

Supreme Court settles controversy on deductibility of employees' contribution to provident fund and other welfare funds

15 October 2022



Summary

Deductibility of employees' contribution to provident fund (PF) and other welfare funds deposited before the due date of filing of the return of income (ROI), but after the due date prescribed under the relevant statute (respective Act) has been a subject matter of extensive litigation.

The Supreme Court (SC), in a batch of special leave petitions (SLP)¹, has settled this controversy and has held that payment of employees' contribution to PF and other welfare funds cannot be claimed as a deduction if it is paid after the due date under the respective Act.

Facts of the case

- Taxpayer deposited the employees' contribution to provident fund (PF) and other welfare fund (ESIC) after the due date under the respective Acts, but before the due date of filing its ROI.
- Taxpayer claimed the deduction of aforesaid amounts on the premise that these amounts were paid before the due date of filing the ROI.
- Revenue disallowed the claim, on the ground that these amounts are paid beyond the due date under the respective Acts. It was also held that such amounts would constitute as income² of the taxpayer.
- As per Revenue, the right to claim such amounts as allowable deduction was lost forever since these were paid beyond the due dates as prescribed under the respective Acts.
- In this case, the order passed by the Gujarat High Court (HC) was the subject matter of appeal before the SC.
- Considering that there are divergent rulings of various HCs³ on this issue, the SC granted special leave to appeal in various taxpayer's cases and has dealt with the entire batch of appeals.

Key observations of the SC

- The SC observed that Section 43B was introduced⁴, so that deductions, which were otherwise permissible and were being claimed on mercantile basis, would be allowed in certain cases on payment basis.
- Thereafter, Section 36(1)(va), 2(24)(x) and the second proviso to Section 43B were also introduced⁵.
- The SC observed that the Parliament intended to retain the separate character of employees' and employer's contribution to

1 Checkmate Services P. Ltd (Civil Appeal No. 2833/2016)

2 As per section 2(24)(x) of the Income-tax Act, 1961 (the Act)

3 High Courts of Bombay, Himachal Pradesh, Calcutta, Guwahati and Delhi favouring the interpretation beneficial to the assesses and the High Courts of Kerala and Gujarat preferring the interpretation in favour of the Revenue

4 Vide Finance Act, 1983

5 Vide Finance Act, 1989

the welfare funds based on use of different language in the statute⁶.

- Amount received from the employees (whether the amount is received from the employee or by way of deduction authorized by the statute) is deemed to be the income of the employer⁷. This amount is held in trust by the employer, underlined by the condition that it has to be deposited on or before the due date (under the respective Act).
- Deduction under Section 36(1)(va) of the Act can be claimed on payment of employees' share to the relevant fund within the prescribed time (as per the respective Act).
- The SC explained that the non-obstante clause in Section 43B has to be understood in the context of the entire provision and its rationale (i.e., to ensure timely payment of certain liabilities before the ROI is filed). For such liabilities (tax, interest payment and other statutory liabilities), some leeway is given by allowing taxpayers deduction even if the said liability is paid before filing its ROI.
- However, the non-obstante clause cannot apply in case of amounts held under trust (i.e., employees' contribution to welfare funds).

- The SC concurred with the Gujarat HC's finding in taxpayer's case that the non-obstante clause would not in any manner dilute or override the employer's obligation to deposit the employees' contribution to PF and ESIC, if it is not deposited on or before the due date (under the respective Act).
- With respect to taxpayer's reliance on earlier SC judgement⁸ (which was also relied on by various HCs), the SC observed that the said judgement did not consider Section 2(24)(x) and 36(1)(va) of the Act and the fact that there are separate provisions in Section 36(1) for employer's contribution and employees' contribution.

Conclusion of the SC

- SC held that there is no infirmity in the approach of the Gujarat HC in disallowing the taxpayer's claim of deduction for employees' contribution to PF and ESIC which is paid beyond the due date under the respective Act.
- Further, it held that rulings of the other High Courts, holding to the contrary, do not lay down the correct law.

⁶ In Section 36(1)(va) and section 43B of the Act

⁷ As per section 2(24)(x) of the Act

⁸ CIT v. Alom Extrusions Ltd. (2010) (1 SCC 489)

Our comments

It is pertinent to note that the Finance Act, 2021 has amended Section 43B and Section 36(1)(va) of the Act with effect from 1 April 2021. As per the amendment in Section 43B of the Act, provisions of Section 43B of the Act do not apply and never deemed to have applied to any sum received by an employer from his employee. Further, as per changes in Section 36(1)(va) of the Act, it was clarified that the provisions of Section 43B of the Act do not apply and never deemed to have applied for the purpose of determining the 'due date' for employees' contribution.

Post these amendments, in certain cases, it has been held that these amendments are prospective in nature. The SC decision does not specifically deal with these amendments. However, based on the SC ruling in this case, the ambiguity in respect of claim of such deductions appears to have been settled even for years prior to assessment year 2021-22. Taxpayers may need to assess the impact on the facts of their case and evaluate the way forward.

Contact us

To know more, please visit www.grantthornton.in or contact any of our offices as mentioned below:

NEW DELHI

National Office,
Outer Circle,
L 41, Connaught Circus,
New Delhi - 110001
T +91 11 4278 7070

NEW DELHI

6th Floor, Worldmark 2,
Aerocity,
New Delhi - 110037
T +91 11 4952 7400

AHMEDABAD

Unit No - 603 B, 6th Floor,
Brigade International
Financial Center,
GIFT City Gandhinagar,
Ahmedabad - 382355
T +91 11 4278 7070

BENGALURU

5th Floor, 65/2, Block A,
Bagmane Tridib,
Bagmane Tech Park,
CV Raman Nagar,
Bengaluru - 560093
T +91 804 243 0700

CHANDIGARH

B-406A, 4th Floor,
L&T Elante Office Building,
Industrial Area Phase I,
Chandigarh - 160002
T +91 172 433 8000

CHENNAI

9th floor, A wing, Prestige
Polygon, 471 Anna Salai,
Mylapore Division, Teynampet,
Chennai - 600035
T +91 44 4294 0000

DEHRADUN

Suite No 2211, 2nd Floor,
Building 2000, Michigan Avenue,
Doon Express Business Park,
Subhash Nagar,
Dehradun - 248002
T +91 135 264 6500

GURGAON

21st Floor, DLF Square,
Jacaranda Marg,
DLF Phase II,
Gurgaon - 122002
T +91 124 462 8000

HYDERABAD

Unit No - 1, 10th Floor,
My Home Twitza, APIIC,
Hyderabad Knowledge City,
Hyderabad - 500081
T +91 40 6630 8200

KOCHI

6th Floor, Modayil Centre Point,
Warriam Road Junction,
MG Road
Kochi - 682016
T +91 484 406 4541

KOLKATA

10C Hungerford Street,
5th Floor,
Kolkata - 700017
T +91 33 4050 8000

MUMBAI

11th Floor, Tower II,
One International Center,
SB Marg Prabhadevi (W),
Mumbai - 400013
T +91 22 6626 2600

MUMBAI

Kaledonia, 1st Floor,
C Wing,
(Opposite J&J Office),
Sahar Road, Andheri East,
Mumbai - 400069

NOIDA

Plot No 19A, 2nd Floor,
Sector - 16A,
Noida - 201301
T +91 120 485 5900

PUNE

3rd Floor, Unit No 310-312,
West Wing, Nyati Unitree,
Nagar Road, Yerwada
Pune - 411006
T +91 20 6744 8800

For more information or for any queries, write to us at GTBharat@in.gt.com



Follow us @GrantThorntonIN

© 2022 Grant Thornton Bharat LLP. All rights reserved.

“Grant Thornton Bharat” means Grant Thornton Advisory Private Limited, the sole member firm of Grant Thornton International Limited (UK) in India, and those legal entities which are its related parties as defined by the Companies Act, 2013, including Grant Thornton Bharat LLP.

Grant Thornton Bharat LLP, formerly Grant Thornton India LLP, is registered with limited liability with identity number AAA-7677 and has its registered office at L-41 Connaught Circus, New Delhi, 110001. References to Grant Thornton are to Grant Thornton International Ltd. (Grant Thornton International) or its member firms. Grant Thornton International and the member firms are not a worldwide partnership. Services are delivered independently by the member firms.