

Micro, Small and Medium Enterprises Development (Amendment) Act, 2026 –
Commencement Notification S.O. 5575(E) dated 12 October 2026

We wish to bring to your kind attention an important development concerning the Micro, Small and Medium Enterprises Development Act, 2006 ("MSMED Act"), which governs the classification and registration of MSMEs and the rights of micro and small suppliers in respect of delayed payments.

The MSMED (Amendment) Act, 2026 (Act No. 16 of 2026) received the assent of the President on 13 August 2026. Its provisions, however, come into force only from the dates appointed by the Central Government. The Ministry of MSME has now issued Notification S.O. 5575(E) dated 12 October 2026, which appoints the following dates:

1. 15 October 2026 – Sections 2 to 7, Section 11 and Sections 13 to 17 of the Amendment Act.
2. 15 December 2026 – Section 12 of the Amendment Act.
3. Not yet notified – Sections 8, 9 and 10 of the Amendment Act (the changes to the dispute-resolution and recovery provisions). Until these are notified, the existing Sections 18 and 19 of the MSMED Act continue to apply.

A. Changes effective from 15 October 2026

1. Classification of enterprises (Section 7(1)): The monetary limits for micro, small and medium enterprises will no longer be stated in the Act. The Central Government will notify the limits with reference to investment in plant and machinery or equipment and turnover. Until a fresh notification is issued, the existing classification notification (as revised with effect from 1 April 2025) is expected to continue under the saving clause, to the extent it is consistent with the amended Act.

Current MSME investment and turnover limits (as revised with effect from 1 April 2025)

Category	Investment in plant and machinery/equipment	Annual turnover
Micro enterprise	Not more than ₹2.5 crore	Not more than ₹10 crore
Small enterprise	Not more than ₹25 crore	Not more than ₹100 crore
Medium enterprise	Not more than ₹125 crore	Not more than ₹500 crore

2. Registration (Section 8): Filing of the memorandum (Udyam registration) becomes free and voluntary for all MSMEs, through a national digital platform to be notified by the Central Government. The earlier compulsory filing for medium enterprises engaged in manufacturing is no longer required. State Governments may notify their own platforms for State benefits.
3. Settlement of invoices through TReDS (new Section 15A): Every Central Public Sector Enterprise is required to settle invoices for goods and services procured from MSMEs through an RBI-authorised Trade Receivables Discounting System (TReDS) platform, in the manner to be prescribed. The Central and State Governments may extend this requirement to other notified entities.
4. Disclosure of TReDS invoices (new Section 22A): Entities covered by Section 15A will be required to disclose details of MSME invoices routed and settled through TReDS, in the form and manner to be prescribed.
5. Facilitation Councils (Section 20): State Governments are required to set up an adequate number of Micro and Small Enterprises Facilitation Councils, which are to meet regularly for timely disposal of references.
6. Decriminalisation and penalties (Sections 27 and 27A): Criminal fines are replaced with a graded civil framework:
 - a. Wilfully furnishing false information in the registration memorandum, or in response to a requisition under Section 26(2): warning for the first instance; penalty of ₹1,000 to ₹50,000 for the second and subsequent instances.
 - b. Buyer failing to disclose the principal and interest due to micro and small suppliers in the annual accounts under Section 22: warning for the first instance; penalty of ₹10,000 to ₹50,000 for the second instance; ₹50,000 to ₹1,00,000 for the third and subsequent instances.
 - c. Minimum penalties will increase by 10% after every three years, as notified.
 - d. Penalties will be adjudicated by the Development Commissioner after giving an opportunity of being heard. An appeal lies to the Secretary, Ministry of MSME, within 30 days of receipt of the order, and is to be disposed of within 60 days. Unpaid penalties are recoverable as arrears of land revenue.
7. Other provisions: Definition of "Development Commissioner" (Section 2), composition of the

National Board (Section 3), consequential amendment to Section 14, expanded rule-making powers of the Central and State Governments (Sections 29 and 30), and a saving clause for existing actions and notifications to the extent consistent with the amended Act.

B. Change effective from 15 December 2026

Composition of Facilitation Councils (Section 21): Each Council will have not less than three and not more than five members, including an officer not below the rank of Joint Director as Chairperson, representatives of micro or small industry associations, and at least one member from the field of law.

C. Changes not yet in force

The following changes have been enacted but await a separate notification:

- Time limits for Facilitation Council proceedings: mediation to be completed within 90 days, reference to arbitration within 30 days of failed mediation, and arbitral award within 90 days of completion of pleadings.
- Jurisdiction linked to the supplier's registered address, and online mediation and arbitration.
- Recovery of awards and mediated settlements as arrears of land revenue, and their recognition as debt under the Insolvency and Bankruptcy Code, 2016 (new Section 18A).
- Revised Section 19, under which the court must release at least 50% of the award amount to the supplier where a challenge is pending for more than six months (the 75% pre-deposit requirement for a buyer challenging an award continues).

D. What remains unchanged

The buyer's obligation to pay micro and small suppliers within the agreed period, not exceeding 45 days (Section 15), and the liability for compound interest at three times the bank rate on delayed payments (Section 16) continues without change. Consequently, the income-tax disallowance for payments to micro and small enterprises made beyond the Section 15 time limit [Section 43B(h), Income-tax Act, 1961, and the corresponding provision of the Income-tax Act, 2025] also continues, as do the MSME disclosures required in the financial statements under Schedule III to the Companies Act, 2013.

E. Suggested action points

For all businesses purchasing from MSMEs:

1. Review the vendor master to identify micro and small suppliers, and obtain their current Udyam registration details.
2. Continue to monitor payments to micro and small suppliers within the 45-day limit, considering both the interest liability and the income-tax disallowance.
3. Ensure that the disclosure of amounts due to micro and small suppliers in the annual accounts under Section 22 is complete and accurate, since non-compliance will now attract warning and penalty proceedings.
4. Central Public Sector Enterprises, and entities that may be notified later, may plan the integration of procurement and payment processes with a TReDS platform.

For MSME clients:

1. Although registration is now voluntary, we suggest that the Udyam registration be continued and kept up to date, as it is relevant for availing Government benefits and, once the dispute-resolution amendments are notified, for determining the Facilitation Council having jurisdiction.
2. Ensure that the information furnished in the registration is accurate.
3. Where supplies are made to Central Public Sector Enterprises, onboarding on an RBI-authorized TReDS platform may be considered.
4. Maintain proper records of purchase orders, delivery, invoices, acceptance and correspondence, to support any claim for delayed payment.

We will keep you informed as the Central Government notifies the revised classification limits, the rules under Sections 15A, 22A and 27A, and the commencement of the remaining provisions.

This alert is a general summary for information and is not to be treated as professional advice for any specific case. Kindly go through this and let us know for any clarifications in this regard. We would be glad to assist in reviewing the applicability of these changes to your business.

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