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

**BEFORE MS. SUCHITRA KAMBLE, JUDICIAL MEMBER**

ITA No.2430/AHD/2025
(Assessment Year: 2024-25)

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| **Mrs. Veenaben Arvindbhai Shah,**<br>MIG-1/Y/1302, GHB Flat,<br>Shastrinagar Char Rasta,<br>Nr. Anmol Tower, Shastrinagar,<br>Naranpura, Ahmedabad<br>Gujarat | Vs. | Centralised Processing Center,<br>Income Tax Department, Bengaluru,<br>[Jurisdiction AO – Income Tax Officer, Ward 1(3)(1), Petland],<br>T.P. No.2, F.P. No.24, Bank House,<br>Nr. Laxmiji Temple,<br>Ranchodji College Road,<br>Petland, Anand,<br>Gujarat |
| **PAN: MTXPS4808J** | | |
| **(Appellant)** | : | **(Respondent)** |

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| **Assessee by** | : | Shri Kushal Fofaria, AR |
| **Respondent by** | : | Shri Girish Parihar, Sr. DR |

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| **Date of Hearing** | : | 01.04.2026 |
| **Date of Pronouncement** | : | 16.06.2026 |

**O R D E R**

**PER : SUCHITRA KAMBLE, J M:**

The appeal filed by the assessee is against the order passed by the Learned Commissioner of Income Tax (Appeals), ADDL/JCIT(A)[in short "CIT(A)"], Raipur dated 27.11.2025 for the Assessment Year (in short "AY") 2024-25.

2. The assessee has raised the following grounds of appeal:

*"1. The Ld. CIT(A) has erred in law and on facts of the case in upholding prima facie adjustment u/s. 143(1) of the Act made by CPC in respect of rebate claimed u/s. 87A of the Act which is a debatable and contentious issue requiring long drawn process of reasoning.*

*2. The Ld. CIT(A) has erred in law and on facts of the case in confirming denial of rebate of Rs. 24,583/-claimed u/s. 87A of the Act in respect of tax payable u/s. 112 of the Act on long term capital gain earned on sale of residential flat.*

*3. The Ld. CIT(A) has erred in law and on facts of the case in upholding the action of CPC in denying rebate u/s. 87A of the Act while processing return of income without providing any prior opportunity of hearing to the assessee resulting in gross violation of principles of natural justice.*

*4. Both the lower authorities have erred in not appreciating the facts of the case and law on the issue in its correct perspective.*

*5. The appellant craves leave to add, amend, alter, edit, delete, modify or change all or any of the grounds of appeal at the time of or before the hearing of the appeal."*

3. The assessee filed return of income on 27.07.2024 declaring total income of Rs.4,22,913/-. The said return of income was revised on 23.11.2024 with no change in the return of income that of Rs.4,22,913/- consisting of Long Term Capital Gains (in short "LTCG") on sale of residential flat to the tune of Rs.2,64,000/- chargeable to tax as per section 112 of the Income Tax Act, 1961 (in short "the Act"). The assessee was required to pay tax on Rs.24,583/- on the total income of Rs.4,22,913/-. The assessee did not exercise the option u/s 115BAC(6) of the Act and thus governed by provisions of section 115BAC(1A) of the Act for the year under consideration. As the total income for the year under consideration did not exceed Rs.7,00,000/-, the assessee claimed that the assessee is eligible for rebate u/s 87A of the Act from the tax payable on the total income earned by the assessee. Therefore, the assessee claimed the refund of TDS of Rs.8,203/- after claiming rebate u/s 87A of the Act to the tune of Rs.24,583/- being the amount of tax payable on total income of Rs.4,22,913/-. The revised return of income was processed u/s 143(1) of the Act by the CPC and intimation u/s 143(1) of the Act was issued to the assessee on 24.02.2025 thereby disallowing the rebate of Rs.24,583/- as claimed by the assessee which resulted in denial of refund of Rs.8,203/- claimed in the return of income. The CPC raised demand of Rs.17,360/- as the CPC disallowed the claim of rebate u/s 87A of the Act without appreciating any reasons for such disallowance.

4. Being aggrieved by the intimation order dated 24.02.2025 passed u/s 143(1) of the Act, the assessee filed appeal before the CIT(A). The CIT(A) dismissed the appeal of the assessee.

5. The Ld. Authorised Representative (in short "Ld. AR") for the assessee submitted that the CPC has not given any prior notice of proposed adjustment nor set out any reasons in the intimation for denying the claim u/s 87A of the Act of the rebate. The Ld. AR further submitted that section 87A of the Act as amended by Finance Act, 2023 grants rebate on the income tax on total income where a resident individual's total income, chargeable section 115BAC(1A) of the Act, does not exceed Rs.7,00,000/- and that total income u/s 2(45, 5 & 14) necessarily includes capital gains. Hence, tax on LTCG u/s 112 of the Act is part of the tax on total income for 87A of the Act purpose. Section 112A(6) of the Act expressly restricts section 87A rebate only for LTCG u/s 112A of the Act, by neither section 112 nor section 115BAC(1A) nor section 87A of the Act containing analogous restriction for LTCG on a residential flat u/s 112A of the Act, so by deliberate legislative design such tax remains eligible for rebate. The Ld. AR relied upon the following decisions:

*1. CIT v. Maheshkumar A. Rathod - [2008] 296 ITR 146 (Gujarat)*

*2. Chamber of Tax Consultants v. DGIT - [2025] 473 ITR 85 (Bombay)*

*3. Jayshreeben Jayantibhai Palsana v. ITO taxmann.com 411 (Ahmedabad - Trib.) [2025] 177*

*4. Manojbhai C. Kamdar v. ITO - ITA 572/Rjt/2025*

*5. Padmaben Kantilal Ranpara v. ITO - ITA 516/Rjt/2025*

*6. Gurminder Singh. v. ITO - ITA 887/Chandi/2025*

*7. Venkedapathy Venugopal v. ITO - ITA 2064/Chny/2025*

*8. Venkatachalam Venkatraman V. ITO 1431/Chny/2025 ITA*

*9. Pramod Kumar Dubey v. ITO - ITA 314/Agr/2025*

*10. Seshank Mahadev v. ITO - ITA 2274/Chny/2025*

*11. Thejaswini Jakkaraju v. ITO - ITA 218/Bang/2025*

6. The Ld. Departmental Representative (in short "Ld. DR") for the Revenue submitted that income tax taxable at special rates such as capital gains stands outside the purview of rebate contemplated u/s 87A of the Act, the amendment introduced by the Finance Bill, 2025 to insert 2nd proviso to section 87A of the Act w.e.f. 01.04.2026 is clarificatory in nature and merely affirms the legislative intent that the rebate u/s 87A of the Act was never intended to apply to tax payable on income taxable at special rates. The Ld. DR further submitted that when the statutory provisions are read harmoniously, it becomes clear that the computation of rebate under section 87A must necessarily exclude the tax payable on capital gains taxable under sections 111A and 112A. Both these sections form part of Chapter XII which deals with special rate incomes, separate from the ordinary computation of tax under the normal provisions. The rebate under section 87A is thus confined to the income-tax computed at the normal slab rates applicable to non-special income.

7. Heard both the parties and perused all the relevant materials available on record. It is pertinent to note that the Hon'ble High Court of Bombay has given a categorical finding in case of ***Chamber of Tax Consultancy vs. DGIT (473 ITR85)*** that rebate u/s 87A of the Act is allowed from the tax on total income irrespective of the fact that whether the sale is computed at special rates. Further, in para 32 of the said decision the Hon'ble High Court of Bombay has clarified that all income whether taxable at special rates or normal rates are part of total income and also referred section 111A(2), 112(2) & 112A(5) of the Act wherein exception is made to not allow deduction under chapter VIA from the special category of income. Further, the Tribunal in case of ***Jayshreeben Jayantibhai Palsana vs. ITO (2025) 177 taxmann.com 411 (Ahmedabad – Trib.)*** held as under:

> *"5.13 The purpose of this clause is to enable the computation of incometax 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) [TS5026-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 assessees 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."*

7.1 The case is identical and in fact the assessee qualifies the rebate on tax on LTCG from sale of residential flat since the assessee's total income is below Rs.7,00,000/-. Thus, the rebate claimed by the assessee should have been allowed by the AO as well as the CIT(A).

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

*Order pronounced in the open court on 16.06.2026*

***Sd/-***
**(SUCHITRA KAMBLE)**
**JUDICIAL MEMBER**

Ahmedabad; Dated: 16.06.2026

* Kishore, Sr. P.S.

**Copy of the Order forwarded to:**

1. The Appellant
2. The Respondent
3. CIT- concerned
4. DR, ITAT, Ahmedabad
5. Guard File

By order,

Assistant Registrar/Sr.PS/PS
ITAT, Ahmedabad Bench