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**Integrating MSME and GST Thresholds for Fair Business Practices****RAJI NATHANI**

FCMA, Advocate

**GOPAL NATHANI**

FCA

**Introduction**

The Micro, Small, and Medium Enterprises (MSME) sector is a thrust sector for the Indian economy, serving as the second-largest employment provider after agriculture and contributing approximately one-third of the nation's manufacturing output. Recognized as the backbone of Indian industry, MSMEs are vital for economic growth and stability. However, challenges such as delayed payments continue to hinder their progress, impacting their financial health and operational efficiency. This article explores the integration of MSME and Goods and Services Tax (GST) payment thresholds as a strategic measure to address these challenges, promote fair business practices, and bolster the MSME sector.

In year 2006 MSME regulations were introduced with the following as STATEMENT OF OBJECTS AND REASONS:

Micro, Small and Medium Enterprises (MSMEs) are the bedrock of the Indian economy. After agriculture sector, MSMEs are the largest employment providers in the country and hence form the backbone of the Indian economy. The significance of MSMEs can be underscored by its substantial manufacturing output, accounting for about one-third of the country's total manufacturing output. The Parliamentary Standing Committee on Industry, Rajya Sabha in its 245th Report, on Review of the Implementation of Micro, Small and Medium Enterprises Development Act, 2006 apprehended that decline in the filing of fresh cases may be due to dwindling faith in the efficacy of the existing mechanism. It also reiterated its earlier recommendation contained in its 176th Report that arrangements should be made to give Councils the powers to enforce their awards. The Committee recommended to the Ministry to assess whether enjoining the Industrial Facilitation Council (IFC) with the provisions of Arbitration and Conciliation Act, 1996, has actually rendered the existing mechanism ineffective and to devise more effective provisions for IFC. This Bill aims to revitalize the Industrial Facilitation Councils relating to the issue of delayed payments to MSMEs and by equipping them with powers conferred to a civil court. This will help the MSMEs in recovering their dues swiftly. Hence this Bill.

**Challenges Faced by MSMEs**

The MSME sector faces significant hurdles in recovering dues, despite protective measures outlined in the Micro, Small and Medium Enterprises Development Act, 2006. Sections 15 and 16 of the Act mandate that buyers pay compounded interest on delayed payments to MSMEs. However, these provisions often fall short, as unpaid dues

effectively block working capital, creating financial strain. Litigation for recovery is costly and time-consuming, often proving ineffective, especially for new entrants and young entrepreneurs.

## **The Need for Integration**

To address these challenges, the Central Government must continuously refine regulations to ensure timely payments to MSMEs, as their financial distress directly impacts the national economy. One promising solution is the integration of payment thresholds under the MSME Act with those under the Central Goods and Services Tax (CGST) and State Goods and Services Tax (SGST) Acts. This alignment can streamline payment processes, enhance compliance, and foster a more supportive environment for MSMEs.

## **Current GST and MSME Payment Thresholds**

Under existing GST laws, a registered person must reverse input tax credit (ITC) if they fail to pay the supplier, along with the tax, within 180 days from the invoice issuance date. In contrast, the MSME Act stipulates a shorter 45-day payment threshold for buyers to claim business deductions. This discrepancy creates an uneven playing field, as the longer GST payment window does not incentivize timely payments to MSMEs, undermining their cash flow.

## **Proposed Amendment**

To promote fair business practices and protect MSME interests, the GST laws should be amended to align the ITC reversal period with the MSME Act's 45-day payment threshold for MSME suppliers. Specifically:

For non-MSME purchases, the existing 180-day ITC reversal period can remain unchanged.

For MSME suppliers, the ITC reversal period should be reduced to 45 days, mirroring the MSME Act's payment timeline.

This amendment would compel buyers to prioritize timely payments to MSMEs to retain their ITC eligibility, thereby improving the financial liquidity of MSME enterprises.

## **Benefits of Integration**

Integrating MSME and GST payment thresholds would offer multiple benefits:

1. **Improved Cash Flow for MSMEs:** A 45-day ITC reversal period ensures faster payments, reducing the financial burden of delayed dues and enhancing working capital availability.
2. **Disciplined Supply Chain:** Aligning thresholds encourages buyers to adhere to payment schedules, fostering a more disciplined and reliable supply chain for MSME suppliers.
3. **Increased Tax Revenue:** Timely payments reduce ITC reversals, leading to higher tax compliance and increased revenue for both Central and State Governments.
4. **Enhanced Confidence in MSMEs:** A robust payment mechanism instills confidence among MSME entrepreneurs, encouraging growth and innovation in the sector.
5. **Economic Growth:** A thriving MSME sector, supported by timely payments, contributes significantly to India's economic development.

## **Conclusion**

Integrating the payment thresholds of the MSME Act with GST laws would be a strategic step toward creating a fair and supportive business environment for MSMEs. By aligning the ITC reversal period to 45 days for MSME suppliers, the government can address the critical issue of delayed payments, enhance MSME liquidity, and boost economic growth. This reform not only strengthens the MSME sector but also reinforces India's economic framework by fostering trust, discipline, and efficiency in business transactions. The time to act is now—empowering MSMEs through this integration will pave the way for a more resilient and prosperous Indian economy.

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