

आयकर अपीलिय अधिकरण, अहमदाबाद न्यायपीठ 'SMC' अहमदाबाद।

IN THE INCOME TAX APPELLATE TRIBUNAL

"SMC" BENCH, AHMEDABAD

BEFORE MS.SUCHITRA R. KAMBLE, JUDICIAL MEMBER

AND

SHRI MAKARAND V.MAHADEOKAR, ACCOUNTANT MEMBER

ITA No.1014/Ahd/2025

Asstt.Year : 2024-2025

Jayshreeben Jayantibhai Palsana Shingala Sheri Village Limbadiya Taluko Gadhada, Botad Dist: Bhavnagar. PAN : GZJPP 1188 L	Vs.	ITO, Ward-1(9) Ahmedabad.
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(Applicant)		(Responent)
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Assessee by :	Shri Jagdish Kasodaria, AR
Revenue by :	Shri Amit Pratap Singh, Sr.DR

सुनवाई की तारीख/Date of Hearing : 31/07/2025

घोषणा की तारीख /Date of Pronouncement: 12/08/2025

आदेश/O R D E R

PER MAKARAND V.MAHADEOKAR, AM:

This appeal filed by the assessee is directed against the order dated 15.04.2025 passed by the Office of Commissioner of Income Tax (Appeals)-2, Delhi [hereinafter referred to as "CIT(A)"] under section 250 of the Income-tax Act, 1961 (hereinafter referred to as "the Act") in appeal arising out of the intimation issued under section 143(1) by the CPC, Bengaluru on 28.02.2025, for the assessment year 2024-25.

2. Facts of the Case

2.1 The assessee, an individual resident of India, had originally filed her return of income under section 139(1) of the Act on 30.07.2024, declaring total income of Rs.4,27,635/-, comprising the following:

- Short-term capital gains u/s 111A: Rs.3,79,559/-
- Long-term capital gains u/s 112A: Rs.38,840/-
- Income from other sources: Rs.9,236/-

2.2 The return was subsequently revised on 31.12.2024 within the time allowed under section 139(5), to correct certain omissions in the capital gain schedule. In the revised return, the assessee exercised the option under section 115BAC(1A), i.e., to be governed by the default new tax regime applicable from A.Y. 2024–25 as amended by the Finance Act, 2023. The total tax liability computed under the revised return amounted to Rs.13,320/-, arising solely on account of STCG under section 111A, which is chargeable at 15%.

2.3 The assessee being a resident individual with total income below Rs.7,00,000/-, claimed rebate of Rs.13,320/- under section 87A, as per the first *proviso* to section 87A inserted by the Finance Act, 2023, which allows a rebate up to Rs.25,000/- to an individual whose income is chargeable under section 115BAC(1A), provided the total income does not exceed the threshold.

2.4 The return was processed by the Centralised Processing Centre (CPC), Bengaluru, and intimation under section 143(1) was issued on 28.02.2025, whereby the assessee's claim of rebate under section 87A was disallowed. The tax liability of Rs.13,319/- was upheld, and together with interest under sections 234B and 234C amounting to Rs.1,969/-, and health and education cess of Rs.533/-, a total demand of Rs.15,820/- was raised. Notably, the said intimation did not specify any reason or adjustment under section 143(1)(a), nor did it issue any prior notice for proposed adjustment under clause (vi) thereof.

2.5 Aggrieved by the said adjustment, the assessee filed an appeal before the CIT(A). In the proceedings before CIT(A), the assessee submitted that she had expressly opted for taxation under section 115BAC(1A) in the

revised return and that her total income being below the threshold of Rs.7,00,000/-, she was squarely eligible for rebate under section 87A. It was submitted that there is no restriction under section 111A or under the proviso to section 87A on claiming rebate against such tax. It was also stated that the restriction under section 112A(6) relates specifically to long-term capital gains exceeding Rs.1,00,000/- and does not extend to STCG under section 111A. Therefore, it was argued that, in absence of any statutory exclusion, rebate under section 87A ought to have been allowed even against STCG, provided the total income is below Rs. 7 lakhs and the assessee has opted for the default new regime under section 115BAC(1A).

2.6 While acknowledging that the first *proviso* to section 87A permits rebate for individuals whose total income is chargeable under section 115BAC(1A), the CIT(A) clarified that such computation is expressly made subject to the provisions of Chapter XII, which includes special rate incomes such as STCG u/s 111A and LTCG u/s 112/112A. Therefore, tax on such special incomes cannot be offset or reduced by the rebate under section 87A, even under the new regime.

2.7 The CIT(A) relied heavily on the Memo to Finance Bill, 2025, which reiterated that while section 87A provides relief to income up to Rs. 7 lakhs under section 115BAC(1A), such rebate does not apply to tax on special rate incomes under Chapter XII, such as capital gains u/s 111A or 112A. This clarification, though formally proposed for enhancement from A.Y. 2026–27, was stated to apply in principle for A.Y. 2024–25 as well. The CIT(A) noted the assessee's argument that the Act was not explicit in denying the rebate for STCG u/s 111A, but found this not convincing, holding that section 115BAC(1A) is clearly subject to Chapter XII and that Memo 2025 sufficiently clarified legislative intent. As such, rebate under section 87A is not allowable on tax arising under section 111A.

2.8 The CIT(A) explicitly noted the direction of Hon'ble Bombay High Court to allow filing of the claim but emphasised that the judgment did not

rule on the allowability of the claim on merits, it merely ensured that the assessee is not procedurally denied a claim and left the decision on legality to quasi-judicial authorities. Thus, the CIT(A) concluded that the judgment does not support the assessee's case on merits and hence is not determinative of whether rebate under section 87A is allowable against tax on STCG u/s 111A.

3. Being aggrieved by the said order of CIT(A), the assessee has preferred the present appeal before us raising the following ground:

The Learned Commissioner of Income Tax (Appeals) has erred in the interpretation of law and in the facts of the case by disallowing the claim of rebate of Rs.13,320/- under section 87A of the Act in respect of tax on short-term capital gain.

4. The learned Authorised Representative (AR) for the assessee has filed detailed written submissions. The AR submitted that the provisions of the first proviso to section 87A, as inserted by the Finance Act, 2023 with effect from A.Y. 2024–25, grant a rebate to a resident individual who has opted for taxation under the new regime u/s 115BAC(1A) and whose total income does not exceed Rs. 7 lakhs. The text of the proviso does not impose any restriction on the nature of income or exclude incomes taxed at special rates under Chapter XII. The statutory language of the first proviso to section 87A uses the expression "total income" and allows deduction from the amount of income-tax, without any exclusion of income taxable under section 111A. In contrast, section 112A(6) specifically provides that rebate under section 87A shall not be allowed in respect of long-term capital gains taxable under that section exceeding Rs.1 lakh. No such exclusion is provided either in section 111A or in section 87A.

4.1 The AR further contended that section 115BAC(1A) opens with a non obstante clause overriding other provisions of the Act, but it is expressly made "subject to the provisions of this Chapter", i.e., Chapter XII. Therefore, while determining the amount of tax payable under the new regime, incomes chargeable at special rates under Chapter XII (such as section

111A) must be taxed as per the rates prescribed therein, and the remaining income is to be taxed as per the slab rates under the table in section 115BAC(1A). However, the overriding effect is only with reference to computation of tax, and not for the purpose of denying rebates available under Chapter VIII of the Act.

4.2 It was forcefully argued that section 87A operates after the computation of total income and tax liability. It grants a deduction from the computed tax and is not a charging or computational section by itself. Therefore, the rebate under section 87A remains available to an eligible assessee unless it is specifically excluded by a provision of law, which is absent in the case of section 111A. The absence of a non obstante clause or a disabling provision in section 87A, or any restriction therein with respect to short-term capital gains covered under section 111A, must be construed in favour of the assessee, in accordance with the settled principle of strict interpretation of exemption or rebate provisions in tax law.

4.3 The AR also invited attention to the legislative intent underlying the Finance Act, 2023. It was submitted that if the legislature had intended to restrict rebate under section 87A in respect of incomes taxable under section 111A, it could have easily done so by inserting a proviso or exclusion clause as has been done in section 112A(6). The absence of any such restriction shows that rebate under section 87A is available even where the total income includes short-term capital gains taxable under section 111A, provided the total income does not exceed Rs.7 lakhs.

4.4 The AR further submitted that the Finance Bill 2025 proposes to amend section 87A to deny rebate on all incomes taxable under special rates, including those under section 111A, from A.Y. 2026–27 onwards. However, this amendment is prospective in nature and has no application to the assessment year under consideration, i.e., A.Y. 2024–25. Thus, reliance placed by the learned CIT(A) on the Finance Bill 2025 is misplaced.

4.5 It was also contended that the disallowance of rebate by the CPC appears to be a result of a programming change in the utility logic post-January 2025 and is not supported by any statutory amendment or binding judicial precedent. The rejection of the assessee's claim under section 87A on technical grounds without affording a prior opportunity is also violative of the proviso to section 143(1), which mandates the issue of an intimation or notice prior to making such adjustments.

4.6 In support of the assessee's contention, the AR placed reliance on the order passed by CIT(A)-1, Nagpur in the case of Avni Milanbhai Maniya (DIN & Order No.: ITBA/APL/S/250/2025-26/1076482829(1) dated 27.05.2025), wherein under identical facts and circumstances, the CIT(A) directed the Assessing Officer to grant rebate under section 87A on short-term capital gains taxable under section 111A. The AR submitted that the decision rendered by the CIT(A) in that case is directly applicable to the present appeal, and that consistency in application of law must be maintained in favour of the assessee.

4.7 Additionally, reference was made to the judgment of the Hon'ble Bombay High Court in *The Chamber of Tax Consultants vs. Director General of Income-tax (Systems)*, PIL (L) No. 32465 of 2024, wherein the Hon'ble Court directed the Department to permit the assesseees to make claims for rebate under section 87A despite technical constraints. Though the High Court refrained from adjudicating on the legal correctness of such claims, it acknowledged the importance of allowing proper claim processing and left the final decision to be taken by quasi-judicial authorities.

4.8 It was further pointed out that in the instant case, the income chargeable under section 112A was below Rs. 1 lakh, and therefore, no tax was payable on such income. Consequently, the provisions of section 112A(6) were not attracted at all. The assessee's entire tax liability arose on account of short-term capital gains under section 111A, which were correctly included in the return of income and subjected to tax at 15%.

Since the total income did not exceed Rs. 7 lakhs, the assessee was eligible for the rebate under section 87A, and the denial of such rebate was entirely unjustified.

4.9 In conclusion, the AR prayed to direct the Assessing Officer to allow rebate of Rs.13,320/- under section 87A.

5. We have carefully considered the rival submissions, the impugned order of the CIT(A), the material placed on record, and the applicable statutory provisions. Thus, the core issue for adjudication before us is –

“Whether a resident individual who has exercised the option under section 115BAC(1A) and whose total income is below Rs.7,00,000/-, is eligible to claim rebate under section 87A against tax payable on STCG under section 111A, in the absence of any express restriction in section 87A or section 111A.”

5.6 The undisputed facts of the case are that the assessee, a resident individual, filed a revised return of income for A.Y. 2024–25 declaring total income of Rs.6,76,402/-, comprising short-term capital gain on listed equity shares taxable at 15% under section 111A, and opted for taxation under the new regime under section 115BAC(1A). The CPC, Bengaluru, processed the return under section 143(1) and denied rebate under section 87A of Rs.13,320/-, resulting in a demand of Rs.15,820/-. The CIT(A) upheld the denial, primarily relying on –

- (i) the “subject to” clause in section 115BAC(1A),
- (ii) provisions of Chapter XII, and
- (iii) the *Explanatory* notes to the Finance Bill 2025.

5.7 Having perused the relevant statutory provisions and the arguments advanced by the assessee’s Authorised Representative (AR), we find merit in the claim of the assessee.

5.8 The amended first proviso to section 87A [inserted by the Finance Act, 2023 w.e.f. A.Y. 2024–25] provides:

“Where the total income of the assessee is chargeable to tax under sub-section (1A) of section 115BAC and the total income —

(a) does not exceed seven hundred thousand rupees, the assessee shall be entitled to a deduction...”

5.9 This provision applies to any resident individual whose total income does not exceed Rs.7,00,000 and who is assessed under section 115BAC(1A). The statute does not draw any distinction between normal income and income chargeable at special rates, nor does it contain any express exclusion for tax arising under section 111A.

5.10 By contrast, the legislature has inserted an express bar on availability of section 87A rebate in section 112A(6), which states:

(6) Where the total income of an assessee includes any long-term capital gains referred to in sub-section (1), the rebate under section 87A shall be allowed from the income-tax on the total income as reduced by tax payable on such capital gains.

5.11 The absence of a corresponding clause in section 111A is legally significant and supports the principle that – when the legislature intended to deny rebate in respect of special income (as in section 112A), it has done so expressly. In contrast, the absence of any exclusion in section 111A or in section 87A must be construed in favour of the assessee.

5.12 At this point we discuss the interplay of Section 115BAC(1A) with Chapter XII where the scope is Confined to Computation of Tax Rates. Section 115BAC(1A) opens with the phrase:

“Notwithstanding anything contained in this Act but subject to the provisions of this Chapter...”

5.13 The purpose of this clause is to enable the computation of income-tax under the concessional rate regime, subject to existing special rate provisions under Chapter XII, such as sections 111A, 112, 112A, etc. This clause governs the computation of tax and does not *ipso facto* affect

eligibility to rebates or deductions unless specifically restricted. Section 87A is not part of Chapter XII; it is an independent rebate provision under Chapter VIII of the Act. Therefore, the overriding clause in section 115BAC(1A) does not derogate or modify section 87A, unless section 87A itself provides for exclusion, which, in the present case, it does not. Thus, section 87A operates on the total tax computed, whether it includes tax at slab rates or special rates, and applies so long as the total income threshold is met.

5.14 The CIT(A) placed strong reliance on the Explanatory Memorandum to the Finance Bill 2025, which clarified that rebate under section 87A is not available on tax arising from special rate incomes, including those under section 111A. However, we find this reliance to be misplaced for two reasons:

- Firstly, the Finance Bill 2025 itself proposes to insert new restrictions on rebate under section 87A w.e.f. A.Y. 2026–27, which implies that the existing law (i.e., as applicable to A.Y. 2024–25) does not contain such a restriction.
- Secondly, the Explanatory Memorandum cannot override the plain language of the statute. It is a tool of interpretation, not a source of substantive law.

Therefore, the prospective amendment in the Finance Act 2025 supports the view that under the unamended provision applicable for A.Y. 2024–25, rebate under section 87A cannot be denied merely because tax arises under section 111A.

5.15 In the recent judgment dated 24.01.2025 in the case of ***The Chamber of Tax Consultants vs. Director General of Income Tax (Systems) [TS-5026-HC-2025(Bombay)-O]***, the Hon'ble Bombay High Court considered the issue of system-based denial of 87A rebate on STCG under section 111A for assesseees who had opted for 115BAC(1A). While the Hon'ble Court

refrained from interpreting the substantive provisions, it held that the assessee must be allowed to claim rebate under section 87A, and it is for the quasi-judicial authority to decide on merits.

Thus, the Hon'ble High Court clearly held that the CPC utility or system configuration cannot override statutory rights, and that each case must be adjudicated on its own merits. We at the Tribunal, being such a *quasi-judicial* authority, are therefore duty-bound to examine the claim in light of the statutory framework and not be influenced by automated denial or procedural logic adopted by the CPC.

5.16 The assessee has also relied on an appellate order dated 27.05.2025 passed by CIT(A)-1, Nagpur in the case of *Avni Milanbhai Maniya*, wherein on identical facts the CIT(A) allowed the claim of rebate under section 87A in respect of STCG taxable under section 111A. We also note that such decision was taken by the JCIT/Addl.CIT(A) relying on the decision of Beena Manishbhai Fofaria for the A.Y. 2024-25. While not binding, the said appellate order affirms that divergent views exist and such benefit has been allowed in similar factual circumstances.

5.17 In view of the above discussion, we find that the assessee is a resident individual and the total income declared for the assessment year 2024-25 does not exceed Rs.7,00,000. It is also an admitted position that the assessee has exercised the option to be assessed under the new tax regime in accordance with the provisions of section 115BAC(1A) of the Act. On a plain reading of the statutory provisions, there exists no express bar either in section 87A or section 111A for denial of rebate in respect of tax payable on short-term capital gains arising from transfer of listed equity shares taxable at special rates under section 111A. The legislative intent is further clarified by the subsequent amendment proposed in the Finance Bill, 2025, which is prospective in nature and thereby reinforces that no such restriction was in force during the relevant assessment year. The denial of rebate under section 87A by the CPC, Bengaluru, appears to be based solely

on system-driven logic and not on any statutory mandate. Moreover, the interpretation adopted by the CIT(A) in upholding such denial is, in our considered view, not in consonance with the plain and unambiguous language of the law as applicable for A.Y. 2024–25.

5.18 Accordingly, we hold that the assessee is eligible for rebate under section 87A for A.Y. 2024–25 even though the income includes STCG taxable under section 111A. The AO is directed to allow rebate of Rs.13,320/- and recompute tax liability accordingly. The demand of Rs.15,820/- raised in CPC intimation stands deleted. Refund, if any, shall be granted in accordance with law.

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

Order pronounced in the Court on 12th August, 2025 at Ahmedabad.

Sd/-
(SUCHITRA R. KAMBLE)
JUDICIAL MEMBER

Ahmedabad, dated 12/08/2025

Sd/-
(MAKARAND V. MAHADEOKAR)
ACCOUNTANT MEMBER