

आयकर अपीलीय अधिकरण, 'बी' न्यायपीठ, चेन्नई
**IN THE INCOME TAX APPELLATE TRIBUNAL
'B' BENCH, CHENNAI**

श्री मनु कुमार गिरि, न्यायिक सदस्य एवं श्री एस. आर. रघुनाथा, लेखा सदस्य के समक्ष
**BEFORE SHRI MANU KUMAR GIRI, JUDICIAL MEMBER AND
SHRI S. R. RAGHUNATHA, ACCOUNTANT MEMBER**

आयकर अपील सं./ITA No.:1755/Chny/2025

निर्धारण वर्ष / **Assessment Year: 2016-17**

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|---|-----|--|
| Ranjit V Srivatsaa, Kuram Illam 13/2 (Old 7/2), North Gopalapuram, 2 nd Street, Gopalapuram, Chennai – 600 086. | vs. | Income Tax Officer, Non Corp. Ward - 3(2), Chennai. |
| [PAN: ACHPR-4043-D] (अपीलार्थी/Appellant) | | (प्रत्यर्थी/Respondent) |

अपीलार्थी की ओर से/Appellant by : Ms. G.Vardini Karthik, Advocate

प्रत्यर्थी की ओर से/Respondent by : Ms. Gouthami Manivasagam, JCIT

सुनवाई की तारीख/Date of Hearing : 25.11.2025

घोषणा की तारीख/Date of Pronouncement : 14.01.2026

आदेश /ORDER

PER S. R. RAGHUNATHA, AM:

This appeal by the assessee is filed against the order of the Commissioner of Income Tax (Appeals), National Faceless Appeal Centre (NFAC), Delhi, for the assessment year 2016-17, vide order dated 28.04.2025.

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

1. *The Learned CIT(A) erred in denying the claim of the appellant made U/s.54.*

2. The Learned CIT(A) failed to see that the Assessing officer hurriedly passed an assessment order on 24.12.2018, whereas the date of compliance for the Appellant to claim exemption U/s.54 was expiring only on 10.02.2019.

3. The Learned CIT(A) failed to appreciate the fact that the sale consideration was invested into a capital gain account held with IDBI Bank, CP Road Branch A/c. Number 22104000259316 as per the provisions of the Act.

4. The Learned CIT(A) failed to appreciate that Section 54F of the Act is a beneficial provision which promotes construction of residential house, and such provision has to be construed liberally for achieving the purpose for which it has been incorporated in the Statute.

5. The Learned CIT(A) failed to realize that the essence of Sec.54 is to ensure that assessee who received capital gains would invest same by constructing a residential house and if is able to establish that the investment of the net consideration within the stipulated period, he would be entitled to get the benefit of Section 54F.

6. The Learned CIT(A) failed to consider the judicial precedents where it was held that once it is demonstrated that consideration received on transfer of a capital asset is invested in a residential property, transactions involved in purchase or construction of such residential property are not complete in all respects would not disentitle assessee from benefit of exemption under section 54F.

7. The Learned CIT(A) in the event of holding that the construction was not completed within the stipulated time, ought to have allowed the claim of the appellant U/s 54 based on amount utilised by assessee out of sale consideration towards construction of new house property.

8. The Learned CIT(A) failed to see that when the appellant had invested total sale consideration in construction of a residential house within three years after transfer, he was entitled to exemption U/s 54F despite of the house being completed after three years.

For these and other grounds that may be raised at the time of hearing, it is prayed that the assessment order is set aside and the appeal allowed.

3. The brief facts of the case emanating from the records are that the assessee is a senior citizen, who is having income from interest on deposits. During the F.Y.2015-16, the assessee sold his immovable property at Besant Nagar, Chennai along with other three persons. The assessee filed his return of income for the A.Y.2016-17 on 04.08.2016 by declaring the long term capital gain on his share of sale of long term capital asset by claiming deduction u/s.54 of the Act to the tune of Rs.3,36,76,550/- under the head capital gains.

4. The case was selected for 'Limited scrutiny' and accordingly the statutory notices were issued to the assessee. During the assessment proceedings, the

assessee submitted that the sale proceeds of the long term capital asset has been invested in a residential property within the specified time prescribed u/s.54 of the Act.

5. However, the AO denied the deduction claimed u/s.54 of the Act and passed an order u/s.143(3) of the Act dated 24.12.2018 by arriving a total income of Rs.3,49,39,740/- by holding as under:

3.1 In response to show cause notice, assessee has filed letter dated 13/12/2018 wherein he has submitted that he has finalised an agreement with Ceebros investments for a residential project at No.24, Malony Road, T.Nagar, Chennai-17 for an amount of Rs.3,06,85,800/- and apart from that he would have to invest Rs.33,14,200/- to ensure capital gains is invested before the deadline of 8/2/2019 to fulfil the conditions u/s.54.

3.2 The contentions of the assessee have been considered. In the return of income filed for AY 2016-17, assessee has claimed sale of property for a total consideration of Rs.3,50,00,000/- and claimed deduction u/s.54 for investing in capital accounts scheme. Notice u/s. 133(6) was issued to the Manager, IDBI Bank, The Bank has confirmed the balance as on 11/8/2018 is Rs.3,70,95,341/-. For proof for investment u/s.54 assessee has filed an offer letter from Ceebros Investments for an apartment at No.24, Malony Road, T.Nagar, Chennai-17. However, till date assessee has not furnished any proof of payment to

3.3. As per Section 54 the assessee ought to within a period of one year before or two years the asset was sold on 10th February 2016. The period of three years completes on 10th years after that date constructed, one residential house in India. In the case of the assessee February 2019. However, till date assessee has not furnished any proof for reinvestment except for an offer letter from Ceebros Investments. Hence, I herein assess the long-term capital gain in the hands of the assessee as under.

| | |
|---|--------------------------------|
| <i>Total consideration received</i> | <i>Rs. 14,00,00,000/-</i> |
| <i>Assessee's share</i> | <i>Rs. 3,50,00,000/-</i> |
| <i>Less: Cost of acquisition with indexation</i> | <i>Rs. 3,22,462/-</i> ----- |
| | <i>Rs.3.46,77,538/-</i> |
| <i>Cost of improvement claimed 6,28,488/-</i> | |
| <i>Since no proof is provided hence the same is disallowed.</i> | |
| <i>Expenditure wholly & exclusively in connection with transfer</i> | <i><u>Rs. 372,500/-</u></i> |
| <i>Long Term Capital Gain</i> | <i><u>Rs.3,43,05,038/-</u></i> |

6. Aggrieved by the order of the AO, the assessee preferred an appeal before the Id.CIT(A) with the following grounds of appeal:

1. *The assessing officer has erred in denying the exemption under Section 54 on the premise that no investment has been made in the residential property on or before three years from the date of sale though the assessee has time till 10.02.2019.*

2. *The assessee has invested the entire capital gains amount in the capital gains account of the IDBI Bank of Rs. 3,40,00,000/- to invest in a residential apartment for claiming deduction under Section 54 of the Income Tax Act.*

3. *The assessee has allocated this for the purpose of re-investing in a residential property to comply with the provision of Section 54 of the Income Tax Act.*

7. Before the Id.CIT(A) the assessee submitted that the time frame for commencement of assessment on the taxability of the capital gains will arise only from the date of closure of the capital gains account or on the date of utilization of the amount deposited in the capital gains account towards any investment on a residential property. Further, the assessee also submitted that the property claimed to be constructed within 3 years at Plot No.124, Door No.3, 40 Ft. Scheme Road, Mahalingapuram, Nungambakkam, Chennai – 600 034. The assessee also submitted the date chart showing the capital gain should have been invested in construction of property within 3 years i.e. on or before 10.02.2019 and corresponding investment has been made on 01.02.201, which was well within 3 years.

| Events | Dates |
|--|-------------------|
| <i>Date of sale of old property</i> | <i>10.02.2016</i> |
| <i>Date on which Capital Gains deposit A/c was opened</i> | <i>25.07.2016</i> |
| <i>Date of communication sent to AO regarding re-investment</i> | <i>13.12.2018</i> |
| <i>Date of Assessment Order concluding that no re-investment made</i> | <i>24.12.2018</i> |
| <i>Date of Construction Agreement entered into with M/s.KGEYES Residency Private Ltd for re-investment purpose</i> | <i>31.01.2019</i> |
| <i>Date of execution of sale deed with regard to conveyance of 1200 sq. Ft as Undivided Share in Land (UDS)</i> | <i>01.02.2019</i> |
| <i>Date before which the Petitioner has to invest as per Sec. 54 of the Act (3 years time frame)</i> | <i>10.02.2019</i> |

8. The Id.CIT(A) was not convinced with the details filed by the assessee and dismissed the appeal of the assessee by passing an order dated 28.04.2025. Aggrieved by the order of the Id.CIT(A) the assessee is in further appeal before us.

9. The Id.AR for the assessee assailing the action of the Id.CIT(A), submitted that the Id.CIT(A) has erred in understanding the provisions of section 54 of the Act and confirmed the action of the AO. The Id.AR submitted a paper book containing 72 pages consisting of copy of agreement for construction of new flat, copy of sale deed pertaining to UDS from KGEYES Residency private limited dated 01.02.2019, Capital gain Account pass book of IDBI Bank, Handing over of flat from KGEYES Residency private limited dated 08.02.2019 along with the copies of judicial pronouncements in favour of the assessee to claim deduction u/s.54 of the Act in respect of construction of house within 3 years from the date of sale.

10. Further, the Id.AR argued that the AO cannot tax the capital gain in the year of sale of the capital asset, when the proceeds are kept under Capital Gain account scheme for claiming deduction u/s.54 or 54F of the Act, until the permitted time is expired. Hence the Id.AR stated that the action of the AO as well as Id.CIT(A) in taxing the long term capital gain in the year of sale of the capital asset is untenable in law and needs to be deleted.

11. Per contra, the Id.DR for the revenue submitted that the assessee had only submitted the offer letter from Deebros, with no proof of payment, agreement or progress of construction during the assessment proceedings. The AO had also obtained the information from the IDBI bank stating that the assessee had balance of Rs.3.70 crores as on 11.08.2018 in his capital gain account, by issuing notice u/s.133(6) of the Act. Therefore, the action of the AO in disallowing the deduction u/s.54 of the Act is correct in the facts of the case and hence prayed for not to interfere in the order of the Id.CIT(A).

12. We have heard the rival contentions perused the material available on record and gone through the orders of the lower authorities below along with the paper books filed by both the parties and case laws relied on. The undisputed facts are that the assessee is a senior citizen, who is having income from interest on deposits. During the F.Y.2015-16, the assessee had sold the immovable property at Besant Nagar, Chennai along with other three persons. The assessee filed his return of income for the A.Y.2016-17 on 04.08.2016 by declaring the long term capital gain on his share of sale of long term capital asset by claiming deduction u/s.54 of the Act to the tune of Rs.3,36,76,550/- under the head capital gains.

13. During the assessment proceedings, the assessee submitted that the sale proceeds of the long term capital asset has been invested in a residential property within the specified time prescribed u/s.54 of the Act in the A.Y.2019-20, after the amount was kept in capital gain account scheme in the impugned year.

14. However, the AO denied the deduction claimed u/s.54 of the Act and passed an order u/s.143(3) of the Act dated 24.12.2018 by arriving a total income of Rs.3,49,39,740/- in the A.Y.2016-17, since the assessee had not utilised the capital gain amount for investment in a new residential house property upto the date of assessment. On appeal the Id.CIT(A) has confirmed the action of the AO, stating that the assessee had not furnished the complete details of the reinvestment in a new residential house property.

15. The relevant portion of the provisions of u/s.54 of the Act is extracted below:

Profit on sale of property used for residence.

54. (1) *Subject to the provisions of sub-section (2), where, in the case of an assessee being an individual or a Hindu undivided family, the capital gain arises from the transfer of a long-term capital asset, being buildings or lands appurtenant thereto, and being a residential house, the income of which is chargeable under the head "Income from house property" (hereafter in this section referred to as the original asset), and the assessee has within a period*

of one year before or two years after the date on which the transfer took place purchased, or has within a period of three years after that date constructed, one residential house in India, then, instead of the capital gain being charged to income-tax as income of the previous year in which the transfer took place, it shall be dealt with in accordance with the following provisions of this section, that is to say,—

(i)

(ii)

(a)

(b)

(2) The amount of the capital gain which is not appropriated by the assessee towards the purchase of the new asset made within one year before the date on which the transfer of the original asset took place, or which is not utilised by him for the purchase or construction of **the new asset before the date of furnishing the return of income under section 139, shall be deposited** by him before furnishing such return [such deposit being made in any case not later than the due date applicable in the case of the assessee for furnishing the return of income under sub-section (1) of section 139] in an account in any such bank or institution as may be specified in, and utilised in accordance with, any scheme which the Central Government may, by notification in the Official Gazette, frame in this behalf and such return shall be accompanied by proof of such deposit; and, for the purposes of sub-section (1), the amount, if any, already utilised by the assessee for the purchase or construction of the new asset together with the amount so deposited shall 11[, subject to the third proviso to sub-section (1)] be deemed to be the cost of the new asset:

Provided that if the amount deposited under this sub-section is not utilised wholly or partly for the purchase or construction of the new asset within the period specified in sub-section (1), then,—

(i) the amount not so utilised shall be charged under section 45 as the income of the previous year in which the period of three years from the date of the transfer of the original asset expires; and

(ii) the assessee shall be entitled to withdraw such amount in accordance with the scheme aforesaid.”

16. On perusal of the proviso (i) of Section 54(2) of the Act, it is clearly stated that the amount so deposited in the Capital gain scheme is not utilized for purchase or construction of new residential house property within a specified period from the date of transfer the original asset, shall be taxable u/s.45 of the Act under the head capital gain of the previous year in which the period of three years expires.

17. Therefore, in view of the above, the action of the AO in taxing the capital gain in the impugned year is erroneous and against the provisions of the Act. The Id.CIT(A) also has not adjudicated the impugned issue in accordance with the law and hence we do not countenance the action of the Id.CIT(A).

18. In the present facts and circumstances of the case and in view our above findings, we set aside the order of the Id.CIT(A) and delete the disallowance of deduction made by the AO, claimed u/s.54 of the Act in the impugned year.

19. Before parting, on perusal of the documents furnished by the Id.AR in the paper book consisting of the copy of the sale deed of the UDS of the new house property and the construction agreement for house at Plot No.124, Door No.3, 40 Ft. Scheme Road, Mahalingapuram, Nangambakkam, Chennai – 600 034, we are of the view that the assessee has made investment in construction of new residential property before the expiry of three years i.e. 10.02.2019 and hence, the assessee is eligible for deduction u/s.54 of the Act. Further, we also note that the closing balance of the Capital gain account held by the assessee which is confirmed by the IDBI Bank, for having utilized the same for reinvestment of the new asset.

20. In the result the appeal of the assessee is allowed.

Order pronounced in the open court on 14th January, 2026 at Chennai.

Sd/-

(मनु कुमार गिरि)

(MANU KUMAR GIRI)

न्यायिक सदस्य/**Judicial Member**

Sd/-

(एस. आर. रघुनाथा)

(S. R. RAGHUNATHA)

लेखासदस्य/**Accountant Member**

चेन्नई/Chennai,

दिनांक/Dated, the 14th January, 2026

SP

आदेश की प्रतिलिपि अग्रेषित/Copy to:

1. अपीलार्थी/Appellant
2. प्रत्यर्थी/Respondent
3. आयकर आयुक्त/CIT- Chennai/Coimbatore/Madurai/Salem
4. विभागीय प्रतिनिधि/DR
5. गार्ड फाईल/GF