



Income Tax Department

Central Board of Direct Taxes



MSME Tax Benefits & Incentives - A guide

Part-2



Q8: Explain the benefits of Section 43B (h) to the MSMEs?

Ans: **Section 43B of the Income Tax Act** allows certain expenses (like taxes, PF, interest, etc.) as a deduction **only on actual payment basis** (not on accrual).

To safeguard MSMEs, a new clause **43B (h)** was introduced.

✓ **Key Features of Section 43B (h):**

- Applicable to **MSMEs registered under MSME Act, 2006 (Udyam Registration mandatory)**.
- Any sum payable to such MSMEs for **goods or services**:
 - o Can be claimed as an expense **only if payment is made within the prescribed time limit** under **Section 15 of MSME Act**.
- Time Limit for Payment (Sec. 15, MSME Act):
 - o Within **15 days** (if no written agreement).
 - o If agreement exists → **maximum 45 days**.

△ **Consequence for Buyers:**

- If payment to MSME is **delayed beyond 15–45 days**, the expense will be:
 - o **Disallowed in the buyer's books** until actual payment is made.
- This forces timely settlement, improving MSME's **cash flow**.

© **Practical Advantage for MSMEs:**

- Strong **legal protection** against delayed payments.
- Ensures **faster working capital cycle**.
- Improves creditworthiness and financial stability of MSMEs.

Q9: What are the Conditions to Avail Benefits under Section 43B (h)?

Ans: For a buyer to claim deduction of payments made to an MSME, the following conditions must be met:

1. MSME Registration

- o The supplier must be **registered on the Udyam Portal** under the MSME Act, 2006.

2. Nature of Transaction

- o The buyer must be purchasing **goods or services** from the registered MSME.

3. Protection Scope

- o This benefit applies **only to registered MSMEs**.
- o Unregistered MSMEs do not get protection under this clause.

4. Buyer's Responsibility

- o Buyers must **track and settle dues within 15–45 days** (as per Sec. 15, MSME Act).

- o Otherwise, the buyer's expense will be **disallowed until actual payment is made.**

© **Practical Impact:**

- **MSMEs:** Strong safeguard for timely payments.
- **Buyers:** Must maintain **payables discipline** to avoid tax disallowances.

Q10: What is section 15 of MSMED Act?

Ans: **Section 15 of the MSMED Act, 2006** prescribes the time limit for buyers to make payments to **Micro and Small Enterprises (MSEs)** supplying goods or services.

✓ **Payment Rules under Section 15:**

1. Written Agreement Exists

- o Payment must be made **on or before the agreed date.**
- o However, even with an agreement, the period **cannot exceed 45 days** from acceptance/deemed acceptance.

2. No Written Agreement

- o Payment must be made **within 15 days** from the day of acceptance/deemed acceptance of goods or services.

3. Absolute Maximum Limit

- o In **all cases**, payment must be made **within 45 days** of acceptance/deemed acceptance, irrespective of contract terms.

© **Practical Impact for MSMEs:**

- Provides a **legal safeguard** for timely payments.
- Strengthens the **cash flow position** of Micro and Small Enterprises.
- Ensures buyers cannot misuse contract terms to delay payments beyond **45 days.**

Q11: What is section 16 and section 17 of MSMED Act?

Ans:

✓ **Section 16 – Penalty for Delayed Payments**

If a buyer fails to make payment as required under **Section 15:**

- The buyer is liable to pay **compound interest with monthly rests.**
- The interest rate is **3 times the bank** rate notified by the **Reserve Bank of India (RBI).**
- This penalty applies **notwithstanding any agreement or law to the contrary.**

☞ This means buyers cannot escape penalty even if the contract mentions otherwise.

✓ **Section 17 – Enforcement of Payment Obligation**

- For goods supplied or services rendered by an MSME supplier:
 - o The buyer must pay both the principal amount and the interest due under Section 16.

✓ **Practical Impact for MSMEs:**

- Strong legal backing for recovery of dues.
- Acts as a deterrent against delayed payments.
- Ensures MSMEs get compensated for financial stress caused by late settlements.

Q12: What is key benefits of MSME (Udyam) Registration?

Ans: MSMEs registered under **Udyam** enjoy a wide range of financial, operational, and legal benefits.

✓ **Major Benefits:**

1. Collateral-Free Loans

- o Access to loans under the **Credit Guarantee Fund Scheme (CGTMSE)** without the need for collateral/security.

2. Intellectual Property Support

- o Subsidy on **patent and trademark registration fees** to promote innovation and branding.

3. Cost Savings

- o **Concessions in electricity bills.**
- o **Reimbursement of ISO certification costs** to encourage quality standards.

4. Government Tender Preference

- o Priority access in **public procurement and government tenders.**

5. Access to Schemes & Subsidies

- o Easier eligibility for **central and state government schemes, subsidies, and financial incentives.**

6. Delayed Payment Protection

- o Legal safeguard under **MSMED Act** ensuring buyers must settle dues within **45 days**, backed by **Section 43B (h) of Income Tax Act.**

© **Practical Impact:**

- Improves **credit access** and reduces borrowing costs.
- Enhances **market opportunities** via tenders and IP protection.
- Strengthens **financial stability** with timely payment protection.

Q13: What are the TDS provisions relating to MSMEs?

Ans: MSMEs are not exempt from TDS provisions under the Income Tax Act just because of their status. However, the comprehensive list of all relevant TDS sections under the Income Tax Act, 1961, that may apply to or involve MSMEs (Micro, Small, and Medium Enterprises) — whether as deductors (making payments) or deductees (receiving payments) are following which have been mapped with the relevant sections pertaining to MSMEs in the New Income Tax Act, 2025:

S.No.	Provision as per Income Tax Act, 1961	Particulars	Provision as per Income Tax Act, 2025
1.	Section 44AA	Any person whose Income from business or profession does not exceed 2.5 lakh rupees or Total sales, turnover or gross receipts does not exceed 25 lakhs rupees In any one of the three years immediately preceding the previous year, is not required to maintain books of account and other documents.	Section 62
2.	Section 44AB	Any person whose i) total sales, turnover or gross receipts and aggregate of all payments in business does not exceed one crore rupees (ten crores rupees if gross receipts and gross in cash does not exceed five percent of total receipts) ii) gross receipts in profession does not exceed fifty lakh rupees in any previous year, is not required to get his books of accounts audited for such previous year.	Section 63
3.	Section 44AD	Any individual, HUF or a partnership firm, but not a LLP, whose total turnover or gross receipts in the previous year does not exceed two crore rupees (three crores rupees if gross receipts in cash does not exceed five percent of total receipts), a sum equal to 8% (6% in case of receipts received from mode other than cash) of the total turnover or gross receipts shall be deemed to be profit and gains of such business.	Section 58
4.	Section 44ADA	Any individual or a partnership firm, but not a LLP, whose gross receipts in the previous year does not exceed fifty lakh rupees (seventy five rupees if gross receipts in cash does not	Section 58

S.No.	Provision as per Income Tax Act, 1961	Particulars	Provision as per Income Tax Act, 2025
		exceed five percent of total receipts), a sum equal to 50% of the gross receipts shall be deemed to be profit and gains of such profession.	
5.	Section 44AE	An Assessee, who own not more than ten goods carriages at any time during the previous year and is engaged in the business of plying, hiring or leasing of such goods carriages, his income shall be deemed to be calculated i) at the rate of Rs. 1000/- per ton of gross vehicle weight for every month or part of a month, for heavy goods vehicle and ii) at the rate of Rs. 7,500/- for every month or part of a month, for vehicle other than heavy goods vehicle	Section 58
6.	Section 43B(h)	Any sum payable to a micro or small enterprise beyond the time limit specified in section 15 of the MSMED Act, 2006 shall be allowed only on actual payment	Section 37(2)(g)
7.	TDS provisions (192 to 196D)	Individual or HUF whose total sales, gross receipts or turnover from business or profession does not exceed One crore rupees in case of business; Fifty lakh rupees in case of profession; during the financial year immediately preceding the financial year in which payments of certain nature such as commission, rent, fee for technical services etc. are to be made, is not required to deduct TDS on such payments.	Section 393(1)
8.	Section 194O	TDS is not required to be deducted on payment made to an individual or a	Section 393(1) [Table: Sl. No. 8(v)]

		HUF, selling goods or providing services or both through digital or electronic facility or platform, where gross amount of such sale or services or both during the previous year does not exceed fifty lakh rupees.	
9.	Section 194Q	Any person whose total sales, gross receipts or turnover from business carried on by him does not exceed ten crore rupees is not required to deduct TDS on purchase of goods.	Section 393(1) [Table: Sl. No. 8(ii)]
10.	Section 194R	Individual or HUF whose total sales, gross receipts or turnover from business or profession does not exceed One crore rupees in case of business; Fifty lakh rupees in case of profession; during the financial year immediately preceding the financial year in which any benefit or perquisite arising from business or the exercise of a profession is provided by such individual or HUF, is not required to deduct TDS on such benefits and perquisites.	Section 393(1) [Table: Sl. No. 8(iv)]
11.	Section 194S	Individual or HUF whose total sales, gross receipts or turnover from business or profession does not exceed One crore rupees in case of business; Fifty lakh rupees in case of profession; During the financial year immediately preceding the financial year in which virtual digital asset of aggregate value of less than fifty thousand is transferred is not required to deduct TDS on such payments.	Section 393(1) [Table: Sl. No. 8(v)]
12.	Section 206C	Individual or HUF whose total sales, gross receipts or turnover from business or profession does not exceed	Section 394(1) [Table: Sl. No. 1 to 5]

		One crore rupees in case of business; Fifty lakh rupees in case of profession; During the financial year immediately preceding the financial year in which goods of certain nature such as alcoholic liquor, timber, tendu leaves etc. are sold, is not required to collect TCS on such receipts.	
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 For details reference should always be made to the relevant provisions in the Acts and the Rules