

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

BEFORE SHRI PRASHANT MAHARISHI, VICE – PRESIDENT

ITA Nos. 2934/Bang/2025
Assessment Year : 2018-19

Shri Nalwad Prabhu Somashekhharappa, M/s. S.M. Nalwad & Co, Bhishma Tank Road, Gadag, Karnataka – 582 101. PAN: AADHN1926K	Vs.	The Income Tax Officer, Ward-1, Gadag.
APPELLANT		RESPONDENT

Assessee by	:	Shri Dharnesh, Advocate
Revenue by	:	Shri Ganesh R Ghale, Standing Counsel for the Department

Date of Hearing	:	04-03-2026
Date of Pronouncement	:	01-04-2026

ORDER

PER PRASHANT MAHARISHI, VICE – PRESIDENT

1. Nalwad Prabhu Sonmsekhar HUF (the assessee/appellant) has preferred this appeal in ITA No. 2934/Bangalore/2025 for the assessment year 2018–19. The appeal challenges the order passed by the National Faceless Appeal Centre, Delhi (the learned CIT–A) on 14 October 2025, which dismissed the assessee's appeal against the assessment order issued by the learned Income Tax Officer, Ward 1, Gadag. Consequently, the assessee is now before us.

2. The assessee submitted its income tax return on 22 September 2018, reporting a total income of ₹321,040. The return was subsequently selected for limited scrutiny to review the capital gain deduction claimed pursuant to section 54F of the Act.
3. On 11/23/2020, the Assessing Officer (AO) issued a notice under section 142(1) to the assessee, requesting details regarding the claim of deduction against capital gains. On 05/01/2021, the assessee responded by submitting the computation of income, computation of long-term capital gains (LTCG), details of sale of property, and the deduction claimed against the capital gain for Assessment Year 2018-19. The deduction under section 54F was claimed for ₹1,161,500. On 04/29/2021, another notice was issued, asking the assessee to explain why the deduction under section 54F should not be disallowed due to lack of supporting evidence. On 05/01/2021, the assessee replied and submitted computation of LTCG, sale deed, and a ledger account for expenses incurred on home construction. However, no purchase bills, vouchers, or details of the constructed house (such as address, area, or ownership) were provided. On 05/07/2021, the AO issued another notice under section 142(1), requesting copies of bills, address, ownership details, and other evidence to support expenses incurred on construction of the house. The notice was served through e-proceedings, with a compliance date of 05/14/2021. The assessee did not respond by the due date. On 05/18/2021, a Show Cause Notice was issued along with the draft assessment order, served via e-proceedings with a compliance date of 05/26/2021. Again, the assessee did not reply. As a result, the AO determined that the assessee failed to furnish any evidence supporting the deduction of ₹1,161,500 claimed under section 54F. Section 54F provides for deduction on capital gains if certain conditions are met regarding investment in a residential property. Since no evidence was furnished to support these conditions, the deduction was disallowed.
4. The assessment order was passed on 05/31/2021, disallowing the deduction of ₹1,161,500 under section 54F and assessing the returned income at ₹331,040.

5. Aggrieved assessee preferred an appeal before the learned CIT – A. Before him, Aggrieved, the assessee preferred an appeal before the learned CIT – A. The appellant asserts that all relevant documents were presented before the AO, including construction invoices, bank statements, and joint ownership agreements, as proof of expenditure and co-ownership. It is claimed that the appellant has spent Rs.23,85,641/- on construction of the residential building, which was jointly constructed by him and his brother. The AO has rejected the assessee's claims without providing substantial justification. Furthermore, it is submitted that the exemption claimed under section 54F by his brother has been accepted by the department. Similar to *Yogesh & Patel Vs. ITO, Ahmedabad ITAT*, where both co-owners were granted exemption under section 54F, the appellant's situation mirrors these facts as both he and his brother jointly constructed the property and claimed exemption. Therefore, the appellant contends that his claim should also be allowed, as the claim of the co-owner has been accepted.
6. The learned CIT – A held that AO had requested the assessee to give details of the property constructed, along with supporting documents. However, assessee failed to provide these documents. Under the circumstances, assessee's claim of investment of sale proceeds in construction of a residential property was not verifiable. During appellate proceedings assessee claims to possess all the relevant documents but he has failed to produce them. For claiming deduction u/s 54F of the I.T. Act, it is required that proof regarding its investment in new residential property is brought on record. Assessee is referring to his bank statement. However, withdrawal out of bank account cannot be conclusive proof for investment in a new property. Even the case law regarding claim of co-owner being accepted is of no help because the claim is unverifiable. Under the circumstances assessee's claim for deduction u/s 54F was not accepted, as assessee has failed to establish investment of sale proceeds of plots into new residential property. Hence, assessee's claims were dismissed.
7. Now assessee is in appeal before us. The learned authorized representative Shri Dhanesh, Advocate vehemently submitted that the claim of the assessee is that

assessee has received his 50% share of the net consideration of ₹ 1,161,500 from sale of investment property. The assessee constructed his own independent residential house on the family property although the learned in jointly owned, the assessee and is whether constructed separate, identifiable residential unit on different portions of the land and the assessee's claim pertains to his area only. The assessee submitted the computation of the capital gain also where the assessee received a net consideration of the above sum of ₹ 1,161,500 and indexed cost of acquisition was worked out at ₹ 790,949. The assessee claimed deduction under section 54F of the act claiming done and resulting in taxable capital gain at rupees Nil. The assessee submitted that along with his appeal a complete paper book has been filed before the tribunal and therefore the claim of the assessee should be allowed. The learned authorized representative further stated that the learned lower authorities have wrongly rejected the claim of the assessee. He therefore submitted that the assessee should be granted deduction under section 54F of the act.

8. The learned standing counsel for the revenue, Shri Ganesh R Ghale, Advocate, vehemently supported the orders of the lower authorities. He submitted that the assessee failed to disclose the investment made in the residential house. No evidence was produced; a mere bank statement does not suffice as proof of investment. For instance, documents such as a registered sale deed or receipts for payment would have served as valid evidence of investment, whereas a bank statement alone is insufficient. Therefore, the authorities were correct in denying the deduction under section 54F of the Act.
9. After thoroughly reviewing the opposing arguments and examining the orders issued by the lower authorities, we note that the assessee presented a comprehensive paper book before the tribunal. This submission included the filed ITR, statement of income and capital gains computation, responses during assessment proceedings, medical records, registered sale deeds, approved residential building plans prepared by an engineer or architect, building approval acknowledgment from the local municipal authority, proposed building expenditure

statement, bills for construction materials (cement, steel, tiles, electricals, plumbing, paint, fittings, etc.), payment receipts for labor and civil engineering services, construction ledger, and date-stamped photographs of construction.

10. The assessee claimed inability to submit these documents earlier due to certain medical issues, supported by a medical certificate, as well as compliance difficulties on the portal and technical constraints with the previous system, which prevented the upload of relevant documentation. It was asserted that although these details were submitted before the learned CIT(A), they were overlooked.
11. Given that the assessee was prevented by sufficient cause from providing all requisite details, we remit the entire matter back to the file of the learned assessing officer. The assessee is directed to furnish the necessary information supporting the deduction claim under Section 54F of the Act, to be reviewed by the assessing officer. If the documentation is found satisfactory, the deduction under Section 54F may be granted. Should the assessing officer determine that the assessee is not entitled to this deduction, a reasonable opportunity for hearing must be provided, following which a decision should be made.
12. In the result appeal filed by the assessee is allowed for statistical purposes.

Order pronounced in the open court on 1st April, 2026.

Sd/-
(PRASHANT MAHARISHI)
VICE-PRESIDENT

Bangalore,
Dated, the 1st April, 2026.

TNTS

Copy to:

1. Appellant
2. Respondent
3. CIT
4. DR, ITAT, Bangalore
5. CIT(A)

By order

Assistant Registrar,
ITAT, Bangalore

