आयकर अपीलीय अधिकरण, इंदौर न्यायपीठ, इंदौर
IN THE INCOME TAX APPELLATE TRIBUNAL
INDORE BENCH, INDORE

BEFORE SHRI B.M. BIYANI, ACCOUNTANT MEMBER
AND
SHRI PARESH M. JOSHI, JUDICIAL MEMBER

ITA No.702/Ind/2025
Assessment Year:2024-25

Kanhaiya Lal Panchal, 1, Jadwasa Kala, Ratlam	**बनाम/** Vs.	BPL-W-(91)(95)
(Assessee/Appellant)		(Revenue/Respondent)
PAN: AQRPP0055D		
Assessee by	Shri Kaide Kangsawala, AR	
Revenue by	Shri Ashish Porwal, Sr. DR	
Date of Hearing	06.01.2026	
Date of Pronouncement	16.01.2026	

आदेश / O R D E R

Per B.M. Biyani, A.M.:

Feeling aggrieved by order of first appeal dated 12.08.2025 passed by learned Commissioner of Income-Tax (Appeals)-NFAC, Delhi ["CIT(A)"] which in turn arises out of rectification-order dated 19.03.2025 passed by learned BPL-W-91(95) ["AO"] u/s 154 of Income-tax Act, 1961 ["the Act"] for Assessment-Year ["AY"] 2024-25, the assessee has filed this appeal.

2. The background facts leading to present appeal are such that the assessee-individual filed his return of income of AY 2024-25 declaring a total income of Rs. 4,15,616/- (R/o to Rs. 4,15,620/-) comprising of income

from salary, short-term capital gain, long-term capital gain and income from other sources alongwith agricultural income of Rs. 2,74,118/-. The assessee opted under new tax regime u/s 115BAC, computed tax liability of Rs. 22,536/- but claimed rebate of Rs. 22,536/- u/s 87A and effectively offered "Nil" tax. The return filed by assessee was processed by AO u/s 143(1) wherein the AO accepted total income without any variation. However, in computation of tax liability, the AO allowed rebate u/s 87A partially to the extent of Rs. 200/- only and thereby disallowed the rebate of Rs. 22,336/-. The AO created demand of tax, cess and interest accordingly. The assessee filed a rectification application u/s 154 which was also rejected by AO vide order dated 19.03.2025. Aggrieved, the assessee filed first-appeal to CIT(A) but still did not get any relief. Now, the assessee has come in next appeal before us.

3. The assessee has raised following grounds:

> *"1.The learned Commissioner of Income Tax (Appeals) [CIT(A)] erred in law and on facts in confirming the action of the CPC in restricting the rebate allowable under section 87A of the Income-tax Act, 1961 to Rs.200/- instead of Rs.22,536/- as claimed by the appellant.*
>
> *2.The CIT(A) has wrongly interpreted the proviso to section 87A (as amended by Finance Act, 2023) to mean that rebate is not allowable on any income taxed at special rates, including long-term capital gains taxable under section 112, despite there being no express restriction in law to that effect.*
>
> *3.The CIT(A) failed to appreciate that the restriction on rebate under section 87A is specifically provided only in sub-section 3(6) of section 112A, and applies only to certain long-term capital gains on equity shares/units, and not to capital gains taxable under section 112.*
>
> *4. The CIT(A) has erred in placing reliance on the "Memorandum explaining provisions of the Finance Bill, 2025" as a basis for interpretation, even*

though such memorandum does not have the force of law and cannot override the plain language of the statute.

5.That the Ld. CIT(A) failed to provide sufficient opportunity to the Appellant for substantiating his claims.

6.That the Appellant craves leave to add, amend, alter, OR withdraw any of the above grounds at the time of hearing."

4. Thus, by means of above grounds the assessee is challenging the rebate u/s 87A denied by AO to the extent of Rs. 22,336/-.

5. We have heard learned Representatives of both sides and perused the case record.

6. At first, we present below the "Computation of tax liability" as filed by Ld. AR for assessee in Written-Synopsis:

Income	Amount	Tax Rate	Tax Amount
Normal income	3,03,996	Slab rates	200
Special income by way of Short Term Capital Gain u/s 111A	81	15%	12
Special income by way of long-term capital gain u/s 112	1,11,393	20%	22,279
Special income from transfer of virtual digital asset	150	30%	45
Total	4,15,620		22,536
Rebate u/s 87A			22,536
Net tax			Nil

7. From above computation of tax liability/rebate u/s 87A demonstrated by Ld. AR, which goes undisputed by revenue, we find that the AO has not

allowed rebate of Rs. 22,236/- for three elements of tax liability, viz. (i) Tax of Rs. 12/- on short-term capital gain u/s 111A, (ii) tax of Rs. 22,279/- on long-term capital gain u/s 112 and (iii) tax of Rs. 45/- on transfer of virtual digital asset.

8. In so far as the first two elements of tax liability, viz. tax of Rs. 12/- on short-term capital gain u/s 111A (+) tax of Rs. 22,279/- on long-term capital gain u/s 112 are concerned, the issue is well covered by following decisions of ITAT benches in favour of assessee:

(i) ITAT, Ahmedabad in Jayshreeben Jayantibhai Palsana Shingala Sheri Vs. ITO, Ward-1(9), Ahmedabad, ITA No. 1014/Ahd/2025, order dated 12.08.2025 for AY 2024-25:

> ***"****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 assessees 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.1 5,820/-. 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 subsection (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) [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."

(ii) ITAT, Chennai in Venkedapathy Venugopal Vs. ITO, ITA No. 2064/Chny/2025, order dated 09.10.2025 for AY 2024-25:

"*7. We have heard the rival submissions and carefully perused the orders of the lower authorities as well as the material placed on record. The sole issue arising for our adjudication is whether the assessee is entitled to rebate of tax u/s 87A of the Act where the total income consists, inter alia, of income chargeable to tax at special rates.*

8. We note that an identical issue came up for consideration before this Tribunal in the case of Venkatachalam Venkatraman v. ITO [ITA No.1431/Chny/2025, order dated 20.08.2025]. The Tribunal therein held that the provisions of section 87A of the Act provide rebate on the entire tax liability computed on the "total income" without drawing any distinction between income taxable at normal rates and income taxable at special rates. It was accordingly concluded that rebate u/s.87A of the Act is available even in respect of such incomes taxed under special provisions. The relevant findings are extracted below for ease of reference:-

> *"5.0 been concluded that to claim the rebate total income is to be computed after excluding any special rate income so as to determine the final tax liability. We have noted that the view taken by the Ld.*

CIT(A) of assessee filing return u/s 115BAC and consequently ineligible for rebate is not in order. The only controversy in this case is whether rebate u/s 87A is available on all the incomes or there is any exclusion. We have noted that the provisions of section 87A do not provide for such an exclusion. The first proviso to section 87A includes an exemption qua total income falling u/s 115BAC (1A) however the impugned amendment has been brought by Finance Act 2024 w.e.f 01.04.2025. The present AY-2024 25 would not be hit by the same. We have noted that Hon'ble Bombay High Court in the case of Rajiv G Shah supra has held that "...there is no indication in the plain language of Section 87A that any category of income or tax should be excluded from the computation. If the total income is within the threshold prescribed, rebate cannot be denied. ...". It is trite law that when provisions of the statute granting any benefit to the tax payer are unambiguously clear, no different interpretation thereof can be adopted. Accordingly, we are of the view that the assessee is entitled for claim of rebate u/s 87A. The orders of lower authorities are therefore set aside and the Ld.AO is directed to allow the assessee its claim of rebate u/s 87A. All the grounds of appeal raised by the assessee are therefore allowed."

9. Further, we find support from the decision of the Coordinate Bench in ***Jayshreeben Jayantibhai Palsana Shingala Sheri v. ITO [ITA No.1014/Ahd/2025, order dated 12.08.2025]****, where it was held as under:-*

XXX [Paras of this order of ITAT are already re-produced in preceding para No. 8(i)]

10. ***Respectfully following the ratio laid down in the above cases, we hold that the assessee in the instant case is entitled to rebate u/s.87A of the Act for the impugned assessment year, notwithstanding that the total income includes taxable long term capital gains chargeable at special rates.*** *The AO is accordingly directed to allow the rebate of Rs.25,000/- claimed by the assessee u/s.87A of the Act and recompute the tax liability. Thus, the grounds of appeal raised by the assessee are allowed.*

11. In the result, the appeal of the assessee is allowed."

9. Ld. DR for revenue is not able to cite any judicial decision against assessee or in favour of revenue. Therefore, respectfully following the pre-existing judicial decisions cited by Ld. AR as noted above, we are persuaded to accept the claim of assessee for giving rebate u/s 87A against two elements, viz. (i) Tax of Rs. 12/- on short-term capital gain u/s 111A and (ii)

Tax of Rs. 22,279/- on long-term capital gain u/s 112. Accordingly, we direct the AO to allow a further rebate of Rs. 22,291/-.

10. Ld. AR for assessee, however, made a clear assertion in open court that he is not against the rebate denied by AO against third element of tax liability i.e. against the tax on income from transfer of virtual digital asset. Thus, taking into account the statement of Ld. AR, the assessee's claim of rebate against tax liability of Rs. 45/- on income from transfer of digital asset is rejected. The order of AO to this extent is upheld.

11. In conclusion, we direct the AO to allow a further rebate of Rs. 22,291/- and recompute the tax liability. The assessee succeeds partly in this appeal.

12. Resultantly, this appeal is allowed partly.

Order pronounced in open court on 16/01/2026

Sd/- Sd/-

(PARESH M. JOSHI) (B.M. BIYANI)
JUDICIAL MEMBER ACCOUNTANT MEMBER

Indore

दिनांक /Dated : 16/01/2026

Patel/Sr. PS

Copies to:
(1) The appellant
(2) The respondent
(3) CIT
(4) CIT(A)
(5) Departmental Representative
(6) Guard File

By order
Senior Private Secretary
Income Tax Appellate Tribunal
Indore Bench, Indore