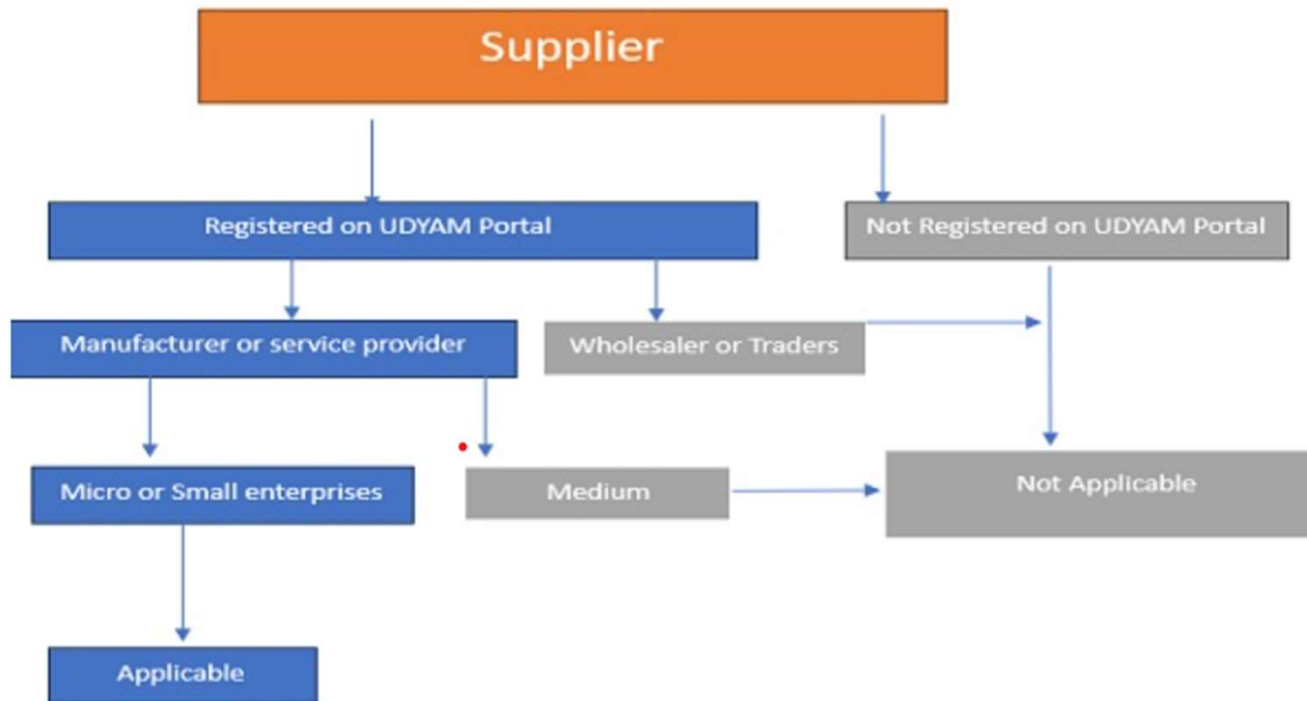
## Small

- ▶ Net investment in plant and machinery or equipment does not exceed Rs.10 crore; and
- ▶ Net turnover does not exceed Rs.50 crores.

# The Amendment will be effective from:

- ▶ Sec 43B applies to sums outstanding as of year-end and paid off after the 31st March of the Financial Year.
- ▶ The applicability of clause (h) of Section 43B is **from April 1, 2023**. This amendment is made applicable from assessment year (AY) 2024-25, that is, Financial Year (FY) 2023-24. Analysis as follows:
  - ▶ 1. Amount Payable for invoice on or before 31-Mar-2023 this provision not applicable
  - ▶ 2. If invoice between 01-Apr-2023 to 15-Feb-2024 were paid before 31-Mar-2024. Then expenses allowed in F.Y-2023-24
  - ▶ 3. If invoice between 16-Feb-2024 to 31-Mar-2024 were paid within 45 days then expenses allowed in F.Y-2023-24(Assumed written agreement of 45 Days is there between buyer and supplier)
  - ▶ 4. If Expenses amount not paid within due date, then that amount added back in the income.

# “Supplier” for Sec 43B(h)



# Non-Applicability on Traders & Wholesalers:

- ▶ Wholesale and retail traders are entitled to Udyam Registration only for the benefit of Priority Sector Lending. So, Section 43B(h) is **not applicable for dues outstanding to Traders and Wholesalers** as per the MSMED Act's definition of enterprise.

# What is timeframe for payments under Section 43B(h)

## Presence of Written Agreement

- ▶ Agreed timeline not exceeding 45 days-

Payment as per agreed timeline, but not exceeding 45 days

## Absence of Written Agreement

- ▶ Payment within 15 days

# Consequences for Non-Compliance with Section 43B(h)

- ▶ In case the business enterprise does not make payments to Micro, Small and Medium Enterprises (MSME) in the above prescribed period, then it has to make payment of **compound interest** at monthly interests to the supplier at **three times** bank interest as same is notified by the Reserve Bank of India (RBI).
- ▶ Any sum payable by an assessee for the expenditure incurred or payment against the purchase to the supplier who is registered as a micro or small enterprise shall be **disallowed** if the same is not paid within the time limit.



# Conclusion

- ▶ It is advisable for business entities to take an Annual Declaration from their supplier indicating that they are micro or small enterprises registered under the Micro, Small and Medium Enterprises Development Act, 2006 which will facilitate the buyer to identify the enterprise and to ensure the due compliances. Further, the micro and small enterprises are also advised to mention a note on the invoice issued by them indicating that they are registered as micro or small enterprises under MSME Development Act, 2006 to facilitate the buyer about the compliance requirements.

A photograph of a desk setup. In the background, a silver laptop is open, showing its keyboard. In the foreground, a brown paper envelope is partially open. A black pen with a silver tip and clip lies diagonally across the envelope and a white piece of paper. The white paper has the words "Thank you" written in a black, elegant cursive script. The entire scene is set on a light-colored wooden surface.

Thank you