

Navigating MSME Tax Compliance in India for the Upcoming Fiscal Period



Introduction: why tax compliance matters more than ever

For many small businesses, tax feels confusing for one simple reason: laws are detailed, deadlines are strict, and systems are digital.

But non-compliance is costly:

- Late fees and interest can add up quickly.
- Poor documentation can lead to notices, blocked credits, or delayed refunds.

The good news: compliance becomes easier when you treat it like a routine process, not a yearly panic.

Also, this timing matters: for the fiscal year starting 1 April 2026, major direct-tax reforms from Union Budget 2026–27 are set to roll out, including the new Income-tax Act becoming effective from April 2026 and changes in return timelines.

Who qualifies as an MSME?

MSME classification is based on investment in plant & machinery/equipment and annual turnover

As per the classification referenced by Reserve Bank of India (based on Gazette Notification S.O. 1364(E) dated 21 March 2025)

- **Micro:** investment ≤ ₹2.5 crore and turnover ≤ ₹10 crore
- **Small:** investment ≤ ₹25 crore and turnover ≤ ₹100 crore
- **Medium:** investment ≤ ₹125 crore and turnover ≤ ₹500 crore

Registration requirements (Udyam Registration)

To be recognised officially as an MSME, businesses typically use the government's Udyam portal.

The Udyam Registration Portal states:

- Registration is online and based on self-declaration, with no need to upload documents at the time of filing
- There is no fee for filing Udyam Registration.
- Aadhaar is required, with rules differing by entity type (proprietor/partner/karta/authorised signatory)

(Practical note: Udyam status can also matter in business-to-business relationships because some tax and payment rules reference MSME status.)

Key tax benefits available to MSMEs

Important: many benefits are not labelled “MSME-only.” Instead, they apply to small taxpayers, eligible businesses, or recognised startups—categories where MSMEs often qualify

Income tax benefits: presumptive taxation

Presumptive taxation is a simplified method where taxable income is estimated as a percentage of turnover/receipts (so you may not need detailed books in the usual way, if eligible).

The official Income Tax Department FAQ for ITR-4 explains key thresholds:

- **Section 44AD (business):** turnover limit ₹2 crore normally, and up to ₹3 crore if cash receipts are within the specified limit (cash ≤ 5% of total receipts).
- **Section 44ADA (specified professionals):** receipts limit ₹50 lakh normally, and up to ₹75 lakh if cash receipts are within the specified limit

Section 80 deductions (simple examples that MSMEs actually use)

“Section 80” deductions reduce taxable income when you meet specific conditions

One highly relevant area is the startup tax holiday:

- A recognised startup can apply for tax exemption under Section 80-IAC and, after approval, can take a tax holiday for 3 consecutive financial years out of its first 10 years.
- Government communication also notes the eligibility window for Section 80-IAC benefits was extended for startups incorporated before 1 April 2030

Startup tax holiday (if applicable to you)

This is not for every MSME. But if you are a DPIIT-recognised startup and qualify, it can materially reduce early-year tax strain.

The responsible body here is Department for Promotion of Industry and Internal Trade, which has issued updates on approvals and the framework.

R&D deductions

India's tax law includes deductions for scientific research expenditure, but eligibility and documentation needs can be strict.

For example, Income-tax provisions on in-house R&D (Section 35(2AB)) describe deductions for

approved in-house R&D facilities, and note that for assessment years beginning on or after 1 April 2021, the deduction is equal to the expenditure incurred (rather than a higher weighted amount).

Practical takeaway: if you are investing in R&D, do not treat tax benefit as “automatic.” Plan approvals, tracking, and paperwork early.

Depreciation benefits

Depreciation is simply: you reduce taxable profits by claiming the wear-and-tear cost of business assets over time.

The Income-tax Act (Section 32) outlines depreciation deductions for tangible and intangible assets used for business or profession.

There are also rules about “additional depreciation” for certain new plant and machinery for manufacturing businesses (commonly discussed as 20% on eligible new machinery/plant).

GST benefits for small businesses

Common simplifications include:

- **QRMP scheme (Quarterly Returns with Monthly Payment):** Eligible taxpayers with aggregate turnover up to ₹5 crore can file quarterly returns with monthly payment, subject to conditions (like having filed the last due GSTR-3B).
- **Composition scheme:** a simplified scheme (subject to eligibility) for small taxpayers—often used to reduce compliance load (but it also limits input tax credit, so it is not for everyone).

Important regulatory changes for the upcoming fiscal year

Given today’s date (28 February 2026), the relevant “upcoming fiscal period” is FY 2026–27 (from 1 April 2026).

Key updates that MSME owners should track include:



New Income-tax Act effective from April 2026

PIB’s Union Budget 2026–27 summary states the New Income-tax Act, 2025 will come into effect from April 2026, and simplified rules/forms will be notified.

The Income Tax Department site also lists Income-tax Act, 2025 and a utility to compare provisions (1961 vs 2025), signalling a structural shift in how provisions may be presented going forward.



Tax return timeline changes

A PIB release on direct tax reforms states:

- The time limit for revising returns is extended from 31 December to 31 March (with a nominal fee).
- It also proposes staggered filing deadlines (with individuals using ITR-1 and ITR-2 continuing till 31 July, and non-audit business cases proposed till 31 August).

E-invoicing changes you cannot ignore if you cross thresholds

For GST e-invoicing

- GST Council notification 10/2023 states e-invoicing applies to taxpayers with aggregate turnover exceeding ₹5 crore from 1 August 2023.
- The e-invoice portal notes a reporting restriction: from 1 April 2025, taxpayers with AATO ₹10 crore+ must report e-invoices within 30 days from invoice date, or the system blocks IRN generation.

Even though the 30-day rule started earlier, it is still highly relevant for FY 2026–27 because it affects day-to-day billing discipline.

Common compliance mistakes MSMEs make

- **Late filing (GST or ITR):** leads to fees/interest and creates a compliance trail that is hard to clean later.
- **Incorrect GST input claims:** can lead to reversals, interest, and disputes (often triggered by invoice mismatches and weak documentation).
- **Mixing personal and business accounts:** makes audits and reporting harder, and increases error risk in turnover and expense classification.
- **Poor paperwork:** especially for presumptive eligibility, R&D claims, and depreciation assets.
- **Ignoring advance tax planning:** can create year-end surprises and interest exposure (especially when cash flow is seasonal).



Operational Tax Planning for MSMEs

Practical tax planning tips for MSMEs

Good compliance is mostly good habits.

- Maintain proper bookkeeping and separate bank accounts (reduce errors and stress).
- Use accounting software or structured spreadsheets so GST and TDS data is not scattered.

- Do a quarterly review of tax liability (income tax + GST) so you are not guessing in March.
- Keep digital documentation for purchases/sales/contracts, especially as e-invoicing thresholds and reporting timelines tighten.
- If you sell B2B and are eligible for e-invoicing, build a 30-day discipline into your invoicing workflow (do not “backlog”).

A compliance rule that links cash flow and tax: MSME payment rule (Section 43B(h))

This is worth separate attention because it changes behaviour in the market.

ClearTax explains that amounts owed to micro and small enterprises are generally allowed as deductions in the same year only if paid within deadlines under MSMED Act timelines; otherwise deduction shifts to the year of payment, encouraging timely settlements.

For MSME owners, the practical advantage is this: when buyers care about their tax deductions, they are more likely to pay you on time—if your Udyam status is clear in the vendor master and invoices.

Comparison Table

Area	Benefit	Eligibility	Risk if Ignored	Action Required
MSME classification	Access to MSME ecosystem benefits and recognition	Based on investment + turnover limits (micro/small/medium)	Wrong classification can block benefits or create disputes	Confirm limits and keep records updated
Udyam registration	Official MSME identity	Online self-declaration; no fee; Aadhaar based	You may miss MSME-linked advantages	Register only on official portal and store certificate
Presumptive taxation	Simpler tax reporting	Turnover/receipt limits for 44AD/44ADA	Wrong use can trigger notices	Check threshold and eligibility before opting
Startup tax holiday (80-IAC)	Possible income tax exemption for chosen years	Recognised start-ups with approval; 3 years out of 10	Missed filing window or weak application delays benefit	Apply via Startup India pathway and track approval
E-invoicing	Reduced mismatch; standardised invoice reporting	Mandatory above threshold; 30-day rule for AATO ₹10 cr+	IRN failure and compliance break	Implement e-invoice workflow; avoid late reporting
QRMP	Lower filing frequency	Turnover up to ₹5 cr +conditions	Missed eligibility can create late filing exposure	Opt-in only if eligible and disciplined with monthly payments
New Income tax Act rollout	Simplification and form changes from April 2026	Simplification and form changes from April 2026	Using outdated assumptions may cause filing errors	Re-check forms, rules, timelines for FY 2026-27

Mini case examples

Example of an MSME saving tax through proper planning

A small manufacturing unit chooses disciplined compliance practices

- It keeps fixed-asset records updated, so it correctly claims depreciation under Section 32 instead of missing it.
- It checks presumptive eligibility early (if applicable) and avoids last-minute scrambling.
- It ensures buyers pay within MSME timelines, which improves cash flow stability and reduces year-end borrowing pressure.

Result: lower compliance cost, fewer errors, and better cash predictability—often more valuable than “saving tax” through risky shortcuts.



Example of penalty or cost due to non-compliance

A services MSME files GST returns late for several months.

- Practical guides note that late filing attracts late fees and interest (for example, GSTR-3B late filing typically involves a per-day late fee and interest on unpaid tax).

Even if the business later “catches up,” the habit damages cash flow and raises scrutiny risk.

Checklist for MSME owners for FY 2026–27

Use this as a simple calendar-friendly routine

- Confirm your MSME category (micro/small/medium) using investment and turnover limits.
- If not registered, complete Udyam registration on the official portal and store the certificate.
- Decide your taxation approach early: regular books vs presumptive (if eligible).
- Review e-invoicing applicability (₹5 crore threshold history basis) and implement process discipline, especially if AATO ≥ ₹10 crore (30-day reporting rule).
- If eligible for QRMP, opt in only after confirming conditions and internal discipline.

- For FY 2026–27 filings, re-check return timelines and new law changes (new Income-tax Act effective April 2026; revised return window to 31 March).
- Maintain a “tax folder” (digital) with invoices, bank statements, contracts, asset purchase proofs, and MSME/startup certificates.



Conclusion: compliance is strategy, not burden

Good tax compliance is not just about avoiding penalties. It is about building a business that:

- Has clean financial data,
- Makes smarter decisions,
- and Can scale without fear of notices, blocked credits, or last-minute chaos.



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