

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

Before Shri George George K, JM & Ms.Padmavathy S, AM

ITA No.674/Bang/2021 : Asst.Year 2018-2019

ITA No.675/Bang/2021 : Asst.Year 2019-2020

M/s.Hi Q Design and Detailing Private Limited No.790, 14 th Cross, 34 th Main J.P.Nagar, 1 st Phase Bangalore – 560 078. PAN : AABCH4240D.	v.	The Assistant Director of Income Tax, CPC, Bangalore.
(Appellant)		(Respondent)

Appellant by :Ms.Akshaya K.S., CA

Respondent by : Smt.Priyadarshini Besaganni, JCIT-DR

Date of Hearing : 01.02.2022	Date of Pronouncement : 01.02.2022
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ORDER

Per George George K, JM

These appeals at the instance of the assessee are directed against two separate orders of the CIT(A), both dated 25.08.2021. The relevant assessment years are 2018-2019 and 2019-2020.

2. The grounds raised in both the appeals are identical, except for variation in figures, hence, we reproduce grounds raised for assessment year 2018-2019 (ITA No.674/Bang/2021) :-

“1. The order of the Learned Commissioner of Income Tax (Appeals) / National Faceless Appeal Centre (NFAC), passed under Section 250 of the Act is opposed to law, equity, weight of the evidence and facts of the Appellant's case.

2. The learned NFAC is not justified in upholding the disallowance of Rs.9,14,808/- pertaining to deduction

claimed by the appellant under Section 36(1)(va) read with Section 43B with respect to the employees' contribution to provident fund which was credited to the employees' account in the relevant fund after the due date specified under the provisions of the relevant fund / law but before the date of filing of the return of income under the Act.

3. *The learned NFAC is not justified in holding that the amendment made by insertion of Explanation 2 to Section 36(1)(va) of the Act and the insertion of Explanation '5 to Section 43B of the Act with effect from 01/04/2021 was clariflcatorv in nature and therefore, these amendments were retrospective in operation under the facts and circumstances of the appellant's case.*

4. *The Learned NFAC ought to have appreciated that the aforesaid amendment by the "Finance Act, 2021 cannot be regarded as retrospective in nature as they were not in the nature of beneficial legislation to remove intended hardship-cast on the assessee and therefore, the disallowance sustained on that basis is opposed to law and facts of the appellant's*

5. *The Learned NFAC is not justified in refusing to follow the binding jurisdictional judgement of the Hon'ble Karnataka High Court rendered in the case of Essae Teraoka Private Ltd. Vs. DCIT (366 ITR 408) in favour of the assessee on the ground that the said judgement was rendered before the aforesaid amendment made under the Finance Act, 2021.*

6. *The learned NFAC failed to adjudicate the ground of the appellant that the learned Assessing Officer has exceeded jurisdiction in incorporating the adjustments which are not covered within the scope of section 143 of the Act.*

7. *The learned NFAC erred by relying in the Circular No.22/2015 dated 17.12.2015, where the said circular clearly mentions that the circular will not apply to claim of deduction relating to employees contribution.*

8. *The appellant craves leave to add, amend, alter, omit or substitute any of the grounds on or before hearing of the appeal."*

3. The brief facts of the case are as follows:

For the assessment years under consideration, the returns of income were filed by the assessee, declaring income of Rs.1,05,75,080 for A.Y. 2018-2019 and Rs.1,04,92,470 for

A.Y. 2019-2020. The assessee was served with intimation u/s 143(1) of the I.T. Act determining total income at Rs.1,14,89,880 for A.Y.2018-2019 and Rs.1,16,97,510 for A.Y. 2019-2020. The reason for the difference between the returned income and the income determined u/s 143(1) of the I.T. Act was on account of disallowance of Rs.9,14,808 (for A.Y.2018-2019) and Rs.12,05,034 (for A.Y. 2019-2020) 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 appeals 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 appeals of the assessee. The CIT(A) noticed the difference between employer and employee contribution to PF and ESI and held that only employers 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 by Finance Act, 2021 is clarificatory and has got retrospective operation.

5. Aggrieved, assessee has filed these appeals 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 have heard the rival submissions and perused the material on record. 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 years 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 appeals filed by the assessee are allowed.

Order pronounced on this 01st day of February, 2022.

Sd/-
(Padmavathy S)
ACCOUNTANT MEMBER

Sd/-
(George George K)
JUDICIAL MEMBER

Bangalore; Dated : 01st February, 2022.
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