



MSME ACT – TOOL FOR GROWTH OF BUSINESSES- ECONOMICS AND LEGAL IMPLICATIONS.

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WHAT DOES IT OFFER TO GIVE DIFFERENTIAL ADVANTAGE?

- **Prime Minister's Employment Generation Programme (PMEGP):** A credit-linked subsidy program for setting up new micro-enterprises in the non-farm sector. It provides margin money subsidies of 15% to 35% of the project cost for projects up to ₹50 Lakh in manufacturing.
- **Non-Farm Sector** (also referred to as the Rural Non-Farm Sector or RNFS) encompasses all economic activities that take place outside of primary agricultural production. It serves as a critical alternative for income and employment, especially as the agricultural sector's capacity to absorb labor reaches its limits

WHAT DOES IT OFFER TO GIVE DIFFERENTIAL ADVANTAGE?

- **Key Components of the Non-Farm Sector**
- The sector is diverse and includes several heterogeneous industries:
- **Manufacturing:** Small-scale and cottage industries such as handlooms, handicrafts, pottery, carpentry, and blacksmithing.
- **Construction:** Infrastructure projects including the building of roads, housing, and irrigation systems. This is currently one of the largest employers in the rural non-farm sector.
- **Services:** Retail and wholesale trade, transport (rickshaws, carts, small vehicle operations), and community services like education and healthcare.
- **Agro-Processing:** Value-addition activities like food processing, oil mills, and sugarcane crushing that link directly to agricultural output.
- **Mining & Quarrying:** Extraction of natural resources like coal, iron ore, and stone.



WHAT DOES IT OFFER TO GIVE DIFFERENTIAL ADVANTAGE?

- **Credit Linked Capital Subsidy and Technology Upgradation Scheme (CLCS-TUS):** This scheme provides a capital subsidy of up to 15% (subject to a maximum of ₹15 Lakh) to Micro and Small Enterprises for adopting modern technology and upgrading/replacing old machinery.
- **MSME Competitive (LEAN) Scheme:** Supports MSMEs in implementing lean manufacturing practices (e.g., 5S, Just-in-Time) to minimize waste, improve quality, and increase efficiency. The government covers 90% of the implementation cost for handholding and consultancy fees.

WHAT DOES IT OFFER TO GIVE DIFFERENTIAL ADVANTAGE?

- **ZED (Zero Defect Zero Effect) Certification Scheme:** Encourages manufacturing units to produce high-quality products with minimal environmental impact. Certified enterprises receive a competitive edge and financial support.
- **MSME Cluster Development Programme (MS-CDP):** Aims to improve the technology, skills, and infrastructure of groups of MSMEs operating in specific industrial areas (clusters). This includes support for creating Common Facility Centres (CFCs) for testing, training, and production processes.
- **Procurement and Marketing Support (PMS) Scheme:** Assists MSMEs with market access initiatives like participating in national/international trade fairs and exhibitions, helping with packaging, and integrating with platforms like the Government e-Marketplace (GeM).
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WHAT DOES IT OFFER TO GIVE DIFFERENTIAL ADVANTAGE?

- **General Benefits for Manufacturing Units**
- Registration under the MSMED Act and the Udyam portal unlocks several across-the-board benefits:
- **Access to Collateral-Free Credit:** *Registered MSMEs can obtain collateral-free loans of up to ₹2 Crore under the Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) scheme.*
- **Lower Interest Rates:** *Banks and financial institutions often offer loans to MSMEs at concessional interest rates.*
- **Protection Against Delayed Payments:** *The MSMED Act mandates that buyers of goods and services from registered Micro and Small Enterprises must make payments within 45 days. Delays attract compound interest at three times the RBI bank rate.*

WHAT DOES IT OFFER TO GIVE DIFFERENTIAL ADVANTAGE?

- **Tax Benefits:**
 - Eligibility for lower corporate tax rates (e.g., 25% for companies with turnover up to ₹400 crore).
 - Access to presumptive taxation schemes (Section 44AD/44ADA) for simplified compliance.
 - Deductions for R&D expenses and additional depreciation on new plant and machinery.
- **Government Procurement Preference:** The government has a public procurement policy that reserves certain products for purchase from Micro and Small Enterprises and offers exemptions from earnest money deposits (EMD) and tender fees.

WHAT DOES IT OFFER TO GIVE DIFFERENTIAL ADVANTAGE?

- **Subsidies and Reimbursements:** MSMEs can receive subsidies for patent registration (up to 50%), ISO certification expenses (reimbursement up to 75%), and bar code registration.
- **Concessions on Electricity Bills:** Some states offer concessions or subsidies on electricity bills for registered MSMEs, reducing operational costs.
- To access these benefits, businesses must complete the free, online Udyam Registration process through the official Udyam Registration portal.

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WHAT DOES IT OFFER TO GIVE DIFFERENTIAL ADVANTAGE?

- **Institutional Support and Schemes**
- Various government bodies like **NABARD** and the **Ministry of MSME** provide targeted support:
- **PMEGP (Prime Minister's Employment Generation Programme):** Provides financial assistance for setting up new micro-enterprises.
- **DDU-GKY (Deen Dayal Upadhyaya Grameen Kaushalya Yojana):** Focuses on skill development for rural youth to make them employable in non-farm sectors.
- **MUDRA Scheme:** Offers micro-credit to small entrepreneurs and artisans.
- **NABARD Initiatives:** Supports "Rural Marts," "Rural Haats," and GI (Geographical Indication) registration for traditional crafts to provide better market access
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WHAT DOES IT OFFER TO GIVE DIFFERENTIAL ADVANTAGE?

- Marketing Assistance
- Organising exhibitions abroad and participation in international exhibitions/ trade fairs
- Co-sponsoring of exhibitions organised by other organisations/industry associations/ agencies
- Organising buyer-seller meets, intensive campaigns and marketing promotion events

WHAT DOES IT OFFER TO GIVE DIFFERENTIAL ADVANTAGE?

- Nature of assistance Financial assistance of up to 95% of the air-fare and space rent for entrepreneurs; assistance is provide on the basis of size and type of the enterprise. Financial assistance for co-sponsoring would bE limited to 40% of the net expenditure, subject to a maximum amount of Rs.5 lakh.

WHAT DOES IT OFFER TO GIVE DIFFERENTIAL ADVANTAGE?

- Credit Linked Capital Subsidy (CLCS) for Technology Upgradation
- The revised scheme aims at facilitating technology upgradation by providing 15% up-front capital subsidy to MSEs, including tiny,
- khadi, village and coir industrial units, on institutional finance availed by them for induction of well established and improved technologies in specified sub-sectors/products approved under the scheme.

WHAT DOES IT OFFER TO GIVE DIFFERENTIAL ADVANTAGE?

- ISO 9000/ISO 14001 Certification Reimbursement
- Micro Finance Programme
- **MSME Market Development Assistance**
- 1) Participation in the international exhibitions/ fairs - for registered small & micro manufacturing enterprises with DI/DIC.
- 2) Financial assistance for using Global Standards (GSI) in barcoding
- Recognised importance of barcoding and avail financial assistance through Office of the Development Commissioner Micro, Small and Medium Enterprises (DC - MSME).

WHAT DOES IT OFFER TO GIVE DIFFERENTIAL ADVANTAGE?

- Purchase and Price Preference Policy –
- This is administered through Single Point Registration Scheme of NSIC. Under this, 358 items are reserved for exclusive purchase from MSME by the Central Government. Other facilities include tender documents free of cost, exemption from earnest money and security deposit and 15% price preference in Central Government purchases – for individual MSMEs.

WHAT DOES IT OFFER TO GIVE DIFFERENTIAL ADVANTAGE?

- The scheme offers funding up to 75% in respect of to and fro air fare for participation by MSME entrepreneurs in overseas fairs/trade delegations. The scheme also has provision of funding for producing publicity material (up to 25% of costs), sector specific studies (up to Rs.2 lakh) and for contesting anti-dumping cases (50% up to Rs.1 lakh) - for individual MSMEs & associations.

WHAT DOES IT OFFER TO GIVE DIFFERENTIAL ADVANTAGE?

- Technology and Quality Upgradation Support to MSMEs
- Description The scheme advocates the use of energy efficient technologies (EETs) in manufacturing units so as to reduce the cost of production and adopt clean development mechanism.
- Setting up of Carbon Credit Aggregation Centres (associations, technical institutions and ESCOs)
- Encouraging MSMEs to acquire product certification/licenses from National/ International bodies

WHAT DOES IT OFFER TO GIVE DIFFERENTIAL ADVANTAGE?

- Funding support of 75% for awareness programmes subject to maximum of Rs.75,000 per programme
- • 75% of actual expenditure for cluster level energy audit and preparation of model DPR
- • 50% of actual expenditure subject to maximum Rs.1.5 lakh per DPR towards preparation of subsequent detailed project reports for individual MSMEs on EET projects
- 25% of the project cost as subsidy by Government of India, balance amount to be
- funded through loan from SIDBI/banks/ financial Institutions; minimum contribution as required by the funding agency to be made by the MSME

WHAT DOES IT OFFER TO GIVE DIFFERENTIAL ADVANTAGE?

- 75% of the actual expenditure, subject to a maximum Rs.15 lakhs for establishing Carbon Credit Accreditation Centres
- 75% subsidy to manufacturing MSME towards licensing of products to national/international standards; maximum GoI assistance allowed per MSME: Rs.1.5 lakh for obtaining product licensing /marking to National standards and Rs.2 lakhs for obtaining product licensing/marketing to International standards.

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WHAT DOES IT OFFER TO GIVE DIFFERENTIAL ADVANTAGE?

- **Bank Credit Facilitation**
- Description To meet the credit requirements of MSME units, NSIC has entered into a Memorandum of Understanding with various nationalised and private sector banks. Through syndication with these banks, **NSIC arranges for credit support (fund or non-fund based limits) from banks without any cost to MSMEs.**

WHAT DOES IT OFFER TO GIVE DIFFERENTIAL ADVANTAGE?

- Furthermore, MSMEs can upgrade their competence in terms of business and technologies by getting rated through independent, renowned and professional rating agencies empanelled with NSIC. MSEs which get rated under NSIC- “Performance and Credit Rating scheme” have the liberty to get rated by any one of the rating agencies of their preference. It also invariably increases their creditability in business and helps them in getting timely credit from banks at liberal rate of interest

WHAT DOES IT OFFER TO GIVE DIFFERENTIAL ADVANTAGE?

- **Bill Discounting**

- Description The scheme covers purchase/discounting of bills arising out of genuine trade transactions i.e., purchase of supplies made by small scale units to reputed Public Limited Companies/State and Central Government Departments/Undertakings.
- Bills drawn by small-scale units for supplies made by them and duly accepted by purchaser will be financed against security of bank guarantee in favour of NSIC.
- Purchaser unit(s) may approach NSIC for sanction of annual limits by furnishing information as per the prescribed application form.

WHAT DOES IT OFFER TO GIVE DIFFERENTIAL ADVANTAGE?

- Capital Goods Scheme— detailed scheme we can study for your group
- Collateral-free bank loans – will require detailed study, but it is easy.
- Reduced rate of interest from banks
- MSME-registered business benefits from a lower interest rate compared to other enterprises. for the MSME sector, priority credit has been maintained. since bank lending to MSMEs has reached a certain threshold, they benefit from cheap business loan interest rates. within the next two years, credit to micro and small firms must rise by 20%. a 10% annual growth rate in micro businesses is seen. the bank's total lending must be distributed to the MSME sector at a minimum of 60%.

WHAT DOES IT OFFER TO GIVE DIFFERENTIAL ADVANTAGE?

- Subsidy on patent registration
- according to existing regulations, MSMEs registered with the MSME ministry are eligible for a 50% discount on their patent registration costs. this motivates startups and small companies to continue developing novel ideas and technologies. by applying to the relevant ministries, one may apply for the subsidy.
- Tax exemption
- numerous benefits can help you save money that could otherwise be subject to taxation. enterprises can benefit from a potential taxation basis, which relieves them of the need to maintain thorough audit procedures and comprehensive books of accounts.

WHAT DOES IT OFFER TO GIVE DIFFERENTIAL ADVANTAGE?

- protection against delayed payments
- Electricity bill concessions
- all businesses with an MSME registration certificate are qualified for electric bill discounts. because of this, firms may increase output and accept more orders without worrying about incurring capital costs for things like electricity and maintenance. micro, small, and medium-sized businesses can apply for the concession by sending a certificate of registration and an application to the electricity department

WHAT DOES IT OFFER TO GIVE DIFFERENTIAL ADVANTAGE?

- **Marketing and promotion assistance from the government**
- international trade-related events, craft fairs, exhibitions, and exchange programs are all organized by the indian government. being a micro, small, or medium enterprise grants access to these venues for international cooperation on trade-related issues with various countries and encourages new commercial relationships. the government also provides subsidies, tax breaks, and technical assistance to MSMEs exporting goods and services.
- 10. technology upgradation support to MSME
- the government reimburses project costs for these objectives for MSME sector units and expenses incurred for implementing clean technology, preparing audit reports, and providing subsidies for licensing products per national and international standards. it is done to increase cost-effectiveness and promote the use of clean energy in manufacturing.

WHAT DOES IT OFFER TO GIVE DIFFERENTIAL ADVANTAGE?

- In the Union Budget Speech, 2025, the Finance Minister announced that the investment and turnover limits for classification of all MSMEs will be enhanced to 2.5 and 2 times respectively. [See Para 28 of the Union Budget Speech, 2025] THE revision of limits announced in Union Budget Speech is as follows –
 - **Micro:** Investment up to ₹1 Cr; Turnover up to ₹5 Cr.
 - **Small:** Investment up to ₹10 Cr; Turnover up to ₹50 Cr.
 - **Medium:** Investment up to ₹50 Cr; Turnover up to ₹250 Cr.

HOW IS TURNOVER CALCULATED FOR THE CLASSIFICATION OF ENTERPRISES INTO MICRO, SMALL AND MEDIUM?

- Turnover is reckoned on net turnover basis *i.e.* turnover of goods and services less exports of goods and services.
- Calculation of turnover as under –
- **(1)** Exports of goods or services or both, shall be excluded while calculating the turnover of any enterprise whether micro, small or medium, for the purposes of classification.
- **(2)** Information as regards turnover and exports turnover for an enterprise shall be linked to the Income-tax Act or the Central Goods and Services Act (CGST Act) and the GSTIN.
- **(3)** The turnover related figures of such enterprise which do not have PAN will be considered on self-declaration basis for a period up to 31st March, 2021 and thereafter, PAN and GSTIN shall be mandatory.
- **(4)** The exemption from the requirement of having GSTIN shall be as per the provisions of the Central Goods and Services Tax Act, 2017 (12 of 2017).

WHAT IS MSME REGISTRATION?

- MSME registration is a governmental process acknowledged to empower micro, small, and medium enterprises to access diverse schemes, subsidies, and benefits. The registration process is governed by the Ministry of Micro, Small, and Medium Enterprises under the MSME Development Act, 2006.
- You're required to apply for MSME registration if you want the government incentives to be offered to your business entity. Regardless of whether it is a micro, small, or medium-sized business enterprise, **you must have an MSME license.**

WHAT IS MSME REGISTRATION?

- **Unique Registration Number**

Each business receives a unique registration number upon successful registration, **providing a distinct identity within the MSME sector.**

- **Digital Registration Certificate**

An online registration certificate is issued after completing the Udyam Registration process, making it easy for businesses to access and share their certificate digitally.

- **Dynamic QR Code**

The registration certificate includes a dynamic QR Code that can be scanned to view the enterprise's details on our portal, ensuring transparency and easy verification

WHAT IS MSME REGISTRATION

- **Mandatory for Loan Applications**

URC registration by MSMEs is required for processing loan applications by lending institutions, enhancing the MSME benefits and making access to funds easier.

- **No Renewal Required**

Once registered, businesses do not need to renew their Udyam Registration, simplifying administrative processes and maintaining the benefits of MSME registration over time.

- **Zero Registration Fee**

Registering for Udyam Registration is free of charge, allowing MSMEs to enjoy the benefits of MSM registration without any financial burden.

BENEFITS OF MSME REGISTRATION IN INDIA

- **Collateral-Free Loans**

Registered MSMEs can access **unsecured loans** through government-backed schemes like **CGTMSE**, reducing the need for asset pledging.

- **Lower Interest Rates**

Banks often offer concessional interest rates (reduced by 1–2%) to registered MSMEs under the **Interest Subvention Scheme**

- **Subsidies on Loans**

The government offers interest subsidies to MSMEs through schemes such as:

2% Interest Subvention Scheme for working capital loans

Technology Upgradation Fund Scheme (TUFS)

BENEFITS OF MSME REGISTRATION IN INDIA

- **Tax Benefits**

Registered MSMEs can claim:

Income tax exemptions under specific startup-linked provisions
GST Composition Scheme advantages with lower tax rates

- **Faster Bank Approvals**

MSME-registered businesses often get **priority lending status** with banks and NBFCs, speeding up loan disbursement and approvals.

- **Government Tender Fee Waiver**

Registered MSMEs get exemptions from EMD (Earnest Money Deposit) and tender fees, reducing upfront tendering costs.

- **Capital Subsidies for Tech Upgrade**

Under schemes like CLCSS, MSMEs get 15–25% capital subsidy for upgrading their technology and equipment.

BENEFITS OF MSME REGISTRATION IN INDIA

- **Reimbursement on ISO Certification**

Registered MSMEs can claim up to 75% reimbursement of the cost incurred for ISO 9001/14001/22000 certifications, indirectly reducing operational expenditure.

- **Bar Code Registration Subsidy**

MSMEs can avail up to 75% reimbursement on expenses for barcode registration, helping in retail expansion at a lower cost.

- **Access to Export Incentives**

MSME exporters receive:

Duty drawback benefits

Reduced inspection norms

Export subsidies under **RoDTEP and MEIS.** (e **Remission of Duties and Taxes on Exported Products**). (

REPLACED: (**Merchandise Exports from India Scheme**

REMISSION OF DUTIES AND TAXES ON EXPORTED PRODUCTS.

- **Key aspects of the RoDTEP scheme:**
- **Purpose:** To refund taxes and duties (like VAT on fuel, Mandi tax, electricity duty) not refunded under other schemes.
- **Mechanism:** Benefits are issued as electronic scrips (e-scrips) that can be used for basic customs duty payment or transferred to others, notes the DGFT website.
- **Administration:** Managed by the Directorate General of Foreign Trade (DGFT) and administered by the Department of Revenue.
- **Eligibility:** Exporters of eligible products claim benefits through their shipping bills on the ICEGATE portal.

BENEFITS OF MSME REGISTRATION IN INDIA

- **Electricity Duty Concessions**

In some states, MSMEs get electricity bill subsidies or duty exemptions, significantly lowering operational costs.

- **Delayed Payment Interest Recovery**

As per the MSMED Act, buyers must pay within 45 days or incur interest at 3x the RBI bank rate, protecting MSMEs' liquidity.

- **Credit Rating Subsidy**

To encourage better access to credit, the government subsidises the cost of credit rating for MSMEs by up to 75%, improving loan eligibility

TAX BENEFITS OF MSME

- **Deduction of Interest Expense:** Interest on business loans availed by MSME for various purposes such as working capital, expansion or investment is a deductible expense u/s 36(I)(iii) of the Income Tax Act, 1961, while computing taxable income for income tax purpose. This reduction in taxable income can lead to a lower tax liability, thereby leading to potential tax savings for the business.
- **Increased Cost of Acquisition of Qualifying Asset:** 'Qualifying Assets' are those requiring a substantial time for readiness. The interest on funds borrowed for such assets is capitalised, enhancing the acquisition cost. This offers tax advantages for MSMEs, enabling increased depreciation and potentially lowering capital gains upon asset sale under the Income Tax Act of 1961.(SAME ARE CONTINUING IN 2025 ACT)

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OTHER TAX IMPLICATIONS OF MSME

- Income tax deduction is available to MSME businesses under Section 80JJAA of the Income Tax Act in respect of generating additional employment to prescribed new employees
- A tax holiday exemption is available to MSMEs that produce products like mineral oil, natural gas and fertilisers under Section 80-IB. The tax holiday is available to MSMEs for 5 years from the year of commencement of production.
- MSMEs can opt for a lower tax regime at a rate of 25% under Section 115BAA.
- The Goods and Services Tax (GST@) system offers the Composition Scheme to MSMEs with an annual revenue exceeding INR 1.5 Crores
- If the MSME invests its capital gains from the sale of a long-term asset in the equity shares of a qualified startup, **Section 54GB exempts it from capital gains tax**

OTHER TAX IMPLICATIONS OF MSME

- MSMEs that invest in plant and machinery/equipment can claim an investment allowance of 15% under Section 32AC.
- MSMEs can maximise tax benefits by deducting legitimate business expenses like rent, salaries, depreciation (including additional depreciation) and other administrative expenses.
- The Startup India initiative offers a range of tax benefits to startups operating in the MSME sector. **These advantages could include exclusions from capital gains tax on investments made by qualified investors and an income tax vacation for a predetermined period of years.**

OTHER TAX IMPLICATIONS OF MSME

- Under section 44AD, eligible MSMEs can choose the Presumptive Taxation Scheme. This relieves MSMEs of the need to keep thorough books of accounts, lessening compliance stress and may result in a lower tax liability. The Finance Act 2023 had increased the threshold limit from INR 2 Crore to INR 3 Crore for ease of compliance of MSME
- The Finance Act of 2023 introduced Section 43B(h) to promote timely payment to MSMEs. Tax deductions for payments made to MSMEs can be claimed only when the payments have been made within the time prescribed under the MSME Development Act. This will improve the working capital of the MSMEs.

BENEFITS OF MSME REGISTRATION IN INDIA

- **Working Capital Support**

Schemes like MUDRA and Stand-Up India provide working capital funding without harsh repayment terms to registered MSMEs.

- **Government Support in Loan Restructuring**

During downturns (e.g., COVID-19), registered MSMEs receive **moratorium support**, loan restructuring options, and guaranteed emergency credit lines (GECL

KEY LEGAL PROVISIONS AFFECTING MSMES

- **MSMED Act, 2006**, establishing definitions, promoting growth, ensuring credit flow, and crucially, providing mechanisms for **delayed payment resolution** via **MSEFCs**, along with recent income tax amendments like **Section 43B(h)** enforcing timely payments to registered MSMEs to boost their financial stability and competitiveness.

KEY LEGAL PROVISIONS AFFECTING MSMES

- **MSMED Act, Section 15-23**: Buyer must pay MSME supplier within a specified time (30 days, or up to 45 days if agreed).
- **Section 43B(h) of Income Tax Act**: Companies cannot claim tax deduction for payments to MSMEs made after the 45-day limit; **the amount becomes taxable in the year of payment.**
- **Interest Penalty**: If delayed, the buyer must pay interest at three times the bank rate.
- **MSME Form I**: Mandates disclosure of pending dues to MSMEs.

KEY LEGAL PROVISIONS AFFECTING MSMES

- **Classification of Enterprises:**
- MSMEs are classified based on a **composite criterion of investment in plant and machinery/equipment and annual turnover.**

KEY LEGAL PROVISIONS AFFECTING MSMES

- **Dispute Resolution:**
- MSMEs can approach the Micro and Small Enterprises Facilitation Council (MSEFC) to resolve delayed payment disputes. **The Council is mandated to resolve the dispute through conciliation and arbitration within 90 days. An online portal, MSME Samadhaan, is available for filing and tracking these complaints.**

KEY LEGAL PROVISIONS AFFECTING MSMES

- **Tax Benefits:** MSMEs can avail various tax benefits, including lower corporate tax rates (25% for companies with turnover up to ₹400 crore) and benefits under presumptive taxation schemes (Section 44AD) to simplify compliance.
- **Public Procurement Policy:** The Public Procurement Policy Order, 2012, mandates that Central Ministries and Public Sector Undertakings (PSUs) procure at least **25%** of their annual needs from MSMEs, with specific quotas for SC/ST and women entrepreneurs.
- **Intellectual Property Rights (IPR):** The government encourages MSMEs to protect their intellectual property through schemes that offer financial assistance/reimbursement (up to 50-75% subsidy) for patent, trademark, and design registrations.
- **Labour Laws:** MSMEs must comply with applicable labour laws such as the Code on Wages, 2019, the Industrial Relations Code, 2020, and the Social Security Code, 2020, which consolidate older laws to simplify compliance. **These include provisions for minimum wages, provident fund (PF), and employee state insurance (ESI).**

KEY LEGAL PROVISIONS AFFECTING MSMES

- **MSMED Act, 2006** and the **Mediation Act, 2023**, which has modernized the process by formally integrating mediation.
- **I. Mandatory Two-Stage Process**
- Under **Section 18** of the MSMED Act, all registered payment disputes must follow a specific sequence:
- **Stage 1: Mediation/Conciliation:** The Micro and Small Enterprises Facilitation Council (MSEFC) first attempts an amicable settlement. The Mediation Act, 2023, has replaced the term "conciliation" with "mediation" in Section 18 to align with international standards.
- **Stage 2: Arbitration:** If mediation fails, the council proceeds to mandatory arbitration, either conducting it directly or referring it to an institution.

KEY LEGAL PROVISIONS AFFECTING MSMES

- **Key Features under the Mediation Act, 2023**
- The enactment of the Mediation Act, 2023, has introduced several robust protections for MSMEs:
- **Enforceability:** A **Mediated Settlement Agreement (MSA)** now has the same legal status as a court decree and is directly enforceable.
- **Confidentiality:** Strict confidentiality is mandated for all mediation proceedings; statements or proposals made during the process cannot be used as evidence in subsequent arbitration or litigation.
- **Time-Bound Resolution:** Mediation must generally be completed within **120 days**, with a possible extension of 60 days if both parties agree. Note that the MSMED Act still mandates a total resolution period (including arbitration) of **90 days** from the date of reference.
- **Online Mediation:** The 2023 Act specifically recognizes **Online Dispute Resolution (ODR)**, making it easier for MSMEs to resolve disputes remotely through platforms like MSME ODR.

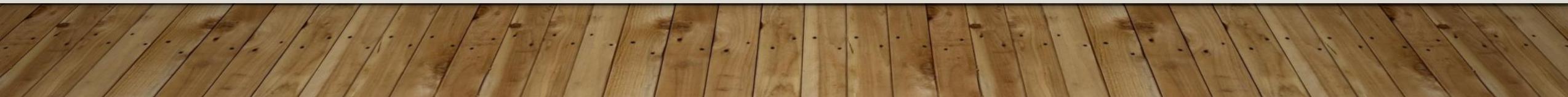
KEY LEGAL PROVISIONS AFFECTING MSMES

- **Legal Protections and Overriding Effect**
- **Non-Obstante Clause:** The dispute resolution mechanism in the MSMED Act overrides any existing private arbitration agreements between parties.
- **Limited Grounds for Challenge:** An MSA can only be challenged on very narrow grounds, such as fraud, corruption, impersonation, or coercion, and must be filed within **90 days**.
- **Pre-deposit Requirement:** If a buyer challenges an *arbitral award* (Stage 2) in court, they are still required to deposit **75%** of the awarded amount with the court beforehand.

KEY LEGAL PROVISIONS AFFECTING MSMES

- **Registration and Filing**
- **Udyam Registration:** Benefits are prospective. To invoke mediation for a dispute, the enterprise must have been registered on the Udyam Portal at the time of the contract or supply.
- **Filing Portal:** MSMEs should file their delayed payment complaints through the [MSME Samadhaan](#) or the newer MSME ODR portal for initial processing by the MSEFC.

KEY LEGAL PROVISIONS AFFECTING MSMES

- arbitration involving MSMEs is primarily governed by
 - **Section 18** of the **MSMED Act, 2006**, which functions as a "special law" that overrides general arbitration agreements.
 - **I. Mandatory Referral and Overriding Effect**
 - **Statutory Primacy:** The MSMED Act's dispute resolution mechanism overrides any private arbitration agreement between parties. Even if a contract specifies a different venue or arbitrator, a registered MSME can still refer the dispute to the **Micro and Small Enterprises Facilitation Council (MSEFC)**.
 - **Automatic Reference:** Once a reference is made under **Section 18(1)**, it triggers a mandatory sequence: first mediation, and then arbitration if mediation fails.
 - **Arbitration Agreement Not Required:** No prior written arbitration clause is necessary to invoke the MSEFC's jurisdiction.
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KEY LEGAL PROVISIONS AFFECTING MSMES

- **Jurisdiction and Seat**
- **Supplier's Location:** The statutory "seat" of arbitration is always the location of the MSME supplier. This overrides any contractual "exclusive jurisdiction" clause that might have favored a different city.
- **Supervisory Courts:** Challenges to the arbitral award must generally be filed in the courts **having jurisdiction over the MSEFC's location.**

KEY LEGAL PROVISIONS AFFECTING MSMES

- **Challenging the Award: The 75% Rule**
- **Mandatory Pre-deposit:** Under **Section 19**, no court will entertain a buyer's application to set aside an MSME arbitral award unless the buyer first deposits **75%** of the awarded amount (including interest) with the court.
- **Hardship Clause:** While the deposit is mandatory, courts may allow it to be paid in installments if "undue hardship" is proven.
- **Protection for MSMEs:** A portion of this deposited amount may be released to the MSME supplier while the court challenge is pending.

KEY LEGAL PROVISIONS AFFECTING MSMES

- **Medium Enterprises Excluded:** These specific arbitration and interest protections apply only to **Micro and Small** enterprises. **Medium enterprises are generally excluded from the MSEFC's statutory arbitration mechanism**
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KEY LEGAL PROVISIONS AFFECTING MSMES

- The jurisdiction of civil courts over MSME disputes is strictly limited but not entirely barred, depending on the nature of the dispute and the stage of the legal process.
- I. General Bar on Initial Jurisdiction
- **Overriding Effect:** The MSMED Act, 2006, is a "special law" that overrides the general jurisdiction of civil courts for disputes concerning delayed payments (Sections 15–23).

KEY LEGAL PROVISIONS AFFECTING MSMES

- **Mandatory Referral:** Once a registered MSME invokes the statutory mechanism under Section 18 by approaching the Micro and Small Enterprises Facilitation Council (MSEFC), the jurisdiction of civil courts and private arbitral tribunals is effectively ousted.
- **Elective Remedy:** While the statutory mechanism is available, it is not compulsory. **An MSME can still choose to file a regular civil suit or follow a private arbitration agreement if it has not already approached the MSEFC. However, once the MSEFC is triggered, that choice is lost.**

KEY LEGAL PROVISIONS AFFECTING MSMES

- Exceptions Where Civil Courts Retain Jurisdiction
- Non-Payment Disputes: The MSEFC's jurisdiction is generally confined to the recovery of dues for goods supplied or services rendered. **Civil courts retain jurisdiction over broader contractual matters, such as deficiencies in service, quality disputes, or performance issues that do not primarily concern delayed payment.**
- Post-Award Challenges: Civil courts (specifically Commercial Courts or District Courts acting as the supervisory body) have exclusive jurisdiction to hear challenges to an arbitral award passed by the MSEFC **under Section 34 of the Arbitration Act.**
- Buyer Initiation: Only an MSME "supplier" can initiate a reference to the MSEFC. A buyer cannot; therefore, a buyer seeking to sue an MSME for damages or breach of contract must generally approach a civil court or use a private arbitration clause.

SECTION 34 – ARBITRATION ACT

- Section 34 of India's Arbitration and Conciliation Act, 1996, governs applications to a court for
- **setting aside an arbitral award**, allowing challenges only on specific grounds like incapacity of a party, invalid agreement, lack of notice, or the award exceeding the scope of arbitration, fundamentally limiting judicial intervention and emphasizing finality, though recent Supreme Court rulings allow for limited modification in specific cases

KEY LEGAL PROVISIONS AFFECTING MSMES

- Key Judicial Positions (2026)
- Primacy of MSMED Act: The Supreme Court (e.g., Harcharan Das Gupta v. Union of India) continues to uphold that the statutory mechanism prevails over party autonomy and private contracts once invoked.
- Exclusive Jurisdiction Clauses: Some High Courts (e.g., Gujarat High Court, 2024–2025) have clarified that while the arbitration happens at the supplier's location, the civil court designated in the original contract still retains jurisdiction for post-award challenges (Stage 2).
- Registration Timing: Civil courts may also entertain cases where the "supplier" was not registered under the MSMED Act at the time of the contract, as such entities may not be eligible for the special protections of the Act.
- These analyses detail the overriding effect of the MSMED Act on private arbitration, the limited recourse for buyers, and jurisdictional ambiguities concerning Section 11 of the Arbitration Act.

SECTION 11.ARBITRATION ACT

- Section 11 of India's [Arbitration and Conciliation Act, 1996](#), governs the **appointment of arbitrators**, allowing parties freedom to agree on a process, but providing court intervention (Supreme/High Court) if they fail, ensuring tribunals are constituted, particularly when parties can't agree or an appointee defaults, aiming to facilitate arbitration by resolving appointment deadlocks with limited judicial review focused on the agreement's existence and arbitrability.

KEY LEGAL PROVISIONS AFFECTING MSMES

- "out-of-court settlement" for MSMEs refers to a formalized, legally binding process integrated into the MSMED Act, 2006 and the Mediation Act, 2023. These settlements are encouraged as the first mandatory step before any formal arbitration begins.

KEY LEGAL PROVISIONS AFFECTING MSMES

- Mandatory Mediation (Stage 1)
- Under Section 18(2) of the MSMED Act, the Micro and Small Enterprises Facilitation Council (MSEFC) must first attempt to settle disputes through mediation.
- Automatic Trigger: Once a reference is filed on the MSME Samadhaan or MSME ODR portal, the council initiates mediation.
- Legal Validity: A settlement reached during this stage and recorded in writing is called a Mediated Settlement Agreement (MSA). **It has the same legal status and force as an Arbitral Award (under Section 74 of the Arbitration Act) and is directly enforceable as a court decree**

KEY LEGAL PROVISIONS AFFECTING MSMES

- if a buyer refuses to pay during or after MSME proceedings, the course of action follows a strictly tiered legal process under the
- **MSMED Act, 2006** and the **Arbitration and Conciliation Act, 1996**.
- **I. Escalation within the Council (During Proceedings)**
- If a buyer fails to settle during the initial stages on the [MSME Samadhaan](#) or [MSME ODR](#) portals:
- **Failed Mediation:** If the buyer does not pay or settle during the mandatory mediation/conciliation phase (Section 18(2)), the MSEFC will automatically terminate mediation and initiate **Arbitration** (Section 18(3)).
- **Arbitral Award:** The Council (or an appointed arbitrator) will conduct a formal hearing and issue a final **Arbitral Award**. This award is a legally binding document specifying the principal amount and the mandatory **triple interest** penalty.

KEY LEGAL PROVISIONS AFFECTING MSMES

- **Execution of the Award (If Buyer Ignores the Award)**
- If the buyer ignores the final Arbitral Award and still does not pay:
- **Civil Court Enforcement:** The MSME must approach a competent civil court to "execute" the award. Under **Section 36** of the Arbitration Act, the award is enforced exactly like a **decree of a civil court**.
- **Attachment of Assets:** The court can order the attachment and sale of the buyer's properties, freeze bank accounts, or even issue warrants to satisfy the payment.

KEY LEGAL PROVISIONS AFFECTING MSMES

- **Severe Financial & Tax Penalties**
- Beyond direct recovery, the buyer faces massive financial consequences for non-payment:
- **Compounded Interest:** The buyer is liable for compound interest with monthly rests at **three times the RBI bank rate** from the appointed date.
- **Tax Disallowance:** Under **Section 43B(h)** of the Income Tax Act (active in 2026), any amount not paid within the 45-day limit is **added back to the buyer's taxable income**. **They cannot claim it as a business expense until the year they actually pay it.**
- **Public Shaming:** The names of defaulting buyers and their outstanding amounts are displayed on the public dashboard of the MSME Samadhaan portal, exerting moral and reputational pressure

KEY LEGAL PROVISIONS AFFECTING MSMES

- APPEAL
- an appeal against an arbitration award passed by a Micro and Small Enterprises Facilitation Council (MSEFC) does not follow the traditional hierarchy of civil courts. Instead, it follows a specific two-step statutory process governed by the **MSMED Act, 2006** and the **Arbitration and Conciliation Act, 1996**.

KEY LEGAL PROVISIONS AFFECTING MSMES

- **The First Step: Application for Setting Aside (Section 34)**
- The initial challenge to an MSEFC award is an application to set it aside under **Section 34** of the Arbitration and Conciliation Act, 1996. This application is filed in the **Principal Civil Court of original jurisdiction** or the **High Court**, often the **Commercial Court**. A critical requirement for buyers filing this application is the **pre-deposit of 75%** of the awarded amount with the court under **Section 19** of the MSMED Act. **The application must be filed within three months of receiving the award, with a possible 30-day extension for sufficient cause.**

KEY LEGAL PROVISIONS AFFECTING MSMES

- **The Second Step: Statutory Appeal (Section 37)**
- If a party is dissatisfied with the court's decision on the Section 34 application, they can file a statutory appeal under **Section 37** of the Arbitration Act. This appeal is typically heard by the **High Court**. For disputes over **₹3 lakh**, the appeal period is generally **60 days** under the Commercial Courts Act.

KEY LEGAL PROVISIONS AFFECTING MSMES

- There is generally **no second appeal** under Section 37, but a **Special Leave Petition (SLP)** to the Supreme Court under Article 136 of the Constitution is an option.
- **Writ Petitions (Article 226)** are generally **not maintainable** against MSME awards due to the availability of the alternative remedies under Sections 34 and 37.
- The "seat" for these challenges is usually at the **MSEFC's location (Supplier's location)**, overriding any conflicting contractual clauses
-

KEY LEGAL PROVISIONS AFFECTING MSMES

- The liability of partners and directors under the MSMED Act, 2006, is governed by a combination of statutory mandates and recent judicial clarifications. While the company or firm is the primary liable party, individuals can be held responsible in specific circumstances.
- **I. Liability of Partners (Partnership Firms)**
- **Unlimited Liability:** In a traditional partnership firm, all partners have **unlimited personal liability**. They are jointly and severally liable for all debts of the firm, including delayed payments and mandatory triple interest under the MSMED Act.
- **Retiring Partners:** A retiring partner remains liable for dues incurred up to the date of their retirement. In certain regulatory contexts like GST, they must notify authorities within one month of retirement to stop further liability.

KEY LEGAL PROVISIONS AFFECTING MSMES

LIABILITY OF DIRECTORS (PRIVATE & PUBLIC COMPANIES)

- Directors generally enjoy the "corporate veil," meaning they are not automatically liable for a company's debts. However, this protection is not absolute:
- **The "Officer in Default" Rule:** Under the Companies Act, 2013, directors identified as "officers in default" (typically whole-time directors, MDs, or CEOs) can be penalized for the company's failure to comply with MSME reporting requirements, such as filing **Form MSME-I**.
- **No Automatic Vicarious Liability:** A landmark Supreme Court ruling in 2025 (*Sanjay Dutt & Ors. v. State of Haryana*) reaffirmed that directors cannot be held vicariously liable for a company's acts unless a **specific statutory provision** imposes such liability or their direct personal involvement is proven.
- **Personal Guarantees:** If a director has provided a personal guarantee for a company's credit or supply, they become personally liable if the company defaults on those payments.

KEY LEGAL PROVISIONS AFFECTING MSMES

- **Statutory Exceptions & "Lifting the Veil"**
- Directors may be held personally liable if the following are established:
- **Fraud or Misconduct:** If a company is used as a "facade" for fraud or to evade statutory obligations, courts may "pierce the corporate veil" to hold the individuals behind it responsible.
- **Dishonoured Cheques (NI Act):** If a cheque issued to an MSME supplier is dishonoured, the directors responsible for the day-to-day conduct of the business face **criminal and personal liability** under Section 138 of the Negotiable Instruments Act.
- **Tax Dues (Income Tax Act):** Under Section 179 of the Income Tax Act, if tax dues cannot be recovered from a private company, every person who was a director during that period can be held **jointly and severally liable** unless they prove the non-recovery was not due to their negligence.

PENALTIES FOR NON COMPLIANCE

- Non-compliance with MSME (Micro, Small & Medium Enterprises) regulations, especially regarding payment delays or filing
- **MSME Form I**, leads to significant penalties under the **Companies Act, 2013**, including substantial fines for the company (up to ₹3 Lakh or more), further daily penalties for officers in default (₹1,000/day), potential imprisonment, and interest at **three times the RBI bank rate** on delayed payments, with these penalties often attracting additional tax liability under **Section 43B(h) of the Income Tax Act**.

PENALTIES....

- Penalties for Failing to File MSME Form I (Section 405, Companies Act, 2013)
- For the Company: A minimum penalty of ₹20,000, potentially increasing to ₹25,000 or more, with further daily penalties of ₹1,000 per day (up to ₹3 Lakh or higher) for continued failure.
- For Officers in Default (Directors, CFO, CS): Fines from ₹20,000 to ₹3 Lakh, or imprisonment up to 6 months, or both, depending on the specific default.
- Adjudication: The Registrar of Companies (ROC) can issue adjudication notices and impose these penalties, with appeals to the Regional Director

PENALTIES

- The compliance requirement is an important aspect and the company and its directors need to ensure the same at all cost and remain a compliant company. In this particular case, as evident from the penalty imposed by the Registrar of Companies / Adjudication Officer, one can understand the importance of timely compliance of filing the required form (in this case the MSM-I form) ensuring the transparency. Needless to mention that understanding the specifics of MSME reporting and acting in accordance with the mandatory regulatory compliance requirements remains imperative for all companies to maintain trust with its stakeholders and above all avoid the legal complications.

KEY LEGAL PROVISIONS AFFECTING MSMES

CLOSURE OF MSME

- **MSMED Act, 2006** does not empower the Micro and Small Enterprises Facilitation Council (MSEFC) to directly order the closure or winding up of a company or partnership. The Council's jurisdiction is limited to resolving payment disputes through mediation and arbitration.
- However, the Act and related frameworks do provide for the **revival or exit** of businesses through specific administrative and legal channels:

KEY LEGAL PROVISIONS AFFECTING MSMES

- **Statutory "Scheme for Closure" (Section 25)**
- Section 25 of the MSMED Act allows the Central Government to notify a **Scheme for Closure of Business** specifically for MSMEs.
- **Purpose:** To provide a streamlined, less complex "exit" route for small businesses that are no longer viable, distinct from the more rigorous insolvency laws applied to large corporations.
- **Implementation:** These schemes typically facilitate the voluntary winding up of registered units by simplifying the deregistration process on the Udyam Portal

KEY LEGAL PROVISIONS AFFECTING MSMES

- **Revival and Rehabilitation (Section 9)**
- Instead of closure, the government prioritizes the **Revival and Rehabilitation** of distressed MSMEs under Section 9.
- **Identification of Stress:** Banks must identify "incipient stress" in MSME accounts before they become Non-Performing Assets (NPAs).
- **Corrective Action Plan (CAP):** A committee (consisting of bank representatives and independent experts) decides whether a business should be restructured or if recovery is the only option.
- **Exit as Last Resort:** If the rehabilitation package fails, the committee initiates recovery proceedings, which may eventually lead to the sale of assets or closure through general civil or insolvency laws.

KEY LEGAL PROVISIONS AFFECTING MSMES

- **Closure via Insolvency Laws (IBC, 2016)**
- While the MSMED Act focuses on recovery and promotion, the actual **compulsory closure** of a company or partnership due to debt is handled under the **Insolvency and Bankruptcy Code (IBC)**.
- **Pre-packaged Insolvency (PPIRP):** MSMEs have a special "pre-pack" resolution process (under Chapter III-A of the IBC) that allows existing management to stay in control while attempting to save the business.
- **Liquidation:** If no resolution plan is approved under the IBC, the National Company Law Tribunal (NCLT) orders the **liquidation** (closure) of the company.

KEY LEGAL PROVISIONS AFFECTING MSMES

- **Dissolved Entities in Proceedings**
- If a buyer company is already dissolved or a partnership is under liquidation, MSMEs can still file claims through the [MSME Samadhaan](#) portal. **The claim remains maintainable against the authority overseeing the dissolution or the legal heirs of a deceased partner.**
- These resources clarify that while the MSMED Act focuses on dispute resolution, **compulsory closure of companies or partnerships falls under the Insolvency and Bankruptcy Code.**

KEY LEGAL PROVISIONS AFFECTING MSMES BENEFITS OBTAINED THROUGH FRAUD?

- The authorities take a zero-tolerance approach to MSME benefits obtained through fraud or misrepresentation. Actions include immediate administrative revocation, financial penalties, and criminal prosecution.
- **I. Administrative Actions and Recovery**
- **Cancellation of Registration:** Authorities will immediately suspend or cancel the **Udyam Registration** of any enterprise found to have suppressed facts or misrepresented self-declared figures (such as investment or turnover).
- **Blacklisting:** Fraudulent enterprises are typically blacklisted from the **MSME Samadhaan** portal and the **Government e-Marketplace (GeM)**, permanently debarring them from government tenders and public procurement benefits.
- **Recovery of Subsidies:** Any financial benefits, such as interest subventions, subsidies, or priority sector credit obtained under false pretenses, are subject to recovery as arrears of land revenue through the relevant state authorities.

KEY LEGAL PROVISIONS AFFECTING MSMES

- **Statutory Penalties under the MSMED Act**
- Under **Section 27** of the MSMED Act, specific fines apply for providing false information:
- **First Conviction:** A fine that may extend up to **₹1,000**.
- **Subsequent Convictions:** A fine between **₹1,000** and **₹10,000**.
- **False Claims:** If an MSME files a false claim for delayed payments, the **MSEFC Council** will summarily reject the petition

KEY LEGAL PROVISIONS AFFECTING MSMES

- **Prosecution under the Companies Act (for Corporate MSMEs)**
- If the MSME is a registered company, providing false information attracts severe penalties under the **Companies Act, 2013**:
- **Section 447 (Fraud):** For serious fraudulent activity, individuals can face imprisonment from **6 months to 10 years** and a fine up to **three times** the amount involved.
- **Section 448 (False Statement):** Knowingly making a false statement or omitting material facts in any required return or certificate (including MSME-I) makes the officer liable for punishment under the fraud provisions of Section 447.
- **Section 405(4):** Furnishing incorrect or incomplete material information can result in a penalty of **₹20,000** for the company and officers, plus a daily penalty of **₹1,000** for continued failure (capped at ₹3 lakh).

KEY LEGAL PROVISIONS AFFECTING MSMES

- **Criminal Actions**
- **Cheating and Forgery:** Authorities can file an FIR under the **Bharatiya Nyaya Sanhita (formerly IPC)** for cheating, forgery, and criminal breach of trust.
- **Money Laundering:** In cases of substantial financial fraud involving government funds, the **Enforcement Directorate (ED)** may initiate proceedings under the **Prevention of Money Laundering Act (PMLA)**

KEY LEGAL PROVISIONS AFFECTING MSMES

- **Extended "Non-Tax" Benefits (3-Year Grace Period)**
- If an enterprise exceeds the investment or turnover limits of its current category (e.g., Small to Medium, or Medium to Large), it does not lose all benefits immediately.
- **Duration:** The unit continues to avail of all **non-tax benefits** for a period of **three years** from the date of the upward change.
- **Covered Benefits:** This grace period applies to critical protections such as:
 - **Delayed Payment Protections:** Access to the MSME Samadhaan portal and the 45-day payment rule.
 - **Public Procurement Policy:** Eligibility for the 25% mandatory government procurement quota.
 - **Subsidies:** Participation in various government schemes and incentives.

KEY LEGAL PROVISIONS AFFECTING MSMES

- **Banking and Credit Status**
- **Priority Sector Lending (PSL):** MSME units continue to enjoy Priority Sector status for up to **three years** after growing out of their respective MSME category.
- **Loan Conditions:** While graduated units may lose access to specific micro-focused schemes like **Mudra Loans**, they can transition to larger commercial bank loans, though often on more stringent terms.

KEY LEGAL PROVISIONS AFFECTING MSMES

- **.Timing of Reclassification**
- **Upward Graduation:** Reclassification occurs if an enterprise crosses the ceiling limit in **either** investment or turnover.
- **Reverse Graduation (Downward):** An enterprise is only moved to a lower category if it falls below the specified limits for **both** investment and turnover concurrently.
- **Effective Date for Reverse Changes:** In cases of reverse graduation, the unit continues in its present higher category until the end of the financial year. The benefit of the new (lower) status is granted only from **April 1st** of the following financial year.

KEY LEGAL PROVISIONS AFFECTING MSMES

- **Exclusion of Export Turnover from MSME Classification**
- A critical legal provision for growth is that **export turnover is completely excluded** when calculating an enterprise's total turnover for MSME classification.
- This allows a "Micro" or "Small" unit to export without limits and still retain its MSME status and benefits, even if its total revenue (including exports) far exceeds the standard turnover caps.

KEY LEGAL PROVISIONS AFFECTING MSMES

- For MSMEs, supplies to a Special Economic Zone (SEZ) are treated as
- **zero-rated supplies** under the GST regime, effectively classifying them as exports. This provides significant tax advantages and liquidity benefits.
- **Key Provisions for MSME Suppliers**
- **Zero-Rated Status:** Supplies of goods or services from a Domestic Tariff Area (DTA) to an SEZ developer or unit are zero-rated under **Section 16 of the IGST Act, 2017**. This means no GST is charged on the final supply.
- **Input Tax Credit (ITC):** MSME suppliers are eligible to claim a refund of the Input Tax Credit (ITC) paid on the inputs (goods and services) used to make these supplies.

KEY LEGAL PROVISIONS AFFECTING MSMES

- **Options for Zero-Rated Supply**
- MSME suppliers have two options to manage the GST aspect of supplies to SEZs:
- **Supply Under a Letter of Undertaking (LUT) or Bond:** The MSME can supply the goods or services without paying any IGST upfront.
 - This is the preferred option for better cash flow as it avoids locking up working capital in tax payments.
 - The supplier can then claim a refund of the accumulated unutilized ITC on the inputs used for the supply.
 - A valid LUT can be filed online on the GST portal.
- **Supply with Payment of IGST:** The MSME can pay the applicable IGST at the time of supply and then claim a refund of the IGST paid later.
 - The SEZ unit can also be requested to claim a refund of the IGST charged if the supplier cannot do so.

KEY LEGAL PROVISIONS AFFECTING MSMES

- **Supplies From SEZ to DTA**
- It is important to note that when an SEZ unit supplies goods or services back to a DTA (Domestic Tariff Area) unit, it is treated as an **import** into India and attracts customs duties, including IGST, which must be paid by the DTA recipient

KEY LEGAL PROVISIONS AFFECTING MSMES

- **Why You Should Print It (Strategic Benefits)**
- While not a strict legal mandate for the invoice's validity, displaying your MSME status and URN is critical for:
- **Enforcing the 45-Day Rule:** Buyers are legally obligated to pay registered Micro and Small enterprises within **45 days** (if a written agreement exists) or **15 days** (if no agreement exists). Printing this on the invoice serves as a clear notice of your protected status.
- **Buyer Tax Compliance (Section 43B(h)):** Under the Income Tax Act, buyers cannot claim a tax deduction for payments to MSMEs if they are delayed beyond the 45-day limit. Buyers often require the URN on the invoice to identify which vendors fall under this "disallowance" rule.
- **MSME Samadhaan Claims:** To file a case for delayed payment on the [MSME Samadhaan portal](#), your registration must pre-date the disputed invoice. Printing the number ensures there is no ambiguity about your status at the time of supply.

KEY LEGAL PROVISIONS AFFECTING MSMES

- **Mandatory Reporting for Buyers**
- While the *supplier* isn't forced to print the number, the *buyer* has mandatory disclosure requirements:
- **MSME-I Form:** Companies that have outstanding dues to **MSMEs** for more than **45 days** must file a half-yearly return (**MSME-I**) with the **Ministry of Corporate Affairs (MCA)**, disclosing the **URN** of the supplier and the amount owed.
- **3. Best Practice for Invoices**
- To maximize your legal protection in 2026, your invoice should ideally include a footer or header stating:
- *"We are a registered [Micro/Small] Enterprise under the MSME Act, 2006. Our Udyam Registration Number is: UDYAM-XX-00-0000000. Please ensure payment is made within [15/45] days as per statutory requirements."*
- **Note:** If you are a **Medium Enterprise**, you are not eligible for the **45-day payment interest** or the **Section 43B(h)** tax disallowance benefits; these apply only to **Micro and Small units**.
- The **45-day payment rule for MSMEs** applies only to **Micro and Small enterprises**, not to **Medium enterprises**.
- This distinction is critical for both legal interest claims and income tax deductions under the newly enforced **Section 43B(h)** of the **Income Tax Act**

KEY LEGAL PROVISIONS AFFECTING MSMES

- **Payment Timeline Breakdown**
- The mandatory payment deadline is determined by the presence of a written agreement:
- **With Written Agreement:** Payment must be made within the timeframe specified in the agreement, which **cannot exceed 45 days**. If an agreement specifies a period longer than 45 days, the law overrides it and limits it to exactly 45 days.
- **Without Written Agreement:** Payment must be made within **15 days** of the "day of acceptance" of goods or services.

KEY LEGAL PROVISIONS AFFECTING MSMES

- Yes, a company
- **can be a partner** in an MSME unit. Under Indian law, companies are considered "juristic persons" (legal entities), which allows them to enter into partnerships.
- This can happen in two primary ways:
- **I.A Company as a Partner in a Firm**
- A private or public limited company can legally join a partnership firm or a Limited Liability Partnership (LLP) as a partner.
- **Legal Requirement:** The company's **Memorandum of Association (MoA)** must specifically authorize it to enter into a partnership.
- **MSME Registration:** If the partnership firm itself meets the MSME criteria (investment and turnover limits), it can register as an MSME on the Udyam Portal.
- **Representative:** Since a company cannot physically sign documents, it must appoint an **authorized representative** (usually a director) to act on its behalf in the partnership

KEY LEGAL PROVISIONS AFFECTING MSMES

- The father, son, and wife can enter into a formal partnership.
- **Legal Basis:** Governed by the Indian Partnership Act, 1932.
- **MSME Registration:** Register as a "Partnership" on the Udyam Portal.
- **Liability:** Partners have "joint and several" liability, meaning personal assets can be at risk for business debts.
- **Documentation:** Requires a **Partnership Deed** outlining profit-sharing and roles

KEY LEGAL PROVISIONS AFFECTING MSMES

- **Hindu Undivided Family (HUF)**
- As a family unit, you can register as an HUF to manage the business.
- **Structure:** The father typically acts as the **Karta** (manager), while the son and wife are coparceners or members.
- **MSME Registration:** HUFs are specifically eligible for Udyam registration.
- **Tax Benefits:** An HUF is treated as a separate tax entity with its own PAN, allowing for income splitting and additional tax exemptions.
- **Requirement:** Requires a separate PAN card in the name of the HUF and an HUF Deed.

KEY LEGAL PROVISIONS AFFECTING MSMES

- **Can an MSME Unit be a Partner in another Partnership Firm?**
- **If the MSME is a Company or LLP:** Yes. A Company or LLP is a separate legal entity and can legally become a partner in another partnership firm or LLP.
- **If the MSME is a Sole Proprietorship or Partnership:** Strictly speaking, no. Under the Indian Partnership Act, a partnership firm is not a separate "legal person." Therefore, it cannot be a partner in another firm in its own name. However, the **individual partners** of the MSME unit can join the new firm as partners in their personal capacity to represent the MSME's interests

KEY LEGAL PROVISIONS AFFECTING MSMES

- **Can an MSME Unit be a Shareholder in a Company?**
- **If the MSME is a Company or LLP:** Yes. These entities have the legal capacity to hold shares in another company.
- **If the MSME is a Partnership Firm or HUF:** No, they cannot directly hold shares in a company because they lack a separate legal identity.
 - **Workaround:** The shares must be registered in the **individual names of the partners** (for a partnership) or the **Karta** (for an HUF).
 - **Exception:** A partnership firm *can* be a member of a **Section 8 Company** (Non-profit. Co)

WHAT COULD BE POSSIBLE MSME DISPUTES IN REAL TIME

- **Payment and Interest Disputes (The "45-Day" Conflict)**
- The most frequent disputes involve buyers failing to pay Micro and Small enterprises within the 45-day legal limit.
- **Income Tax Disallowance (Section 43B(h)):** Buyers now face tax penalties if they don't pay MSMEs on time. This has led to "real-time" disputes where buyers try to dispute the quality of goods solely to stop the 45-day clock and avoid tax disallowance.
- **Compound Interest Claims:** Suppliers are increasingly suing for the mandatory **triple bank rate interest**, even if the principal amount was eventually paid

WHAT COULD BE POSSIBLE MSME DISPUTES IN REAL TIME

- **Contractual and Legal Overrides**
- A major legal battleground in 2026 is the conflict between private contracts and the MSMED Act.
- **Arbitration Clause Conflicts:** Courts have recently reaffirmed that the statutory right of an MSME to go to a **Facilitation Council (MSEFC)** overrides any private arbitration agreement in a contract.
- **Time-Barred Claims:** In a landmark 2025/2026 stance, the Supreme Court clarified that MSMEs can seek **conciliation** for very old (time-barred) debts, though they cannot proceed to formal arbitration for those same old debts.

WHAT COULD BE POSSIBLE MSME DISPUTES IN REAL TIME

- **Mandatory Reporting:** Companies must file **Form MSME-I** on a half-yearly basis if they have outstanding dues beyond 45 days, disclosing the reasons for the delay.
- **Audit Scrutiny:** Tax auditors are now required to report all unpaid MSME dues in **Form 3CD**, which is automatically flagged by the Income Tax Department's portal for tax re-computation

WHAT COULD BE POSSIBLE MSME DISPUTES IN REAL TIME

- ROLE OF CHARTERED ACCOUNTS AND MSME UNITS - CONSEQUENCES AND PRECAUTIONS
- Chartered Accountants (CAs) serve as essential strategic partners for MSMEs, guiding them through financial management, regulatory complexities, and risk mitigation

WHAT COULD BE POSSIBLE MSME DISPUTES IN REAL TIME

- WHETHER CHARTERED ACCOUNTS ARE LIABLE FOR NON DISCLOSURE
- In 2026, Chartered Accountants (CAs) in India face strict legal and professional liability for the non-disclosure of MSME dues, particularly under the revised
- **Section 43B(h)** of the Income Tax Act and the **MSMED Act, 2006**.
- **I. Professional Misconduct (ICAI Regulations)**
- A CA can be held guilty of professional misconduct under the **Chartered Accountants Act, 1949** if they fail to report material non-disclosures in a client's financial statements.
- **Negligence:** Failure to exercise due diligence or being "grossly negligent" in reporting MSME interest dues or delayed payments is a specific ground for misconduct.
- **Sanctions:** The ICAI Disciplinary Committee can impose penalties ranging from a **formal reprimand** and **fines of up to ₹5 lakh** to the **removal of their name** from the Register of Members (suspension of practice).

WHAT COULD BE POSSIBLE MSME DISPUTES IN REAL TIME

- **Statutory Audit Liability**
- Statutory auditors have a legal duty to ensure companies comply with disclosure requirements in their annual accounts.
- **MSMED Act Disclosures:** Section 22 of the MSMED Act mandates disclosing unpaid principal and interest due to MSMEs.
- **Regulatory Penalties:** Regulators like the Registrar of Companies (ROC) have recently penalized statutory auditors for failing to report non-disclosure of MSME interest details in financial statements.

WHAT COULD BE POSSIBLE MSME DISPUTES IN REAL TIME

- **Tax Audit Liability (Form 3CD)**
- As of 2026, the Tax Audit Report (Form 3CD) has been revamped to demand higher transparency regarding MSME payments.
- **Mandatory Reporting:** CAs must explicitly report payments that fall under **Section 43B(h)**, identifying those made after the 15/45-day deadline.
- **Consequences of Incorrect Certification:** If a CA provides false or incorrect information in a tax audit report regarding these disallowances, they may face professional disciplinary action for signing a statement without adequate verification.

WHAT COULD BE POSSIBLE MSME DISPUTES IN REAL TIME

- **Civil and Criminal Liability**
- **Lawsuits for Damages:** CAs can be sued by clients or shareholders for financial losses resulting from incorrect advice or failure to report significant liabilities like compounding MSME interest.
- **Fraud:** In extreme cases where non-disclosure involves intentional fraudulent activity, a CA can face **criminal charges** under the Indian Penal Code

SERVICE PROVIDERS NOT COVERED- MYTH?

- The statement "MSME Act - Not Applicable to Service Providers" is
- **false**, as the [MSMED Act, 2006](#) does cover service enterprises, defining them by investment in equipment, just as manufacturing enterprises are defined by plant/machinery investment. However, courts have ruled that the Act's dispute resolution mechanisms (Sections 15-18) don't **apply to individual service providers not meeting the Act's "supplier" definition, traders, or composite "works contracts" (goods + labor), and require MSE registration before the contract to claim benefits.**

KEY LEGAL PROVISIONS AFFECTING MSMES

- A BIG THANK YOU FOR YOUR PATIENCE THROUGH SUCH A LONG PRESENTATIUN. HOPE IT SERVES YOU WELL.
- SV