

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

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

ITA No.558/Bang/2026
Assessment Year: 2022-23

Javaji Naga Darshan, No.18, Nandi Vishwas, Flat No.201, Padmanabhanagar, Bengaluru South, Chikkalasandra S.O, Bengaluru – 560 061. PAN – AJBPN 9646 D	Vs.	The Income Tax Officer, Ward – 5(2)(1), Bengaluru.
APPELLANT		RESPONDENT

Assessee by	:	Shri B.S Balachandran & Ajith V, Advocates
Revenue by	:	Shri Ganesh R Ghale, Standing Counsel for the Dept.

Date of hearing	:	08.04.2026
Date of Pronouncement	:	15.04.2026

ORDER

PER WASEEM AHMED, ACCOUNTANT MEMBER:

The present appeal filed, at the instance of the assessee, is directed against the order passed under section 250 of the Income Tax 1961 pertaining to A.Y. 2022-23 at National Faceless Appeal Centre- NFAC, Delhi.

2. The first interconnected issue raised by the assessee through Ground Nos. 2 to 8 of the appeal pertain to disallowances of deduction

claimed under section 54 of the Act on account of construction of new residential house.

3. The assessee is an individual, who during the year relevant to AY 2022-23, has earned capital gain of Rs. 33,18,773/- on sale of immovable property. Against the said capital gain, the assessee claimed deduction u/s 54 of the Act of Rs. 45,00,000/- on account of construction of new residential house, which was restricted to Rs. 33,18,773/- being the amount of capital gain.

3.1 Vide notices issued under section 142(1) of the Act, the assessee was asked to furnish necessary details and evidence such as purchased of land on which house property was constructed, evidence for construction and proof of ownership of the constructed property. However, the assessee despite being provided with multiple opportunity only furnished sample bills copy of construction materials, which were held to be insufficient. Hence, the AO in the absence of required details and evidence, disallowed the assessee's claim for deduction under section 54 of the Act for Rs. 33,18,773/- only and added to the total income.

4. The aggrieved assessee preferred an appeal before the learned CIT(A). The assessee before the learned CIT(A) submitted that the AO erred in disallowing the deduction claimed u/s 54F of the Act without properly appreciating the facts and evidence placed on record. It was submitted that the assessee had entered into a joint development agreement, and a copy of the same was furnished during the course of proceedings to establish the ownership and development of the

property. The assessee further submitted that invoices relating to construction activities were also provided during the initial stage of assessment.

4.1 It was argued that the deduction u/s 54 was claimed in accordance with the provisions of the Act and the same could not be denied merely on technical grounds or selective appreciation of documents. The assessee emphasized that the AO failed to consider the true nature of the transaction and the intent of the law governing exemption of capital gains invested in residential property.

4.2 The assessee also submitted that all relevant documentary evidence were placed on record in support of the claim, and the disallowance was made without properly examining such materials. It was further contended that the AO had not followed the principles of natural justice and passed the order without granting adequate opportunity to substantiate the claim. However, the learned CIT(A) dismissed the assessee's claim and confirmed the disallowances made by the AO by observing as under:

5.1. On going through the submission of the assessee, it can be seen that the assessee has stated that document containing a joint development agreement for authenticating the ownership was submitted. However, on going through the same it can be seen that the assessee was required to submit the purchase deed of the property purchased in his name and not the joint development agreement. Further, on going through the development agreement it can be seen that the same is being notarized and the consideration price on the same is written as Rs.0 and the stamp duty paid for the same is Rs.200/- which is found to be doubtful in nature. The assessee was required to submit the development agreement held with the contractor/builder for the construction of the property which the assessee failed to submit. The assessee was required to submit the possession letter of the property received alongwith allotment letter which the assessee failed to furnish. Further, it can be seen from the submission that the assessee has merely submitted some bills used for purchase of building material. The assessee was required to submit the details of total amount invested in the said property and supporting documents such

as bills and voucher, copy of agreements with contractors, copy of house construction sanction letter from the local administrative and revenue, towards his claims during the appellate proceedings. Therefore, the claim of the assessee is hereby rejected and the addition made by the AO on account of deduction claimed u/s.54F of the Act on account of LTCG is hereby confirmed.

5.2. Therefore, I do not find any excuse to take a divergent view from the findings of the AO as failure to file the documentary evidences in support of the claim of deductions u/s.54F of the Act. In view of this fact, the addition made by the AO amounting to Rs. 33,18,773/- is hereby confirmed and the ground of appeal raised by the assessee vide No.1 is hereby dismissed.

5. Being aggrieved by the order of the learned CIT(A) the assessee is in appeal before us.

6. The learned AR before us submitted that that the disallowance has been made in a purely mechanical manner without proper appreciation of evidence. It was submitted that the assessee had furnished all relevant documents including:

- Copy of sale deed of the original property,
- Joint Development Agreement (JDA),
- Details of reinvestment in construction of residential house,
- Bank statements evidencing flow and utilization of funds, and
- Sample invoices relating to construction.

6.1 It was contended that such evidence clearly demonstrates that the capital gains were in fact reinvested towards construction of a residential house. The lower authorities have rejected the claim merely on alleged deficiencies in documentation, without disproving the core fact of investment.

6.2 The Ld. AR emphasized that substantive compliance cannot be denied on procedural lapses. Once the source of funds and their

utilization for construction is established, minor deficiencies such as non-submission of certain documents like approval letters or complete bills cannot be a ground to deny the exemption.

6.3 It was further submitted that the AO as well as the Ld. CIT(A) have failed to conduct any independent enquiry or verification and have rejected the claim on mere suspicion. Such an approach is arbitrary and violative of principles of natural justice.

6.4 The Ld. AR also contended that the requirement of strict legal ownership is not mandatory for claiming deduction under section 54 of the Act. It was submitted that the investment in construction of a residential house, even if made through arrangements such as JDA or on family property, qualifies for exemption. Reliance was placed on judicial precedents to submit that exemption cannot be denied merely because the property is not exclusively registered in the name of the assessee.

6.5 Further, it was argued that the provisions of section 54 of the Act being beneficial in nature, must be interpreted liberally so as to advance the object of the statute, which is to promote investment in residential housing. The approach adopted by the lower authorities is hyper-technical and defeats the very purpose of the provision.

6.6 In conclusion, the Ld. AR submitted that the assessee has clearly demonstrated reinvestment of capital gains in construction of a residential house and has substantially complied with the conditions prescribed under the Act. Therefore, the disallowance of deduction is unjustified and liable to be deleted in full.

7. On the contrary, the learned DR supported the orders of the AO and the Id. CIT(A). It was submitted that the assessee failed to furnish complete and reliable evidence to substantiate the claim under section 54 of the Act. Key documents such as approved building plan, completion certificate, and full construction bills were not produced. Mere partial documents and bank statements do not conclusively prove utilization of capital gains for construction within the prescribed time. The learned DR also contended that ownership and legal title are important for claiming exemption. Accordingly, it was prayed that the disallowance made by the AO and sustained by the CIT(A) be upheld.

8. We have heard the rival contentions of both the parties and perused the materials available on record. The issue for consideration is whether the assessee is eligible for deduction u/s 54/54F of the Act in respect of capital gains reinvested towards construction of a residential house. From the facts on record, it is not in dispute that the assessee has earned capital gain on sale of immovable property and has claimed deduction on account of construction of a residential house. The only basis for denial of the claim by the lower authorities is alleged insufficiency of documentary evidence.

8.1 On perusal of the records, we find that the assessee has furnished a Joint Development Agreement (JDA) entered between the assessee and his family members to substantiate the claim of construction of residential house. The Id. CIT(A) has rejected the same by observing that the agreement mentions nil consideration and is executed on a stamp paper of Rs. 200/-, thereby treating it as doubtful. In our considered view, such reasoning is not sustainable. The JDA

placed on record evidence the arrangement for construction and cannot be disregarded merely on the ground that the consideration mentioned therein is nil or that the stamp duty is nominal, especially when the arrangement is within family members. These factors, by themselves, do not disprove the factum of construction activity undertaken by the assessee.

8.2 Further, it is observed that the assessee has furnished sample bills for purchase of building materials aggregating to Rs. 24,25,282/-. The Revenue authorities have rejected such evidence in a general manner without pointing out any specific defect or discrepancy in such bills. In absence of any adverse finding regarding genuineness of these documents, the same cannot be brushed aside as insufficient.

8.3 It is also pertinent to note that the assessee has furnished details of construction expenses exceeding Rs. 21 lakhs incurred through banking channels, along with the names of parties and nature of materials purchased or services availed but formal bill or voucher was not available. Such evidence clearly demonstrates the flow and utilization of funds towards construction. However, the lower authorities have failed to consider these details in proper perspective and have proceeded to reject the claim without any verification or rebuttal.

8.4 In our view, the approach adopted by the AO as well as by the Ld. CIT(A) is hyper-technical. Once the assessee has demonstrated that the capital gains have been substantially invested in construction of a residential house, the deduction cannot be denied merely on the ground

that certain additional documents such as approval letters, possession certificate, or complete set of bills were not furnished.

8.5 It is well settled that the provisions of section 54/54F are beneficial in nature and are intended to promote investment in residential housing. Therefore, the same should be interpreted liberally. Substantive compliance of the conditions is sufficient, and the claim cannot be denied on mere technicalities.

8.6 In the present case, considering the JDA, material purchase bills, and details of expenditure incurred through banking channels, we are of the considered opinion that the assessee has satisfactorily demonstrated the construction of a residential house and utilization of capital gains for the said purpose. Accordingly, the disallowance made by the AO and confirmed by the Ld. CIT(A) amounting to Rs. 33,18,773/- is not sustainable and is hereby deleted. Thus, the ground of appeal of the assessee is hereby allowed.

9. The next issue raised by the assessee is that the learned CIT(A) erred in not allowing the deduction of Rs. 1.8 lakh claimed under Chapter-VI-A of the Act.

10. The AO in the assessment order, disallowed the deduction claimed under Chapter-VI-A of the Act for Rs. 1.8 lakhs in the absence of supporting materials required to substantiate the claim of the assessee.

11. The aggrieved assessee preferred appeal before the learned CIT(A) and furnished documentary evidence in support of deduction

claimed under section 80C and 80D of the Act which included copy for the payment of LIC premium, health insurance premium, investment in UTI and tax savings funds etc.

12. The learned CIT(A) considered the materials placed on record by the assessee and directed the AO to verify the claim of the assessee and allow deduction as per the provision of the Act.

13. Being aggrieved by the order of the learned CIT(A), the assessee is in appeal before us.

14. The learned AR submitted that the AO erred in disallowing the deduction claimed under Chapter VI-A of the Act without granting proper opportunity to furnish supporting documents. It was contended that the assessee had duly made eligible investments and payments under sections 80C and 80D of the Act. The necessary documentary evidence such as LIC premium receipts, health insurance premium receipts, and investment proofs were furnished before the learned CIT(A). Therefore, it was prayed that the deduction be allowed in full.

15. On the contrary, the learned DR supported the order of the AO and submitted that the assessee failed to furnish the required evidence during the assessment proceedings. It was argued that the deduction was rightly disallowed by the AO and the direction of the CIT(A) for verification is appropriate.

16. We have heard the rival contentions of both the parties and perused the materials available on record. At the outset we note the AO

has disallowed the deduction claimed under section 80C and 80D of the Act in the absence of the supporting document. The assessee furnished the supporting document before the learned CIT(A) for the first time and the learned CIT(A) directed the AO to verify the claim of the assessee and allow the deduction as per law.

16.1 In view of the above stated facts, we do not find any infirmity in the finding of the learned CIT(A) directing the AO to allow the claim of the assessee as per law after verification. Hence, we uphold the finding of the learned CIT(A) and direct the AO to allow the eligible claim of the assessee after verification of supporting documents placed on record. Hence, the ground of appeal of the assessee is allowed for statistical purposes.

17. In the result, the appeal of the assessee is hereby partly allowed for statistical purposes.

Order pronounced in court on 15th day of April, 2026

Sd/-

(KESHAV DUBEY)
Judicial Member

Sd/-

(WASEEM AHMED)
Accountant Member

Bangalore
Dated, 15th April, 2026

/ vms /

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