



SPECIFIED COMPANIES (FURNISHING OF INFORMATION ABOUT PAYMENT TO MICRO AND SMALL ENTERPRISE SUPPLIERS) AMENDMENT ORDER, 2024.

Government Amends Reporting Rules for Payments to Micro and Small Enterprises:
New 45-Day Threshold Introduced

The Central Government, under the authority granted by section 405 of the Companies Act, 2013, has issued an amendment Dated 15 July 2024 to the Specified Companies (Furnishing of Information about Payment to Micro and Small Enterprise Suppliers) Order, 2019. This new directive is called the Specified Companies (Furnishing of Information about Payment to Micro and Small Enterprise Suppliers) Amendment Order, 2024. The Amendment Aims to strengthen the reporting framework concerning the payment to Micro & Small enterprise (MSE) suppliers.

THE EARLIER PROCESS (UNDER THE 2019 ORDER)

MANDATORY REPORTING:

- i. All specified companies were required to furnish details of their payments to micro and small enterprises, regardless of the duration for which the payment was pending.
- ii. There was no specified threshold like the 45-days period introduced in the 2024 amendment.

MSME FORM-1:

- iii. Companies had to fill out MSME Form-1 to report the payments. This form was to capture various details such as:
 - a. The total outstanding amount due to micro and small enterprises,
 - b. The date of acceptance of goods or services,
 - c. The date of the payment due.
- iv. The form needed to be submitted periodically, typically bi-annually, detailing the payment status of the company to micro and small enterprises.

SCOPE OF REPORTING:

- v. The reporting included all payments to micro and small enterprises, without distinguishing the time frame for which the payment was pending. This meant companies with even short-term pending payments had to report these details.

COMPLIANCE AND PENALTIES:

- vi. Non-compliance with the order could lead to penalties under the Companies Act, 2013. Companies were expected to maintain detailed records of all transactions with micro and small enterprises to ensure accurate reporting.

IMPLICATIONS OF THE EARLIER PROCESS:

- vii. Administrative Burden: (MSE) need to report all pending payments, regardless of duration, created a significant administrative burden for companies, requiring extensive record-keeping and frequent reporting.
- viii. Focus on Short-term Dues: Since all pending payments had to be reported, the focus was diluted across both short-term and long-term dues. This made it harder for regulatory bodies to identify and address cases where companies were significantly delaying payments to micro and small enterprises.
- ix. Lack of Specificity: The absence of a specified threshold meant that even minor delays were reported, potentially overwhelming the regulatory authorities with data and making it difficult to prioritize enforcement actions.

KEY CHANGES MADE IN THIS AMENDMENT ARE AS FOLLOWS:

NEW PROVISIO ADDED:

- i. A proviso has been added to paragraph 3 of the original 2019 order.
- ii. According to this new proviso, only those specified companies that have outstanding payments to micro or small enterprises for a period exceeding 45 days are required to submit information using MSME Form-1.
- iii. The counting of these 45 days begins from either the date the goods or services were accepted, or the date they are considered accepted under section 9 of the Micro, Small and Medium Enterprises Development Act, 2006.
- iv. This means that companies need to be vigilant about their payment timelines and only report if their dues extend beyond this 45-day period.

SUBSTITUTION OF MSME FORM-1:

- v. The existing MSME Form-1 in the Annexure of the 2019 order has been replaced with a new version. The details and format of the updated MSME Form-1 are provided in the latest circular issued by the Ministry of Corporate Affairs (MCA).ⁱ
- vi. This new form is designed to capture the necessary information more effectively and ensure that the reporting process is up to date with the current regulatory requirements.

IMPLICATIONS OF THE AMENDMENT:

- vii. This amendment aims to streamline the reporting process by ensuring that only significant cases of delayed payments to micro and small enterprises are reported. This focus helps regulatory bodies to better monitor and address substantial delays in payments that could impact the financial stability of smaller suppliers.
- viii. By setting a clear threshold of 45 days for overdue payments, the amendment reduces the reporting burden on companies that are diligent with their payment schedules, while highlighting those that may be causing financial strain on micro and small enterprises through delayed payments.
- ix. The introduction of the updated MSME Form-1 ensures that the data collected is comprehensive and relevant, allowing for better analysis and action by the authorities.
- x. Overall, these changes reflect the government's commitment to supporting micro and small enterprises by ensuring timely payments and reducing the administrative burden on companies.

THE AMENDMENT INTRODUCED A MORE STREAMLINED APPROACH BY:

- xi. Setting a clear threshold of 45 days for reporting overdue payments.
- xii. Replacing the old MSME Form-1 with a more updated and effective version.
- xiii. Reducing the reporting burden on companies by focusing only on significant delays in payments.

This transition aimed to improve the efficiency of the reporting process, making it easier for companies to comply and for authorities to monitor and enforce timely payments to micro and small enterprises.

i

<https://www.mca.gov.in/bin/ebook/dms/getdocument?doc=NDU5OTY2Mjky&docCategory=Notifications&type=open>

DISCLAIMER: While every care has been taken in writing this newsletter to ensure its accuracy, KP Associates Advocates & Consultants assumes no responsibility for any errors, which despite all precautions, may be found therein. The material contained in this document does not constitute/substitute professional advice that may be required before acting on any matter.