

# Centre may relook at tax tweak that hurt MSMEs

**Gireesh Chandra Prasad**

gireesh.p@livemint.com

**NEW DELHI:** A change introduced last year in the Income Tax Act to help small businesses receive timely payments might have had the unexpected effect of putting off buyers of their goods and services altogether. According to two people aware of discussions in the government, the Centre may amend the Act again in the full budget for 2024-25 in July.

What is unclear, though, is the exact change that could be made. One of the two persons said, "It is highly likely that Clause H of Section 43B may be dropped." The second person said it was too early to speak about the specific amendments that may be brought out. Both of them spoke on the condition of anonymity.

In a bid to address liquidity issues of MSMEs (micro, small and medium enterprises), Clause H was added in Section 43B of the Income Tax Act. Introduced in the Finance Act 2023, it says payments to small businesses



**The government may amend the Act again in the full budget for 2024-25 in July.** ISTOCKPHOTO

that are delayed beyond a specified period can be claimed as an expenditure (deduction from taxable income) only in the fiscal year in which the payments are made, not in the year when the liability to pay arose.

"However, there is apprehension among small businesses that as an unintended consequence, large procurers would avoid buying from small firms to avoid this provision in the law,"

the first person said. "This concern would be addressed in the Finance Bill to be presented as part of the full-year budget for 2024-25."

Tax expert Ved Jain, who is also a former president of the Institute of Chartered Accountants of India (ICAI), strongly pitched for the provision to be dropped. "The Income Tax Act should only sparingly be used for larger social objectives, for which there are other laws," he said. Jain explained that a buyer of MSME goods or services that misses a payment deadline faces a jump in its tax liability during a fiscal year due to denial of the benefit of deduction for the payment liability accrued.

If the deduction is allowed in a subsequent year of payment, the tax liability incurred earlier due to delayed payment does not go away. Besides, it could depress profits in the year that the payment is made. And if income turns out to be negative, in some cases, it could take years for the business to set it off against profits of subsequent years, Jain said.