

आयकर अपीलीय न्यायाधिकरण में, हैदराबाद 'बी' बेंच, हैदराबाद
IN THE INCOME TAX APPELLATE TRIBUNAL
Hyderabad "B" Bench, Hyderabad

श्री विजय पाल राव, माननीय उपाध्यक्ष एवं श्री मंजूनाथ जी, माननीय लेखा सदस्य
SHRI VIJAY PAL RAO, HON'BLE VICE PRESIDENT
AND
SHRI MANJUNATHA G, HON'BLE ACCOUNTANT MEMBER

आयकर अपील सं./I.T.A.No.1597/Hyd/2025
(निर्धारण वर्ष/ Assessment Year: 2022-23)

The Deputy Commissioner of Income-tax (Intl. Taxn)-1, Hyderabad.	Vs.	Revanth Challagalla, R/o. Hyderabad. PAN : AMHPC9843N
(अपीलार्थी/ Appellant)		(प्रत्यर्थी/ Respondent)

करदाता का प्रतिनिधित्व/ Assessee Represented by	:	Shri V. Naga Prasad, C.A. and Shri Budda M. Rao Varada, C.A.
राजस्व का प्रतिनिधित्व/ Department Represented by	:	Dr. Sachin Kumar, Sr. A.R.
सुनवाई समाप्त होने की तिथि/ Date of Conclusion of Hearing	:	17.02.2026
घोषणा की तारीख/ Date of Pronouncement	:	13.03.2026

ORDER

PER MANJUNATHA G., A.M :

This appeal filed by the Revenue is directed against the order of the learned Commissioner of Income Tax (Appeals) – 10,

Hyderabad (for short “Ld. CIT(A)”) dated 03.07.2025, pertaining to the assessment year 2022-23.

2. The grounds raised by the Revenue read as under :

“1. The Ld. CIT(Appeals) erred both in law and on facts of the case in granting exemption u/s.54F of the Income Tax Act, 1961.

2. On the facts and in the circumstances of the case, and in law, whether the CIT (Appeals) is justified in holding that the assessee is eligible for deduction u/s.54F on the basis of allotment letter without appreciating the fact that the flat finally got registered in the name of assessee's sister Ms. Shreya Challagalla and thus allotment letter has no relevance?

3. On the facts and in the circumstances of the case, and in law, whether the CIT (Appeals) is justified in holding that the assessee is eligible for deduction u/s. 54F as ultimate sources of payments made to builder are from assessee's account only through his sister Ms. Shreya Challagalla account and also based on confirmation letter from Ms. Shreya Challagalla without appreciating the fact that there was no mention in the registered purchase deed about the investment made by the assessee nor any declaration that his sister Ms. Shreya Challagalla holding the property in a representative capacity?

4. On the facts and in the circumstances of the case, and in law, whether the CIT (Appeals) is justified in holding that the assessee is eligible for deduction u/s.54F without appreciating the fact that the assessee is not at all a legal owner of the property as the same got registered in his sister's name and thus equating property as 'purchased' with only payment and not ownership of property?

5. Any other ground of appeal that may be raised with the prior approval of the Hon'ble ITAT during the appellate proceedings.”

3. The brief facts of the case are that, the assessee is a Non-Resident Indian (NRI) and consequent to his employment, residing in the United Kingdom. The case of the assessee has been selected for scrutiny to verify claim of deduction under Section 54/54F of the Income-tax Act, 1961, on purchase of residential house property by

NRI. During the course of assessment proceedings, the A.O. noticed that, the assessee has claimed deduction under Section 54F of the Income Tax Act, 1961, in respect of purchase of new residential house property. Therefore, called upon the assessee to furnish relevant supporting evidences. In response, the assessee submitted that, he had purchased Ac.2-30 gts of agricultural land at Osman Nagar Village and Gram Panchayat, Ramchandrapuram Mandal, Medak District on 15.02.2005 for a consideration of Rs. 8,75,000/-. The above land has been given for joint development to M/s. Muppa Projects India Private Limited in financial year 2015-16 and as per the joint development agreement, the developer has allotted 12 villas to the share of the assessee. Subsequently, the assessee has sold 5 villas in the financial year 2021-22 for a total consideration of Rs. 5,26,06,000/- and computed long-term capital gains after claiming the indexed cost of acquisition. The assessee has also claimed deduction under Section 54F of the Act, to the tune of Rs. 2,80,14,060/- towards investment made for purchase of residential house property from M/s. Aqua Space Developers Private Limited and the property has been registered in the name of his sister Smt. Shreya Challagalla on 10.04.2023, because he was unable to come

to India due to his employment in United Kingdom. The A.O., after considering the relevant submissions of the assessee, computed long-term capital gains by taking into account sale consideration received for sale of 5 villas after allowing indexed cost of acquisition, however, disallowed claim under Section 54F of the Act, to the tune of Rs. 2,80,14,060/- on the ground that, the new residential house property has not been purchased in the name of the assessee.

4. Aggrieved by the assessment order, the assessee preferred appeal before the Ld. CIT(A). Before the Ld. CIT(A), the assessee had filed various details, including the relevant letter of allotment issued by the builder upon payment of advance money of Rs. 65,00,000/-, subsequent payment of purchase consideration from the joint bank account held in the name of the assessee and his father, and also explained that the property had been registered in the name of his sister, Smt. Shreya Challagalla, because of convenience. However, the property has been finally transferred in the name of the assessee vide gift deed dated 20.01.2025, where his sister Smt. Shreya Challagalla has gifted the property in favour of the assessee.

5. The Ld. CIT(A), after considering the submissions of the assessee and also taking note of certain judicial precedents, observed that, the assessee has purchased a new residential house property by paying entire sale consideration from his joint bank account held along with his father and registration of the property has been done in the name of his sister, because he could not travel to India due to his employment in UK. The Ld. CIT(A) further noted that, the property has been finally transferred in the name of the assessee by way of gift deed where Smt. Shreya Challagalla has gifted the property in favour of the assessee. Since the assessee intended to purchase the property out of sale consideration received from transfer of five villas and further has paid the entire sale consideration through his bank account, merely because the property has been registered in the name of his sister, the benefit of deduction under Section 54F of the Act, cannot be denied, when the property has been finally transferred to the assessee. Therefore, the Ld. CIT(A) directed the A.O. to delete the addition of Rs. 2,80,14,060/- towards disallowance of deduction under Section 54F of the Act, 1961.

6. Aggrieved by the order of the Ld. CIT(A), the Revenue is now in appeal before the Tribunal.

7. The learned Senior A.R. for the Revenue, Dr. Sachin Kumar, submitted that, the Ld. CIT(A) erred in deleting the addition made towards disallowance of deduction under Section 54F of the Act, on the basis of allotment letter without appreciating the fact that, the flat finally got registered in the name of assessee's sister Smt. Shreya Challagalla and that the allotment letter has no relevance. The learned Senior A.R. for the Revenue further referring to various evidences, including the return of income filed by Smt. Shreya Challagalla submitted that, in the return of income, she has shown the address of new residential house property purchased to claim deduction under Section 54F of the Act, in the name of the assessee and from the above, it is very clear that, the property has been purchased in the name of assessee's sister and the same cannot be claimed as deduction under Section 54F of the Act, against the capital gain derived by the assessee from transfer of five villas.

8. The learned Senior A.R. for the Revenue, referring to various judicial precedents, including the decision of ITAT, Hyderabad

Bench in the case of Girish Dharod Vs. ACIT [2013] 40 taxmann.com 282, submitted that, liberal interpretation of statutory provisions taken up by Courts to extend exemption available under Section 54F of the Act, to the assessee even in cases of investments in names of spouse and minor children of the assessee cannot be extended beyond the point so to cover investments made in the names of other relatives. Although the assessee claims that, the property has been finally transferred to his name by way of gift deed, but the subsequent action of gift of the property, is only an afterthought to circumvent the disallowances and therefore, the same cannot be considered. The Ld. CIT(A), without appreciating the relevant facts, simply deleted the addition made by the A.O. In this regard, he relied upon the following judicial precedents :

- 1) Decision of ITAT, Mumbai Bench in the case of Colathur N. Ram Vs. ACIT (2024) 168 taxmann.com 564.
- 2) Decision of Hon'ble High Court of Bombay in the case of Jobanji Thakor Vs. ITO (2025) 175 taxmann.com 62.
- 3) Decision of ITAT, Ahmedabad Bench in the case of Rajesh Narendrabhai Patel Vs. ITO (2025) 179 taxmann.com 262.
- 4) Decision of Hon'ble High Court of Andhra Pradesh in the case of Ganta Vijaya Lakshmi Vs. ITO (2015) 54 taxmann.com 301.

9. The learned counsel for the assessee, Shri V. Naga Prasad and Shri Budda M. Rao Varada, C.A. on the other hand, supporting the

order of the Ld. CIT(A), submitted that, the assessee had sold immovable property and purchased a new residential house property and claimed deduction under Section 54F of the Act, as per law. The assessee has also explained the reasons for registration of the property in the name of his sister, Smt. Shreya Challagalla due to his employment outside India and unable to come to India during the relevant point of time. The assessee has also furnished gift deed dated 20.01.2025 and proved that, the property has been finally registered in his name. Since the entire consideration paid for purchase of the property is out of sale consideration received from sale of five villas and further, the assessee intended to purchase the property for his residential purpose, the Ld. CIT(A), after considering the relevant evidences, has rightly deleted the addition made by the A.O. The learned counsel for the assessee further referring to certain additional evidences, including Aadhaar copy of the assessee and municipal taxes paid in respect of the property, submitted that, the property has been purchased by the assessee and his parents are residing in the above property. These evidences could not be filed before the lower authorities. If we consider the above evidences, it is undisputedly clear that, the assessee has purchased the property

out of sale consideration received from sale of property and thus, eligible for claim of deduction under Section 54F of the Act. The Ld. CIT(A), after considering relevant facts, has rightly deleted the addition made by the A.O. Therefore, he submitted that, the order of the Ld. CIT(A) should be upheld.

10. We have heard both the parties, perused the material available on record and had gone through the orders of the authorities below. There is no dispute with regard to the fact that, the assessee had sold five villas received in pursuance to the joint development agreement of an immovable property with M/s. Muppa Projects India Private Limited and received sale consideration of Rs. 5,26,06,000/- in the financial year 2021-22 relevant to the assessment year 2022-23. The assessee has computed long-term capital gains derived from transfer of property and claimed deduction under Section 54F of the Act, in respect of purchase of new residential house property to the tune of Rs. 2,80,14,060/-, where the assessee has made investment for the purchase of residential property vide document No. 5491 of 2023 dated 10.04.2023 for Rs. 4,31,56,450/- and the property has been registered in the name of the assessee's sister, Smt. Shreya Challagalla. The A.O. disallowed deduction claimed under Section

54F of the Act, on the ground that, as per the provisions of Section 54F of the Act, deduction cannot be allowed in respect of investment made for purchase of new residential house property, when the property is not purchased in the name of the assessee. Since the assessee has purchased the property in the name of his sister, the A.O. denied deduction claimed under Section 54F of the Act.

11. We have gone through the relevant reasons given by the A.O. to disallow deduction under Section 54F of the Act, in light of certain judicial precedents and also the reasons given by the Ld. CIT(A) to allow deduction claimed under Section 54F of the Act, in light of certain judicial precedents. We have also carefully considered the relevant decisions referred to by the learned Senior A.R. for the Revenue in support of his arguments and various case laws referred to by the learned counsel for the assessee in support of the claim of the assessee. There is no dispute with regard to the legal position in respect of deduction under Section 54F of the Act, where the Courts have given liberal interpretation and held that, even if property has been purchased in the name of spouse or unmarried children, deduction should be allowed as long as the consideration paid for purchase of new residential house property is out of sale of the

original asset. In fact, we are also in full agreement with the above legal proposition that the deduction can be allowed under Section 54 or 54F of the Act, in respect of new residential house property in case, the property has been purchased in the name of the assessee or his spouse or his unmarried children, provided other conditions are satisfied. However, the liberal interpretation given by the Courts cannot be extended to the cases where investment is made in the name of other blood relations or other relations. To this extent, we are fully in agreement with various case laws referred to by the learned Senior A.R. for the Revenue and the proposition canvassed by the Revenue. However, the fact remains that, whether the impugned property purchased by the assessee is for his residential purpose and it is out of sale consideration received from transfer of original asset or not, and it is amounting to purchase of new residential house property, which is eligible for deduction u/s 54F of the Act, has to be seen.

12. In the present case, as per the evidence available on record, there is no dispute with regard to the fact that, the assessee has sold five villas in the financial year 2021-22 relevant to the assessment year 2022-23 and computed long-term capital gain. The assessee

claimed deduction under Section 54F of the Act, in respect of purchase of new residential house property from M/s. Aqua Space Developers Private Limited and the property has been registered in the name of his sister, Smt. Shreya Challagalla. Going by the reasons given by the assessee for registration of the property in his sister's name and other evidences filed in support of his claim that, the investment has been made by the assessee, in our considered view, there is no dispute with regard to the fact that, the assessee has paid initial amount of booking advance of Rs. 65,00,000/- from his bank account maintained with HDFC Bank. The builder i.e., M/s. Aqua Space Developers Private Limited has also issued provisional allotment letter dated 25.04.2021 to the assessee. The assessee has also paid entire purchase consideration of Rs. 4,31,56,450/- from his joint bank account held along with his father, Shri Siddharth Challagalla. From the above, it is very clear that, the assessee intended to purchase a new residential house property out of sale proceeds received from transfer of five villas so as to claim deduction under Section 54F of the Act and due to his personal employment commitments outside India, he could not travel to India during the relevant point of time and because of this

reason, the property has been registered in the name of his sister. To support his argument, the assessee has furnished a copy of Memorandum of Understanding between himself and Smt. Shreya Challagalla along with the confirmation letter where his sister has confirmed that, she is not the absolute owner of the property and the property has been registered in her name due to convenience and to facilitate the completion of registration, because of absence of her brother. This was followed by subsequent gift deed between Smt. Shreya Challagalla and the assessee dated 20.01.2025 where the property has been finally gifted in favour of the assessee and the relevant khata was registered in the name of the assessee, which is evident from relevant municipal tax receipts furnished by the assessee. From the details submitted by the assessee, we find that, the assessee has purchased the residential house property out of sale consideration received from transfer of five villas and due to convenience the property has been registered in his sister's name and the same has been finally transferred in the name of the assessee by way of gift deed dated 20.01.2025. Once the property has been purchased out of sale consideration received from transfer of original asset and the assessee has satisfied other conditions

provided under Section 54F of the Act, in our considered view, the A.O. ought to have allowed deduction claimed under Section 54F of the Act. The Ld. CIT(A), after considering relevant facts, has rightly allowed deduction claimed under Section 54F of the Income-tax Act, 1961. Thus, we are inclined to uphold the order of the Ld. CIT(A) and dismiss the appeal filed by the Revenue.

13. In the result, the appeal filed by the Revenue is dismissed.

Order pronounced in the Open Court on 13th March, 2026.

Sd/- श्री विजय पाल राव (VIJAY PAL RAO) उपाध्यक्ष /VICE PRESIDENT	Sd/- (मंजूनाथ जी) (MANJUNATHA G.) लेखा सदस्य/ACCOUNTANT MEMBER
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Hyderabad, dated 13.03.2026.
TYNM/sps

आदेशकी प्रतिलिपि अग्रेषित/ Copy of the order forwarded to:-

1.	निर्धारिती/The Assessee	:	Revanth Challagalla, Plot No.676, Apartment No.101, Road No.34, Shaikpet, Hyderabad.
2.	राजस्व/ The Revenue	:	The Deputy Commissioner of Income Tax, (International Taxation), Hyderabad
3.	The Principal Commissioner of Income Tax (IT & TP), Hyderabad.		
4.	विभागीयप्रतिनिधि, आयकर अपीलिय अधिकरण, हैदराबाद / DR, ITAT, Hyderabad		
5.	गार्डफ़ाईल / Guard file		

आदेशानुसार / BY ORDER

Sr. Private Secretary
ITAT, Hyderabad