

**IN THE INCOME TAX APPELLATE TRIBUNAL
'SMC' BENCH, BANGALORE**

**BEFORE SHRI WASEEM AHMED, ACCOUNTANT MEMBER AND
SHRI KESHAV DUBEY, JUDICIAL MEMBER**

ITA No. 2901/Bang/2025
Assessment Year: 2022-23

Mrs. Kaziur Narayanan Godha, No.836, 3 rd Main Road, 'E' Block, 2 nd Stage, Rajajinagar, Bengaluru – 560 010. PAN – AFBPG 7878 L	Vs.	The Income Tax Officer, Ward – 2[2][2], Bengaluru.
APPELLANT		RESPONDENT

Assessee by	:	Shri Narendra Sharma, Advocate
Revenue by	:	Shri Ganesh R Ghale, Advocate – Standing Counsel for Revenue

Date of hearing	:	12.03.2026
Date of Pronouncement	:	25.05.2026

ORDER

PER WASEEM AHMED, ACCOUNTANT MEMBER:

The present appeal has been instituted by the assessee against the order of the Ld. CIT(A) passed u/s 250 of the Act dated 13.11.2025 for AY 2022-23.

2. In the memorandum of appeal, the assessee has raised various grounds along with sub-grounds. However, for the sake of brevity, the same are not reproduced herein.

3. The grounds raised by the assessee are interconnected and pertains to the issue of deduction claimed u/s 54 of the Act.

4. The relevant facts are that the assessee, an individual, filed her ROI declaring total income of Rs. 21,03,290 comprising salary income of Rs. 6,11,600.00 income from house property of Rs. 1,23,738.00 and business income of Rs. 13,92,525.00 only. During the relevant year, the assessee sold a vacant site for a total consideration of Rs. 55,60,000 through a registered sale deed dated 12.04.2021. The said property had originally been purchased by the assessee on 18.06.2015 for Rs. 24,32,430.00 only. On sale of the said property, the assessee computed long-term capital gain of Rs. 25,24,251 and claimed exemption u/s 54F of the Act on the ground that the amount was reinvested in renovation of a residential property, which had been purchased earlier on 13.03.2020.

4.1 However, the AO observed that the assessee had purchased the residential property on 13.03.2020, which was prior to the sale of the original asset and also beyond the period of one year before the date of transfer. The AO also observed that the assessee had only incurred expenditure towards renovation of the property, which does not qualify as purchase or construction of a new residential house for the purpose of section 54F of the Act. Accordingly, the AO held that the assessee was not eligible for deduction u/s 54F of the Act and disallowed the claim deduction of Rs. 25,24,251.00 by adding the same to the income of the assessee as long-term capital gain.

5. Aggrieved assessee preferred an appeal before Ld. CIT(A). Before the Ld. CIT(A), the assessee submitted that she sold a vacant site situated

at Kithaganuru Village on 12.04.2021 for Rs.55,60,000, which was originally purchased on 18.06.2015, and the resultant long-term capital gain was reinvested in construction and improvement of his residential property. It was explained that the assessee had earlier purchased a residential property at Malleswaram which was more than 50 years old and in damaged condition. In order to make the property habitable, the assessee carried out necessary construction works such as construction of an additional room and pooja room, digging of a borewell, construction of underground sump, compound wall with gate and other renovation works. The assessee contended that the entire sale proceeds were utilized for construction and improvement of the residential property and therefore the benefit u/s 54F of the Act was rightly claimed. It was further submitted that the AO ignored the engineer's certificate and supporting documents and wrongly treated the expenditure as mere renovation and disallowed the deduction.

5.1 The Ld. CIT(A) observed that in AY 2020-21 the assessee had sold two house properties and invested the long-term capital gain of Rs. 6,35,57,276 in purchase of a new residential house property for Rs. 10,12,50,000 on 13.03.2020 and claimed deduction u/s 54F of the Act. On the said property, the assessee incurred expenditure of Rs. 57,63,802 towards repair works. During the AY 2022-23, the assessee sold vacant land and earned long-term capital gain of Rs. 25,24,251 which was claimed as deduction u/s 54F of the Act on the ground that the amount was utilized for renovation of the residential property which was purchased earlier i.e. 13-03-2020.

5.2 However, the Ld. CIT(A) held that section 54F of the Act allows deduction only when the capital gain is invested in purchase or construction of a new residential house. In the present case, the assessee had not purchased or constructed any new residential house during the relevant year, and the amount was only utilised for renovation of the existing residential property.

5.3 The Ld. CIT(A) further noted that the assessee had already claimed deduction u/s 54F of the Act in AY 2021-22 in respect of the residential property purchased on 13.03.2020 and again claimed deduction for the expenditure incurred on the renovation of the same property. Therefore, the assessee was not eligible to claim deduction of Rs. 25,24,251 u/s 54F of the Act. The Ld. CIT(A) also observed that the judicial decisions relied upon by the assessee were not applicable to the facts of the present case. Accordingly, the Ld. CIT(A) confirmed the addition of Rs. 25,24,251 made by the AO and decided the grounds raised against the assessee.

6. Aggrieved by the order of the Id. CIT-A, the assessee preferred an appeal before us.

7. The Ld. AR before us has filed a paper book running from page 1 to 79 containing copies of the sale deed, purchase deed, return of income, notices issued by the AO, replies filed by the assessee and other relevant documents. The assessee submitted that the Ld. CIT(A) erred in upholding the disallowance of deduction claimed u/s 54F of the Act amounting to Rs. 25,24,251 out of the capital gains reported by the assessee for the year under consideration.

7.1 It was submitted that the assessee had incurred the said expenditure towards additional construction and renovation of the existing residential house in order to make the property more habitable. It was contended that the authorities below wrongly rejected the claim merely on the ground that there was no purchase or construction of a new residential house. The assessee submitted that the expenditure incurred was for extension and improvement of the residential property and therefore deduction claimed u/s 54F of the Act ought to have been allowed.

8. On the other hand, the Ld. DR vehemently supported the orders of the AO and the Ld. CIT(A). He submitted that the assessee had not purchased or constructed any new residential house during the relevant year and the amount was only utilized for renovation of the existing property. The Ld. DR further submitted that deduction u/s 54F of the Act is allowable only when the capital gain is invested in purchase or construction of a new residential house. Since, the assessee had already claimed deduction u/s 54F of the Act in the earlier year on the residential property purchased on 13.03.2020 and the expenditure in the year under consideration was only towards renovation, the assessee was not eligible for deduction. Accordingly, the Ld. DR prayed that the orders of the lower authorities be upheld.

9. We have heard the rival submissions of both the parties and perused the material available on record. The undisputed facts are that the assessee had purchased a residential property on 13.03.2020 and during the year under consideration sold a vacant site resulting in long-

term capital gain of Rs. 25,24,251.00 only. The assessee claimed deduction u/s 54F of the Act on the ground that the said amount was utilised towards construction and improvement activities in the residential property owned by him.

9.1 On perusal of the material available on record, we note that the assessee had undertaken various works in the residential property including construction of additional room, pooja room, compound wall, underground sump, borewell and other related works. The assessee has also placed on record the certificate issued by the registered engineer certifying the nature of work carried out along with details of expenditure incurred. The authorities below rejected the claim mainly on the ground that the expenditure incurred by the assessee was in the nature of renovation of existing property and not construction of a new residential house. In our considered opinion, the provisions of section 54F of the Act being beneficial in nature are required to be construed liberally so as to advance the object of the provision. The Hon'ble jurisdictional Karnataka High Court in the case of Commissioner of Income-tax, Bangalore vs. Smt. B.S. Shanthakumari reported in [2015] 60 taxmann.com 74 (Karnataka)/[2015] 233 Taxman 347 (Karnataka) dated 13-07-2015 has held that the essence of section 54F of the Act is that the capital gain received by the assessee should be invested in construction of a residential house and once it is established that the consideration received on transfer has been invested in construction activity, the requirement of section 54F stands satisfied. The Hon'ble High Court further held that such provision does not require that construction should be completed in all respects within the stipulated period and substantial compliance with the requirement of investment is sufficient. The relevant para is reproduced below:

8. *Section 54F of the Act is a beneficial provision which promotes for construction of residential house. Such provision has to be construed liberally for achieving the purpose for which it is incorporated in the statute. The intention of the legislature, as could be discerned from the reading of the provision, would clearly indicate that it was to encourage investments in the acquisition of a residential plot and completion of construction of a residential house in the plot so acquired. A bare perusal of said provision does not even remotely suggest that it intends to convey that such construction should be completed in all respects in three (3) years and/or make it habitable. The essence of said provision is to ensure that assessee who received capital gains would invest same by constructing a residential house and once it is established that consideration so received on transfer of his Long-Term capital asset has invested in constructing a residential house, it would satisfy the ingredients of Section 54F. If the assessee is able to establish that he had invested the entire net consideration within the stipulated period, it would meet the requirement of Section 54F and as such, assessee would be entitled to get the benefit of Section 54F of the Act. Though such construction of building may not be complete in all respect "that by itself would not disentitle the assessee to the benefit flowing from Section 54F". In fact, appellate Commissioner has not only taken note of the judgment of the co-ordinate bench of this Court in Sambandam's Udaykumar case (supra), but had also taken note of the judgment of High Court of Madras in the case of CIT v. Sardarmal Kothari[2008] 302 ITR 286, which was on similar facts as obtained in Sambandam Udaykumar's case (supra) and as such in the instant case, Appellate Commissioner allowed assessee's appeal noting that the appeal filed by the revenue against the order of High Court of Madras before Apex Court in CC Nos.3953-3954/2009 had been dismissed on 06.04.2009*

9.2 We further note that in the present case the works carried out by the assessee are not confined merely to painting or routine repairs but include structural additions such as construction of additional room and pooja room along with other connected civil works. The assessee has also furnished engineer's certificate and supporting evidences demonstrating utilisation of the capital gain towards such construction activities. The Revenue has not brought any material on record to disprove the genuineness of the expenditure incurred by the assessee.

9.3 Merely because the assessee had earlier claimed deduction u/s 54F of the Act in respect of purchase of the residential property, the benefit otherwise available under the Act cannot be denied when subsequent capital gain has been utilised towards further construction and structural improvement of the same residential property within the prescribed

period. In our view, the expression "construction of a residential house" occurring in section 54F of the Act cannot be interpreted in a narrow or hyper technical manner so as to defeat the very object of the beneficial provision.

9.4 Considering the totality of the facts and circumstances of the case and respectfully following the ratio laid down by the Hon'ble jurisdictional Karnataka High Court in the case referred supra, we are of the considered opinion that the assessee has substantially complied with the conditions prescribed u/s 54F of the Act and therefore the assessee is entitled to deduction claimed thereunder. Accordingly, we set aside the order of the Ld. CIT(A) and direct the AO to allow the deduction claimed by the assessee u/s 54F of the Act amounting to Rs. 25,24,251/-only. Thus, the grounds raised by the assessee are allowed.

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

Order pronounced in court on 25th day of May, 2026

Sd/-

(KESHAV DUBEY)

Judicial Member

Bangalore

Dated, 25th May, 2026

/ vms /

Sd/-

(WASEEM AHMED)

Accountant Member

Copy to:

1. The Applicant
2. The Respondent
3. The CIT
4. The CIT(A)
5. The DR, ITAT, Bangalore.
6. Guard file

By order

Asst. Registrar, ITAT, Bangalore