

आयकर अपीलीयअधिकरण, विशाखापटणम पीठ, विशाखापटणम

IN THE INCOME TAX APPELLATE TRIBUNAL,
VISAKHAPATNAM BENCH, VISAKHAPATNAM

श्री दुव्वूरु आर एल रेड्डी, न्यायिक सदस्य एवं श्री एस बालाकृष्णन, लेखा सदस्य के समक्ष

BEFORE SHRI DUVVURU RL REDDY, HON'BLE JUDICIAL MEMBER &
SHRI S BALAKRISHNAN, HON'BLE ACCOUNTANT MEMBER

आयकर अपील सं./ I.T.A. No.137/Viz/2022

(निर्धारण वर्ष / Assessment Year :2016-17)

SSNR Projects Pvt Ltd.,
Visakhapatnam.

PAN: AARCS 2464 C

(अपीलार्थी/ Appellant)

अपीलार्थी की ओर से/ Appellant by

प्रत्यार्थी की ओर से / Respondent by

Vs. DCIT/ACIT,

Circle-3(1),

Visakhapatnam.

(प्रत्यर्थी/ Respondent)

Sri DM Rao, CA

Sri ON Hari Prasadarao, Sr. AR

सुनवाई की तारीख / Date of Hearing

: 17/08/2022

घोषणा की तारीख/Date of

: 23/08/2022

Pronouncement

ORDER

PER DUVVURU RL REDDY, Judicial Member :

This appeal is filed by the assessee against the order of the Ld. Commissioner of Income Tax (Appeals), National Faceless Appeal Centre, Delhi [Ld. CIT(A)] in DIN & Order No. ITBA/NFAC/S/250/2022-23/1043366275(1), dated 8/6/2022 arising out of the order passed U/s.143(3) of the Income Tax Act, 1961 [the Act] for the AY 2016-17.

2. The assessee has raised several grounds in its appeal 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. At the outset, we find that 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 assessee, it is not disputed that the amount of employee's contribution to PF & ESI was deducted by the assessee and remitted in the Government Treasury within the due date of filing the return of income under the Income Tax Act, 1961. Since the case of the assessee relates to assessment year 2016-17 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 to PF & ESI 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 towards disallowance of payment made in regard to the employee's contribution to PF & ESI fund.

5. In the result, appeal of the assessee is allowed.

Pronounced in the open Court on the 23rd August, 2022.

Sd/-

(एस बालाकृष्णन)

(S.BALAKRISHNAN)

लेखा सदस्य/ACCOUNTANT MEMBER

Sd/-

(दुव्वूरु आर.एल रेड्डी)

(DUVVURU RL REDDY)

न्यायिकसदस्य/JUDICIAL MEMBER

Dated : 23.08.2022

OKK - SPS

आदेश की प्रतिलिपि अग्रेषित/Copy of the order forwarded to:-

1. निर्धारिती/ The Assessee– SSNR Projects Private Limited, D.No.51-8-40, Behind BOC Limited, Seethammadhara , Visakhapatnam, Andhra Pradesh – 530013.
2. राजस्व/The Revenue – DCIT/ACIT, Circle-3(1), D.No.50-92,35, Infinity Towers Building, Shankaramatham Road, Shanthipuram, Visakhapatnam.
3. The Principal Commissioner of Income Tax,
4. आयकर आयुक्त (अपील)/ The Commissioner of Income Tax (Appeals), National Faceless Appeal Centre, Delhi.
5. विभागीय प्रतिनिधि, आयकर अपीलीय अधिकरण, विशाखापटणम/ DR, ITAT, Visakhapatnam
6. गार्ड फ़ाईल / Guard file

आदेशानुसार / BY ORDER

Sr. Private Secretary
ITAT, Visakhapatnam