GOVERNMENT OF INDIA
MINISTRY OF FINANCE
DEPARTMENT OF REVENUE
RAJYA SABHA
UNSTARRED QUESTION NO. 242

ANSWERED ON 21.07.2026

SECTION 43B(H) OF THE INCOME TAX ACT

242. SHRI RAJEEV KUMAR:

Will the Minister of FINANCE be pleased to state:

(a) whether Section 43B(h) of the Income Tax Act disallows a tax deduction to buyers until they actually pay a micro/small supplier, to enforce the 45day timeline;

(b) whether the enforcement of this section has led to large and medium buyers cancelling orders with registered MSMEs;

(c) whether the buyers are forced to shift to unregistered vendors, or pressurize small suppliers to surrender their Udyam registration; and

(d) whether the section affects only the Udyam-registered suppliers, the steps the Ministry has taken to rectify the challenges, if any?

ANSWER

MINISTER OF STATE IN THE MINISTRY OF FINANCE
(SHRI PANKAJ CHAUDHARY)

(a) In this regard, it is submitted that vide Finance Act, 2023 section 43B(h) of the Income-tax Act, 1961 (section 37(2)(g) of the Income-tax Act, 2025) was introduced. It provides that any sum payable by the assessee to a micro or small enterprise beyond the time limit specified in section 15 of the Micro, Small and Medium Enterprises Development (MSMED) Act 2006 **shall be allowed as deduction only on actual payment basis and not when liability to pay such expense has incurred**. In this regard, the time limit is linked to section 15 of the MSMED Act 2006 wherein the time limit for payment shall not exceed 45 days.

(b)&(c) The Ministry of Micro, Small and Medium Enterprises (MSME) has taken a number of measures to enhance the credit flow and ensure timely payment for MSMEs. In this regard, vide Finance Act 2023, clause (h) was inserted in Section 43B of the Income-tax Act 1961 which disallows a tax deduction to buyers until they actually pay a Micro and Small Enterprises (MSEs), to enforce the 45-day timeline specified in section 15 of the MSME Development (MSMED) Act, 2006.

(d) Section 43B(h) of the Income-tax Act, 1961 is applicable on the amount payable to micro or small enterprises. Micro enterprise and small enterprise are defined as enterprise classified as such in the notification under the MSMED Act, 2006.

This provision has been introduced after detailed and wide deliberation with all the stakeholders including the Ministry of Micro, Small and Medium Enterprises. The intent behind introducing this provision was to resolve the problem of cash flow to micro and small enterprises so that their problem of working capital is resolved and their additional cost of arranging funds is avoided.

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