

**IN THE INCOME TAX APPELLATE TRIBUNAL
BANGALORE BENCHES "B", BANGALORE**

Before Shri B.R.Baskaran, AM & Smt.Beena Pillai, JM

ITA No.563/Bang/2021 : Asst.Year 2018-2019

M/s.MAF Clothing Private Limited 35/3/2, Adakamaranahalli Makali Post, 21 st km of Tumkur Road, Bangalore – 562 123. PAN : AAFCM8114M.	v.	The Deputy Commissioner of Income-tax, CPC Bangalore.
(Appellant)		(Respondent)

Appellant by : Sri.R.Venkata Raman, CA

Respondent by : Sri.Srinath Sadanala, Addl.CIT-DR

Date of Hearing : 15.12.2021	Date of Pronouncement : 15.12.2021
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ORDER

Per B.R.Baskaran, AM:

The assessee has filed this appeal challenging the order dated 27.09.2021 passed by the learned CIT(A), NFAC, Delhi, and it relates to assessment year 2018-2019.

2. The grounds raised by the assessee are as follows:-

“1. That the appellate order of the learned Commissioner of Income-tax (Appeals), NFAC, Delhi (Ld.CIT(A)) dated 27.09.2021, upholding the intimation dated 16.10.2019 passed u/s 143(1) of the Income-tax Act, 1961 (Act) by the Deputy Commissioner of Income Tax, Centralized Processing Centre, Bangalore (DCIT-CPC) is without jurisdiction and is opposed to the principles of law, weight of evidence, probabilities, equity, natural justice, fair play and the facts and circumstances of the case of the appellant.

2. That the ld.CIT(A) erred in confirming the addition of Rs.2,63,48,317/- made by the DCIT,CPC u/s 36(1)(va) r.w.s. 2(24)(x) of the Act in respect of employees contribution to PF and ESI deposited beyond the due date of the respective legislation but before the due date for filing the return of income u/s 139(1) of the Act.

3. That the ld.CIT(A) ought to have appreciated that the second proviso to section 43B of the Act which provided for the disallowance of delayed payments of employees contribution was specifically omitted w.e.f. 1.4.2004 and hence making it clear that there is no distinction between the employer and employees contribution. Accordingly, the ld.CIT(A) erred in not appreciating that the sum of Rs.2,63,48,371/- deposited before the due date for filing the return of income u/s 139(1) of the Act is an allowable deduction u/s 43B.

4. That the Ld.CIT(A) erred in not following the judgment of the Hon'ble Supreme Court rendered in the case of CIT v. Alom Extrusions SC 319 ITR 306, wherein the Hon'ble Supreme Court had clearly held that if employees contribution is paid before the due date for filing the return of income the same should not be disallowed.

5. That the Ld.CIT(A) erred in holding that the amendment brought in by the Finance Act, 2021 by way of insertion of Explanation 1 to Section 36(1)(va) is retrospective in nature and consequently erred in upholding the addition made by DCIT, CPC on the said ground. In holding so, the ld.CIT(A) erred in ignoring the "Notes on clauses" at the time of introduction of the Finance Bill, 2021, which clearly says that the amendment in Section 36(1)(va) will take effect from 1st April, 2021 and will, accordingly, apply in relation to the assessment year 2021-2022 and subsequent assessment years. Therefore, the Ld.CIT(A) ought to have appreciated that the amendment in section 36(1)(va) is not applicable to the impugned assessment year.

6. That the Ld.CIT(A) ought to have appreciated that the issue whether employees contribution deposited before the due date of filing the return of income u/s 139(1) is allowable or not is debatable. Further, the amendment in section 36(1)(va) whether retrospective or prospective is also debatable. Being so, the adjustment in respect of the same cannot be made u/s 143(1) of the Act.

7. That the Ld.CIT(A) erred in not appreciating that when two views are possible, the view favourable to the assessee should be adopted. Accordingly, erred in not holding that belated remittance of employees contribution to PF and ESI amounting to Rs.2,63,48,317/- is an allowable deduction in the hands of the appellant.

8. That the appellant craves for the permission of the Hon'ble Income Tax Appellate Tribunal to add, delete or amend the grounds of appeal hereinabove before or during the course of hearing of the instant appeal."

3. All these grounds are directed against a single issue, viz., disallowance of employees contribution to PF and ESI. The facts relating to the said issue are that for the assessment year 2018-2019, return of income was filed on 13.10.2018, declaring income of Rs.8,96,18,162. The assessee was served with an intimation u/s 143(1) of the I.T. Act determining total income at Rs.11,59,66,479. The reason for the difference between the returned income and the income determined u/s 143(1) of the I.T. Act was the disallowance of sum of Rs.2,63,48,317/- being late remittance of employees' contribution to PF and ESI under the respective Acts.

4. Aggrieved by the intimation u/s 143(1) of the I.T. Act, the assessee preferred an appeal before the first appellate authority. It was stated that the assessee had paid the employees' contribution to PF and ESI prior to the due date of filing of the return u/s 139(1) of the I.T. Act. Therefore, it was submitted that the assessee is entitled to deduction of employees' contribution to PF and ESI having regard to the provisions of section 43B of the I.T. Act. In this context, the assessee relied on the judgment of the Hon'ble jurisdictional High Court in the case of *Essae Teraoka Pvt. Ltd Vs. DCIT, reported in 366 ITR 408 (Kar.)*. The CIT(A), however, rejected the appeal of the assessee. The CIT(A) noticed the difference between employer's and employees' contribution to PF and ESI and held that only employer's contribution to PF and ESI is entitled to deduction u/s 43B of the I.T. Act, if the same is paid prior to due date of filing of return of income u/s 139(1) of the Act. It was further held that the amendment to section

36(1)(va) and 43B of the I.T. Act made by Finance Act, 2021 is clarificatory in nature and hence they will have retrospective operation.

5. Aggrieved, assessee has filed this appeal before the Tribunal. The learned AR submitted that an identical issue was decided in favour of the assessee by the Tribunal in the case of M/s. Shakuntala Agarbathi Company Vs. DICT in ITA No.385/Bang/2021 (order dated 21.10.2021).

6. The learned Departmental Representative supported the orders of the Income Tax Authorities.

7. We heard both parties and perused the records. On identical facts, the Bangalore Bench of the Tribunal in the case of M/s. Shakuntala Agarbathi Company Vs. DCIT (supra) by following the dictum laid down by the Hon'ble jurisdictional High Court in the case of *Essae Teraoka Pvt. Ltd Vs. DCIT (supra)*, had held that the assessee would be entitled to deduction of employees' contribution to PF and ESI provided that the payments were made prior to the due date of filing of the return of income u/s 139(1) of the I.T.Act. It was further held by the ITAT that amendment by Finance Act, 2021, to section 36[1][va] and 43B of the Act is not clarificatory. The relevant finding of the ITAT in the case of M/s. Shakuntala Agarbathi Company Vs. DCIT (supra), reads as follows:

"7. We have heard rival submissions and perused the material on record. Admittedly, the assessee has remitted the employees' contribution to ESI before the due date for filing of return u/s 139(1) of the I.T.Act. The Hon'ble jurisdictional High Court in the case of Essae Teraoka (P.) Ltd. v. DCIT reported in 366 ITR 408 (Kar.) has categorically held that the assessee would be entitled to deduction of employees' contribution to ESI provided the payment was made prior

to the due date of filing of return of income u/s 139(1) of the I.T.Act. The Hon'ble jurisdictional High Court differed with the judgment of the Hon'ble Gujarat High Court in the case of CIT v. Gujarat State Road Transport Corporation reported in 366 ITR 170 (Guj.). The Hon'ble High Court was considering following substantial question of law:-

"Whether in law, the Tribunal was justified in affirming the finding of Assessing Officer in denying the appellant's claim of deductions of the employees contribution to PF/ESI alleging that the payment was not made by the appellant in accordance with the provisions u/s 36[1][va] of the I.T.Act?"

7.1 In deciding the above substantial question of law, the Hon'ble High Court rendered the following findings:-

"20. Paragraph-38 of the PF Scheme provides for Mode of payment of contributions. As provided in sub para (1), the employer shall, before paying the member, his wages, deduct his contribution from his wages and deposit the same together with his own contribution and other charges as stipulated therein with the provident fund or the fund under the ESI Act within fifteen days of the closure of every month pay. It is clear that the word "contribution" used in Clause (b) of Section 43B of the IT Act means the contribution of the employer and the employee. That being so, if the contribution is made on or before the due date for furnishing the return of income under sub-section (1) of Section 139 of the IT Act is made, the employer is entitled for deduction.

21. The submission of Mr.Aravind, learned counsel for the revenue that if the employer fails to deduct the employees' contribution on or before the due date, contemplated under the provisions of the PF Act and the PF Scheme, that would have to be treated as income within the meaning of Section 2(24)(x) of the IT Act and in which case, the assessee is liable to pay tax on the said amount treating that as his income, deserves to be rejected.

22. With respect, we find it difficult to endorse the view taken by the Gujarat High Court. WE agree with the view taken by this Court in W.A.No.4077/2013.

23. In the result, the appeal is allowed and the substantial question of law framed by us is answered in favour of the appellant-assessee and against the respondent-revenue. There shall be no order as to costs."

7.2 The further question is whether the amendment to section 36[1][va] and 43B of the Act by Finance Act, 2021 is clarificatory and declaratory in nature. The Hon'ble Supreme Court in the recent judgment in the case of M.M.Aqua Technologies Limited v. CIT reported in (2021) 436 ITR 582 (SC) had held that retrospective provision in a taxing Act which is "for the removal of doubts" cannot be presumed to be

retrospective, if it alters or changes the law as it earlier stood (page 597). In this case, in view of the judgment of the Hon'ble jurisdictional High Court in the case of Essae Teraoka (P.) Ltd. v. DCIT (supra) the assessee would have been entitled to deduction of employees' contribution to ESI, if the payment was made prior to due date of filing of the return of income u/s 139(1) of the I.T.Act. Therefore, the amendment brought about by the Finance Act, 2021 to section 36[1][va] and 43B of the I.T.Act, alters the position of law adversely to the assessee. Therefore, such amendment cannot be held to be retrospective in nature. Even otherwise, the amendment has been mentioned to be effective from 01.04.2021 and will apply for and from assessment year 2021-2022 onwards. The following orders of the Tribunal had categorically held that the amendment to section 36[1][va] and 43B of the Act by Finance Act, 2021 is only prospective in nature and not retrospective.

(i) Dhabriya Polywood Limited v. ACIT reported in (2021) 63 CCH 0030 Jaipur Trib.

(ii) NCC Limited v. ACIT reported in (2021) 63 CCH 0060 Hyd Tribunal.

(iii) Indian Geotechnical Services v. ACIT in ITA No.622/Del/2018 (order dated 27.08.2021).

(iv) M/s.Jana Urban Services for Transformation Private Limited v. DCIT in ITA No.307/Bang/2021 (order dated 11th October, 2021)

7.3 In view of the aforesaid reasoning and the judicial pronouncements cited supra, the amendment by Finance Act, 2021 to Sec.36[1][va] and 43B of the Act will not have application to relevant assessment year, namely A.Y. 2019-2020. Accordingly, we direct the A.O. to grant deduction in respect of employees' contribution to ESI since the assessee has made payment before the due date of filing of the return of income u/s 139(1) of the I.T.Act, It is ordered accordingly."

7.1 Therefore, the amended provisions of section 43B as well as 36(1)(va) of the I.T.Act are not applicable for the assessment year under consideration. By following the binding decision of the Hon'ble jurisdictional High Court in the case of *Essae Teraoka Pvt. Ltd Vs. DCIT (supra)*, the employees' contribution paid by the assessee before the due date of filing of return of income u/s 139(1) of the I.T.Act is an allowable deduction. Accordingly, we decide this issue in

favour of the assessee and the disallowance made by the Assessing Officer is deleted.

8. In the result, the appeal filed by the assessee is allowed.
Order pronounced on this 15th day of December, 2021.

Sd/-
(Beena Pillai)
JUDICIAL MEMBER

Sd/-
(B.R.Baskaran)
ACCOUNTANT MEMBER

Bangalore; Dated : 15th December, 2021.

Devadas G*

Copy to :

1. The Appellant.
2. The Respondent.
3. The CIT(A), NFAC, Delhi
4. The Pr.CIT, Bangalore.
5. The DR, ITAT, Bengaluru.
6. Guard File.

Asst.Registrar/ITAT, Bangalore