

Ahead of April 1 deadline, MSMEs review arrangements with traders, buyers

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With no official word on any possible extension of the 45-day payment rule, micro, small and medium enterprises (MSMEs) are reviewing arrangements with their traders and buyers. Many MSMEs remain worried that their relationships with buyers will get disrupted due to this new rule under which payments to these businesses cannot be deferred beyond 45 days.

Under the new income tax provision, which will apply from April 1, payments to MSMEs will have to be made within 45 days by a buyer, failing which they will have to pay tax on it. While the provision was part of the Union Budget 2022-23 and was inserted in the Finance Act, 2023, its implementation is from April 1, 2024. The objective is to encourage timely payments to MSMEs, many of which face delays in such payments.

According to industry sources, many buyers have asked MSMEs to review their registrations or look at other arrangements for payments. "Many times, there is an agreement for payments after 60 days or 90 days depending on the time taken by the buyer to sell the good or even export it," noted one player.

Another player noted that they were not aware of the provision and only came to know of it in recent months. "Reviewing our contracts and supply mechanisms was not possible in such a short time span," said the player.

It is also not clear whether the provision will apply to retail and wholesale traders, who were allowed to register on the Udyam portal as MSMEs from July 2021 to get benefits of priority sector lending.

Many industry associations had also written to the Finance Ministry seeking a postponement of the provision. While the Finance Ministry had been reviewing the issue, sources indicated that any change can only be brought through an amendment as this is a provision in the Finance Act, 2023.

According to official data, as many as 4.13 crore MSMEs are registered on the Udyam portal including the Udyam Assist Platform. Of these, a large chunk- 4.05 crore are micro-enterprises. **BT**