

IN THE INCOME TAX APPELLATE TRIBUNAL
VISAKHAPATNAM BENCH, VISAKHAPATNAM

BEFORE SHRI DUVVURU R L REDDY, HON'BLE JUDICIAL MEMBER
&
SHRI S. BALAKRISHNAN, HON'BLE ACCOUNTANT MEMBER

	I.T.A. No. 180 & 181/VIZ/2021	
	(Asst. Year : 2018-19 & 2019-20)	
Venkata Rao Patnala, Visakhapatnam. PAN: AHCPP 5926 H (Appellant)	Vs.	Income Tax Officer, Ward-1(4), Visakhapatnam. (Respondent)
	Assessee by:	Sri Suseel Kumar Agarwal
	Revenue by:	Sri SPG Mudaliar, Sr. AR

	I.T.A. No.201 & 202/VIZ/2021	
	(Asst. Year : 2018-19 & 2019-20)	
Sri Krishna Shipping Corporation, Visakhapatnam. PAN: AAPFS 8946 Q (Appellant)	Vs.	Deputy Commissioner of Income Tax, Circle-3(1), Visakhapatnam. (Respondent)
	Assessee by:	Shri I Kama Sastry
	Revenue by:	Shri SPG Mudaliar, Sr. AR

	I.T.A. No.228/VIZ/2021	
	(Asst. Year :2019-20)	
Sri Ram Travels, Visakhapatnam. PAN: ACQFS 5781 A (Appellant)	Vs.	Income Tax Officer, Ward-3(2), Visakhapatnam. (Respondent)
	Assessee by:	Sri P.V. Madhusudana Rao
	Revenue by:	Shri SPG Mudaliar, Sr. AR

I.T.A. No.230/VIZ/2021		
(Asst. Year :2018-19)		
Theganahally Ramakrishna Ramesha, Visakhapatnam. PAN: ACXPT 3040 L	Vs.	Income Tax Officer, Ward-4(2), Visakhapatnam.
(Appellant)		(Respondent)
Assessee by:	Shri GVN Hari	
Revenue by:	Shri SPG Mudaliar, Sr. AR	

I.T.A. No. 231/VIZ/2021		
(Asst. Year : 2018-19)		
Sai Priya Estates & Resorts Limited, Visakhapatnam PAN: AACCS 3976 N	Vs.	The Income Tax Officer, Ward-4(2), Visakhapatnam.
(Appellant)		(Respondent)
Assessee by:	Sri P.V. Madhusudana Rao	
Revenue by:	Sri SPG Mudaliar, Sr. AR	

I.T.A. No. 249/VIZ/2021		
(Asst. Year :2019-2020)		
Shree Balaji Udyog, Srikakulam. PAN: ACQFS 8673 M	Vs.	Income Tax Officer, Ward-1, Srikakulam.
(Appellant)		(Respondent)
Assessee by:	None	
Revenue by:	Shri SPG Mudaliar, Sr. AR	

I.T.A. No. 247 & 248/VIZ/2021		
(Asst. Year :2018-19 & 2019-20)		
Harsh Vardhan Services, Visakhapatnam. PAN: ABFFM 3625 F	Vs.	Income Tax Officer, Ward-1(1), Visakhapatnam.
(Appellant)		(Respondent)
Assessee by:	Shri P.V. Madhusudana Rao	
Revenue by:	Shrij SPG Mudaliar, Sr. AR	
Date of hearing:	15/03/2022	
Date of pronouncement:	17/03/2022	

ORDER

PER BENCH:

All the captioned appeals are filed by the assessees against the respective orders of the ld. CIT (A), National Faceless Appeal Centre (NFAC), Delhi. Since, the issue raised in all these appeals is similar for various assessment years, for the sake of convenience, these appeals are clubbed, heard together and disposed off in this consolidated order.

2. The assessees have raised certain grounds in their respective appeals however, the crux of the issue is that:

“The Ld. CIT (A) has erred in confirming the disallowance of expenditure incurred towards payment made for employees’ contribution to PF & ESI though they were remitted in the

Government Treasury within the due date of filing the income tax return.”

3. Before us, none appeared on behalf of the assessee in the case of Shri Balaji Udyog (ITA No. 249/VIZ/2021) however, since considering the covered nature of the issue, we proceed to adjudicate the case on merits.

4. At the outset, we find the issue before us is settled by the Memorandum Explaining the Provisions in Finance Bill, 2021, wherein it is stated that amendment to section 36(1)(va) and section 43B of the Act will take effect from 1/4/2021. The relevant portion of the Memorandum is extracted herein below for reference.

Rationalisation of various Provisions

“Payment by employer of employee contribution to a fund on or before due date

Clause (24) of section 2 of the Act provides an inclusive definition of the income. Sub-clause (x) to the said clause provide that income to include any sum received by the assessee from his employees as contribution to any provident fund or superannuation fund or any fund set up under the provisions of ESI Act or any other fund for the welfare of such employees.

Section 36 of the Act pertains to the other deductions. Sub-section (1) of the said section provides for various deductions allowed while computing the income under the head ‘Profits and gains of business or profession’.

Clause (va) of the said sub-section provides for deduction of any sum received by the assessee from any of his employees to which the provisions of sub-clause (x) of clause (24) of section 2 apply, if such sum is credited by the assessee to the employee’s account in the relevant fund or funds on or before the due date. Explanation to the said clause provides that, for the purposes of this clause, “due date” to mean the date by which the assessee is required as an employer to credit an employee’s contribution to the employee’s account in the relevant fund under any Act, rule, order or notification issued there-under or under any standing order, award, contract of service or otherwise.

Section 43B specifies the list of deductions that are admissible under the Act only upon their actual payment. Employer's contribution is covered in clause (b) of section 43B. According to it, if any sum towards employer's contribution to any provident fund or superannuation fund or gratuity fund or any other fund for the welfare of the employees is actually paid by the assessee on or before the due date for furnishing the return of the income under sub-section (1) of section 139, assessee would be entitled to deduction under section 43B and such deduction would be admissible for the accounting year. This provision does not cover employee contribution referred to in clause (va) of sub-section (1) of section 36 of the Act.

Though section 43B of the Act covers only employer's contribution and does not cover employee contribution, some courts have applied the provision of section 43B on employee contribution as well. There is a distinction between employer contribution and employee's contribution towards welfare fund. It may be noted that employee's contribution towards welfare funds is a mechanism to ensure the compliance by the employers of the labour welfare laws. Hence, it needs to be stressed that the employer's contribution towards welfare funds such as ESI and PF needs to be clearly distinguished from the employee's contribution towards welfare funds. Employee's contribution is employee own money and the employer deposits this contribution on behalf of the employee in fiduciary capacity. By late deposit of employee contribution, the employers get unjustly enriched by keeping the money belonging to the employees. Clause (va) of sub-section (1) of Section 36 of the Act was inserted to the Act vide Finance Act 1987 as a measure of penalizing employers who mis-utilize employee's contributions.

Accordingly, in order to provide certainty, it is proposed to –

- (i) amend clause (va) of sub-section (1) of section 36 of the Act by inserting another explanation to the said clause to clarify that the provision of section 43B does not apply and deemed to never have been applied for the purposes of determining the –due date under this clause; and*
- (ii) amend section 43B of the Act by inserting Explanation 5 to the said section to clarify that the provisions of the said section do not apply and deemed to never have been applied to a sum received by the assessee from any of his employees to which provisions of sub-clause (x) of clause (24) of section 2 applies.*
These amendments will take effect from 1st April, 2021 and will accordingly apply to the assessment year 2021-22 and subsequent assessment years.”

4. In the case of the assesseees it is not disputed that the amount of employee's contribution was deducted by the assesseees and remitted in the Government Treasury within the due date of filing their returns of income under the Income Tax Act, 1961. Since the cases of the assesseees

relate to assessment years 2018-19 & 2019-20 and the amendment though clarificatory in nature has come into effect from 1/4/2021, for the relevant year under consideration it would suffice that the employee's contribution deducted by the assessee is remitted in the Government Treasury within the due date of filing of the return of income as prescribed under the Act. Therefore, the disallowance made by the Ld. Revenue Authorities is deserved to be deleted. Hence, we hereby direct the Ld. AO to delete the addition made in the hands of the assessee under appeal towards disallowance of payment made in regard to the employee's contribution to PF & ESI fund.

5. In the result, all the appeals of the assessee are allowed.

Pronounced in the open Court on the 17th March, 2022.

Sd/-

(S. BALAKRISHNAN)
Accountant Member

Sd/-

(DUVVURU R L REDDY)
Judicial Member

Dated: 17th March, 2022.

OKK

Copy to:

1. *The Assessee:* (i) Venkata Rao Patnala, D.No.18-1-21, Flat No.103B, 1st Floor, Vishnu Surya Prabha Paradise, Maharaniipeta, Visakhapatnam.
(ii) Sri Krishna Shipping Corporation, Flat No.9, Kalyani, Sector-2, MVP Colony, Visakhapatnam, Andhra Pradesh – 530017.
(iii) Sri Ram Travels, 9-7-22/2, Babu Nilayam, Sivaji Palem, Visakhapatnam, Andhra Pradesh.
(iv) Theganahally Ramakrishna Ramesha, D.No. 39-9-94/4, ADVAITA, Murali Nagar, Visakhapatnam.
(v) Sai Priya Estates & Resorts Limited, 10-2-10G, AC Guards, Lakadikapool, Hyderabad, Telangana.
(vi) Shree Balaji Udyog, 6-1-30, 1st Floor, Palakonda Road, Near Gandhi Park, Srikakulam – 532001.
(vii) Harsh Vardhan Services, 3-52, Challa Colony, MRO Office Back Side, Parawada, Visakhapatna, Andhra Pradesh.
2. *The Revenue:*(i) Income Tax Officer, Ward-1(4), 4th Floor, Direct Tax Building, MVP Colony, Visakhapatnam, Andhra Pradesh.
(ii) Deputy Commissioner of Income Tax, Circle-3(1), Visakhapatnam, Andhra Pradesh.
(iii) Income Tax Officer, Ward-3(2), MVP Colony, Visakhapatnam, Andhra Pradesh – 530017.
(iv) Income Tax Officer, Ward-4(2), Pratyakshakar Bhavan, MVP Colony, Visakhapatnam.
(v) Income Tax Officer, Ward-4(2), MVP Colony, Visakhapatnam.
(vi)Income Tax Officer, Ward-2, Palakonda Road, Srikakulam – 532001.
(vii) Income Tax Officer, Ward-1(1), MVP Colony, Visakhapatnam.
3. *The CIT(A), National Faceless Appeal Centre (NFAC), Delhi.*
4. *The D.R., ITAT, Visakhapatnam.*
5. *Guard file.*

By order

Sr. Private Secretary,
ITAT, Visakhapatnam.