

Dear Clients,

Expenditure to Micro Small Enterprise Disallowed for F.Y. 2023-24, in certain cases

Finance Act, 2023 has introduced a very important amendment in Sec. 43B that requires Expenditure to Micro or Small Enterprise to be allowed only on payment basis, if payment made beyond credit period allowed in MSMED Act.

Kindly note the following points for your perusal:

1. Any **payment for expenses (purchase of goods/services) from Micro or Small Suppliers are required to be paid within Credit Period** specified u/s. 15 of MSMED Act.
2. **If the payment is beyond Credit Period**, then it is allowed only in Financial Year in which payment is made. For example, the goods purchased on 1st March, 2024 and credit period was 45 days. The payment made on 25th April, 2025. In such case, the purchase/expense will be disallowed in FY. 2023-24 (that means income tax payable) and in next year F.Y. 2024-25 as the payment is made it will be allowed as expense. More illustrations provided herein after.
3. **Credit Period:**
 - If no agreement between both parties for Credit Period, than payment shall be made within 15 days of invoice
 - If agreement stipulated for credit period, than payment is to be made within credit period as specified in the agreement however not more than 45 days
4. **Micro Small Enterprise:**

For qualifying a definition of Micro or Small enterprise, limit has been specified for Investment in plant & machinery **AND** Turnover for both Manufacturing and Service sector

Enterprises	Investment in plant machinery (in Rs.)	Turnover (in Rs.)
Micro Enterprises	Up to 1 crore	Up to 5 crores
Small Enterprises	Up to 10 crores	Up to 50 crores
Medium Enterprises	Up to 50 crores	Up to 250 crores

Kindly note that **Traders** are registered under Udyam only for limited purpose of Priority Sector Lending therefore benefits under MSMED Act are not available to them, hence **disallowance of expenses shall not be applicable in case of purchase from traders**, unless any clarification received from Government.

5. **Declaration can be obtained from Supplier** to know whether they are Micro or Small and registered under MSMED Act. We have attached herewith the ***format of declaration***.
6. **Interest is also payable if payment is made beyond Credit Period** at 3 times bank rate. Kindly note that Interest is not allowed as deduction for income tax purpose.
7. **Illustrative Cases:**

Ram, a proprietor has received services (or purchase of goods) of Rs. 2 lakhs from Supplier XYZ Partnership firm - small MSME registered, in F.Y. 2023-24. Is the service (or purchase of goods) allowed as expenses to Ram in F.Y. 2023-24 in the following scenarios?

Scenario	Date of Supply	Date of Actual Payment	Payment Interval (No. of Days)	Is the expense allowed in FY 2023-24?	Remarks
1	15 th June, 2023	9 th December, 2023	177	Yes	Payment basis
2	8 th January, 2024	23 rd January, 2024	15	Yes	Accrual basis
3	17 th January, 2024	Unpaid as on 15 th July, 2024	-	No	Payment basis
4	10 th March, 2024	14 th April, 2024	35	Yes	Accrual basis
5	22 nd July, 2023	10 th April, 2024	263	No	Payment basis
6.	15 th September 2023	10 th March 2024 – Rs. 1,25,000	177	Yes	Payment basis
		17 th May, 2024 – Rs. 75,000	245	No	
7.	3 rd February, 2023	10 th May, 2024	462	NA	Claimed in FY 2022-23
8.	21 st March, 2024	Cheque issue date – 20 th April'2024	30	No	Actual Payment basis
		Cheque Clearance dt.–10 th May'2024	50		

8. For further clarity, you may contact us, we will provide detailed understanding of the requirement and practical aspects.
9. **Actions to be taken:**
- To understand whether Suppliers are registered Micro or Small enterprise by obtaining the declaration
 - To inform your customers that you are registered Micro or Small with Udyam Registration Number (or Certificate), in case if you are registered.
 - To ensure that there is agreed (in writing) credit period with Supplier of 45 days.
 - To create the separate Group under Sundry Creditors in your books of accounts for the suppliers who are Micro or Small Enterprise as per MSMED Act.
 - To set the credit period and pass bill to bill entries in the accounting software so that it will be easy to get the related reports for making payment intime.
 - To check due date of payment to such suppliers up to 31.03.2024 and do necessary arrangement for payment to ensure expenses are not disallowed

As this amendment has an impact on Income Tax payment, kindly read and understand the provision in detail. If you have any questions, kindly feel free to contact us.

Regards,

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Partner

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Chartered Accountants