

**IN THE INCOME TAX APPELLATE TRIBUNAL
“C” BENCH, AHMEDABAD**

**BEFORE SHRI SIDDHARTHA NAUTIYAL, JUDICIAL MEMBER
& SHRI NARENDRA PRASAD SINHA, ACCOUNTANT MEMBER**

I.T.A. No.1984/Ahd/2025
(Assessment Year: 2017-18)

Sumit H Bhagchandani, C/o. Ranjit Hosiery Mills, Naroda Road, Ahmedabad-380025	Vs.	Deputy Commissioner of Income Tax, Circle-3(1)(1), Ahmedabad
[PAN No.ABBPB4786E]		
(Appellant)	..	(Respondent)

Appellant by :	Shri Parin Shah, AR
Respondent by:	Shri Yogesh Mishra, Sr. DR

Date of Hearing	19.02.2026
Date of Pronouncement	23.02.2026

O R D E R

PER SIDDHARTHA NAUTIYAL - JUDICIAL MEMBER:

This appeal has been filed by the Assessee against the order passed by the Ld. Commissioner of Income Tax (Appeals), (in short “Ld. CIT(A)”), ADDL/JCIT(A)-2, Chennai vide order dated 21.08.2025 passed for A.Y. 2017-18.

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

“1. The orders passed by lower authorities is invalid, bad in law and required to be quashed.

2. Ld. JCIT(A) erred in law and on facts in disallowing deduction u/s.54F of Rs. 391661/- ignoring submission and documentary evidence submitted by appellant.

3. Initiation of penalty proceedings u/s. 270A of the Act is unjustified.

4. Appellant craves leave to add/alter grounds of appeal.”

3. The brief facts of the case are that the assessee, Shri Sumit Harishbhai Bhagchandani, filed his return of income for Assessment Year 2017-18 on 30.10.2017 declaring total income of Rs.2,31,53,340/-. The return of income included long-term capital gains arising from the sale of a plot of land, in respect of which the assessee claimed exemption under section 54F of the Income-tax Act, 1961 ("the Act").

4. During the course of assessment proceedings, the Assessing Officer examined the computation of long-term capital gains and the deduction claimed under section 54F of the Act. The assessee had computed long-term capital gains of Rs.3,76,29,042/- on his one-fourth share in the sale of land, the total sale consideration attributable to the assessee being Rs.3,82,50,000/-. Against the said capital gains, the assessee claimed deduction under section 54F of the Act amounting to Rs.2,58,36,605/-, comprising actual expenditure of Rs.33,36,605/- incurred towards construction of a residential house up to the date of filing of return and a sum of Rs.2,25,00,000/- deposited in the Capital Gains Account Scheme, 1988.

5. The Assessing Officer observed that section 54F of the Act prescribes a specific statutory formula for computation of deduction, namely, capital gain multiplied by the ratio of cost of the new asset to the net consideration. On applying the said formula, the Assessing Officer computed the eligible deduction as $\text{Rs.}3,76,29,042 \times (\text{Rs.}2,58,36,605 \div \text{Rs.}3,82,50,000)$, which worked out to Rs.2,54,44,944/-. Since the assessee had claimed deduction of Rs.2,58,36,605/-, the Assessing Officer held that

excess deduction of Rs.3,91,661/- had been claimed. Accordingly, the Assessing Officer disallowed the said amount and completed the assessment by assessing total income at Rs.2,35,45,018/-.

6. Aggrieved by the assessment order, the assessee carried the matter in appeal before the Commissioner of Income-tax (Appeals). Before the CIT(Appeals), the assessee raised the ground that the Assessing Officer erred in partially disallowing the claim of deduction under section 54F of the Act by treating the deposit made in the Capital Gains Account Scheme as not fully forming part of the cost of the new asset. The assessee submitted that that the Capital Gains Account Scheme is a statutory relief provided when the cost of the new asset is not fully determined or construction is not completed and that the entire amount deposited therein should be treated as cost of the new asset for the purpose of section 54F of the Act.

7. The Commissioner of Income-tax (Appeals), after examining the facts, the grounds of appeal and the statutory provisions, held that section 54F clearly lays down a proportionate method for computation of deduction where the entire net consideration is not invested in the new residential house. The CIT(Appeals) observed that while deposit in the Capital Gains Account Scheme preserves the eligibility for exemption under section 54F(4) of the Act, it does not override the computation mechanism prescribed under section 54F(1) of the Act. The CIT(Appeals) further noted that the assessee had not produced evidence to demonstrate that the entire amount deposited in the Capital Gains Account Scheme had

been actually utilized or irrevocably committed towards construction of the residential house within the prescribed time. The Commissioner of Income-tax (Appeals) thus held that the Assessing Officer had correctly applied the statutory formula and that the proportionate disallowance of Rs.3,91,661/- was justified. Accordingly, the appeal of the assessee was dismissed.

8. The assessee is in appeal before us against the order passed by the Commissioner of Income-tax (Appeals) dismissing the appeal of the assessee.

9. Before us, the ld. counsel for the assessee reiterated that the assessee had correctly claimed deduction under section 54F of the Act by including both the actual expenditure incurred on construction and the amount deposited in the Capital Gains Account Scheme. It was submitted that the Capital Gains Account Scheme is a benevolent provision introduced to grant relief to taxpayers who are unable to complete construction before the due date of filing of return, and that such deposit represents utilization of net consideration. The ld. counsel contended that the Assessing Officer erred in treating the deposit under the Capital Gains Account Scheme as merely preserving eligibility and not as forming part of the cost of the new asset. The ld. counsel for the assessee submitted that that the assessee had in facts spent an amount even more than the amount of Rs.2,25,00,000/- deposited in the capital gains account (and had in fact the assessee had spent a sum of Rs.2,37,00,000/- approximately as is evident from the Capital Gains Account Bank Statement). Accordingly, the ld. counsel for

the assessee submitted that that the proportionate disallowance was contrary to the spirit of section 54F of the Act and that the entire claim of Rs.2,58,36,605/- ought to have been allowed. Reliance was also placed on explanatory notes, examples from tax commentaries and the beneficial nature of capital gains exemption provisions.

10. We have heard the rival submissions and perused the material available on record. The issue for our consideration is confined to the computation of deduction under section 54F of the Act and, more particularly, whether the assessee is entitled to deduction of the entire amount claimed or only to a proportionate deduction as computed by the Assessing Officer.

11. Section 54F of the Act provides exemption from long-term capital gains subject to fulfilment of specified conditions and prescribes a clear and unambiguous formula for determining the quantum of deduction. The deduction allowable is equal to the capital gain multiplied by the ratio of the cost of the new asset to the net consideration received. Sub-section (4) of section 54F permits the assessee to deposit the unutilized portion of the net consideration in the Capital Gains Account Scheme before the due date of filing of return, so as to preserve the eligibility for exemption. However, the said provision does not dispense with the computation mechanism prescribed under section 54F(1) of the Act.

12. In the present case, the figures are undisputed. The net consideration attributable to the assessee is Rs.3,82,50,000/-. The capital gain computed

is Rs.3,76,29,042/-The total amount considered by the assessee as cost of the new asset, comprising actual expenditure of Rs.33,36,605/- and deposit of Rs.2,25,00,000/- in the Capital Gains Account Scheme, aggregates to Rs.2,58,36,605/-. On application of the statutory formula, the deduction allowable works out to Rs.2,54,44,944/-, leaving an excess claim of Rs.3,91,661/-.

13. We find that the Assessing Officer has neither denied the benefit of section 54F of the Act nor disputed the eligibility of the assessee. The disallowance is purely arithmetical and arises from the application of the statutory formula. The Commissioner of Income-tax (Appeals) has rightly held that mere deposit in the Capital Gains Account Scheme does not automatically entitle the assessee to deduction of the entire amount claimed, unless such deposit is translated into actual or irrevocably committed investment towards the new residential house.

14. The legal position on this aspect is well settled. The Hon'ble High Court in **Commissioner of Income-tax, Bangalore vs. K Ramachandra Rao [2015] 56 taxmann.com 163 (Karnataka)/[2015] 230 Taxman 334 (Karnataka)/[2015] 277 CTR 522 (Karnataka)[14-07-2014]** has held that section 54F is a beneficial provision, but the benefit is subject to fulfilment of statutory conditions. The Court held that while deposit in the Capital Gains Account Scheme preserves the exemption, the quantum of deduction must still be computed in accordance with the formula prescribed under the Act. Similarly, Bombay High Court in the case of **Humayun Suleman Merchant vs. Chief Commissioner of Income-tax,**

Mumbai [2016] 73 taxmann.com 2 (Bombay)/[2016] 242 Taxman 189 (Bombay)/[2016] 387 ITR 421 (Bombay)/[2016] 290 CTR 496 (Bombay)[18-08-2016] has held that where assessee had filed return of income and entire amount which was subjected to capital gain tax had not been utilized for purpose of construction of new house, nor were unutilized amounts deposited in notified Bank Accounts before filing return of income, Assessing Officer rightly restricted exemption under section 54F of the Act proportionately to amount invested.

15. In the present case, the assessee has failed to bring on record any material to demonstrate that the excess amount claimed over and above Rs.2,54,44,944/- represents actual or committed cost of construction as on the relevant date. The proportionate disallowance of Rs.3,91,661/- is thus fully in accordance with law and cannot be said to be arbitrary or unjustified.

16. In view of the above discussion, we find no infirmity in the order of the Commissioner of Income-tax (Appeals). The same is upheld.

17. In the result, the appeal of the assessee is dismissed.

This Order is pronounced in the Open Court on

23/02/2026

Sd/-
(NARENDRA P. SINHA)
ACCOUNTANT MEMBER

Ahmedabad; Dated 23/02/2026

TANMAY, Sr. PS

Sd/-
(SIDDHARTHA NAUTIYAL)
JUDICIAL MEMBER

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आदेश की प्रतिलिपि अग्रेषित/Copy of the Order forwarded to :

1. अपीलार्थी / The Appellant
2. प्रत्यर्थी / The Respondent.
3. संबंधित आयकर आयुक्त / Concerned CIT
4. आयकर आयुक्त(अपील) / The CIT(A)-
5. विभागीय प्रतिनिधि, आयकर अपीलीय अधिकरण, अहमदाबाद / DR, ITAT, Ahmedabad
6. गार्ड फाईल / Guard file.

आदेशानुसार/ BY ORDER,

उप/सहायक पंजीकार (Dy./Asstt.Registrar)
आयकर अपीलीय अधिकरण, अहमदाबाद / ITAT, Ahmedabad