IN THE INCOME TAX APPELLATE TRIBUNAL,
JAIPUR BENCHES, "SMC" BENCH, JAIPUR

BEFORE SMT. ANNAPURNA GUPTA, ACCOUNTANT MEMBER
&
SHRI KULDIP SINGH, JUDICIAL MEMBER

ITA No. 390/JPR/2026
(Assessment Year:2024-25)

ITO Room No. 206 Income Tax Office NCR Building, Jaipur	Vs.	Madhu Agarwal 44A, Sikar Road, Centra Colony Opp-Road No.9, Jaipur
स्थायीलेखासं./जीआइआरसं./PAN/GIR No:AKRPA 3401E		
Appellant	..	Respondent

Appellant by :	Ms. Aarti Rawat, Addl. CIT
Respondent by :	Sh. Ravi Kumar Gupta, CA

Date of Hearing	19.08.2026
Date of Pronouncement	20.08.2026

<u>O R D E R</u>

The present appeal has been filed by the Revenue against the order passed by the Office of the Commissioner of Income Tax, Appeal, Addl./JCIT(A), Mumbai-07(hereinafter referred to as "Ld. CIT(A)"), dated 23.12.2025 under Section 250 of the Income Tax Act, 1961 (hereinafter referred to as "the Act").

2. The Revenuehas raised the following grounds of appeal:-

1. Whether on the facts and circumstances of the case and in law, the Ld. Addi CIT(A)-7, mumbat is justified in allowing the rebate u/s 87A of the Act, on STCG, when rebate u/s 87A of the Act is not available in respect of Income Tax payable on income chargeable to tax on special rates, which includes Short Term Capital Gain u/s 111A of the Act?

2. Whether on the facts and circumstances of the case and in law, the order of the Ld Addl CIT(A)-7, Mumbai is justified in view of the CBDT Circular No. 13/2025, dated 19.09.2025 which has made it expressly clear that it was never the statutory intent to allow rebate in cases WHARE income is chargeable to tax u/s 115BAC(1) of the Act, 1961 and any such cases WHARE rebate is erroneously claimed are to be rectified, thereby having no doubt that such claim was statutorily never permissible?

3. The appellant craves leave OR reserves right to amend, modify, alter, add OR forego any grounds) of appeal at any time before OR during the hearing of thi

3. The solitary issue in the present appeal relates to denial of rebate of tax claimed by the assessee u/s 87A of the Act, on the taxes paid on income earned on short term capital gain. The denial of rebate was made by the CPC while processing the return of income filed by the assessee, in the intimation made u/s 143(1) of the Act. The same was allowed by the ld. CIT(A). The ld. CIT(A) hasdealt with the issue at para 5 to 5.8 of his order asunder:-

………
5. Findings & Decision

5.1. I have considered the facts of the case, grounds of appeal and submissions made by the Appellant. It is seen that all the grounds raised are related to disallowance of rebate claimed u/s 87A of the Act and hence all the grounds are adjudicated together. The Appellant has challenged vide all the three grounds of the appeal that the AO, CPC denied the rebate u/s 87A of the Act as claimed by the Appellant of Rs.23,276/-.

5.2. During the appellate proceedings, the Appellant contended that the total income for the year under consideration was Rs.4,99,250/-. The total income comprises of income from business or profession, income from other sources and income from short term capital gain of Rs.3,61,100/- and Long term capital gain of Rs.44,082/-during the year under consideration. The Appellant has not *exercised the option u/s 115BAC(6) of the Act and thus governed by the provisions of section 115BAC(1A) of the Act for the year under consideration. Further, the Appellant relied upon the various case laws; and also referred to the contents of the Finance Act, 2023 which is as under:-*

"where the total income of the assessee is chargeable to tax under Sec 115BAC(1A) and the total income does not exceed Rs. 7,00,000/- the assessee shall be entitled to a deduction from the amount of income-tax (as computed before allowing for the deduction under this Chapter) on his total income with which he is chargeable for any assessment year, of an amount equal to 100% of such income tax or an amount of Rs.25,000/- whichever is less"

5.3. I have gone through the facts of the case along with statement of facts/grounds of appeal/submission filed by the Appellant. The relevant portion of Finance Act, 2023 in respect of rebate u/s 87A of the Act is reproduced below. -

"in section 87A of the Income Tax Act, the following proviso shall be inserted with effect from the 1st day of April, 2024, namely

[Provided that where the total income of the assessee is chargeable to tax under sub-section (1A) of section 115BAC, and the total income-

a) does not exceed seven hundred thousand rupees, the assessee shall be entitled to a deduction from the amount of income-tax (as computed before allowing for the deductions under this Chapter) on his total income with which he is chargeable for any assessment year, of an amount equal to one hundred per cent of such income-tax or an amount of twenty-five thousand rupees, whichever is less;

(b) exceeds seven hundred thousand rupees and the income-tax payable on such total income exceeds the amount by which the total income is in excess of seven hundred thousand rupees, the assessee shall be entitled to a deduction from the amount of income-tax (as computed before allowing the deductions under this Chapter) on his total income, of an amount equal to the amount by which the income-tax payable on such total income is in excess of the amount by which the total income exceeds seven hundred thousand rupees.]

5.4. On examination of the statutory provisions, section 87A of the Act, as applicable for the relevant A.Y., provides for a rebate from the amount of income-taxpayable by a resident individual, subject to fulfillment of the prescribed income *conditions. Theprovision does not expressly carve out any exclusion in respect of tax computed on short-term capital gains chargeable under section 111A of the Act. In the absence of a specific statutory restriction, the rebate under section 87A of the Act cannot be denied merely on the ground that a part of the income consists of special rate income such as short-term capital gains.*

5.5. The contention of the Appellant that rebate under section 87A of the Act had been allowed in earlier years even where the income included short-term capital gains under section 111A of the Act also merits consideration. Further, no amendment either by way of the Finance Act, 2023 or by any specific legislative provision has been brought on record to demonstrate that the scope of section 87A of the Act was restricted only to tax computed on normal income under section 115BAC of the Act, as contended in the impugned processing.

5.6. It is also relevant to note that a processing under section 143(1) of the Act is limited to prima facie adjustments strictly in accordance with the provisions of the Act. Where the issue involves interpretation of the scope of a rebate provision and its applicability to different heads or categories of income, such an issue cannot be resolved by way of a mechanical or restrictive interpretation at the processing stage, particularly when the statute itself does not mandate such restriction.

5.7. In view of the above discussion, I am of the considered opinion that the denial of rebate under section 87A of the Act on the tax computed on short-term capital gains under section 111A of the Act is not in accordance with the provisions of the Act. Accordingly, the adjustment made by the AO, CPC in the impugned intimation is not sustainable in law.

5.8. The Assessing Officer is therefore directed to allow the rebate under section 87A of the Act as claimed by the Appellant for the income offered under the head 'short term capital gain u/s 111A of the Act' and to recompute the tax liability accordingly. The consequential demand raised on this account shall stand deleted.

…….

4. Before us, at the outset itself, ld. counsel for the assessee pointed out that this issue has been dealt in various decisions of the ITAT ruling consistently in favour of the assessee as under:-

i) Pranay M Kothari Vs. DCIT in ITA No.3469/Chny/2025

ii) Manojbhai C. Kamdar Vs. ITO in ITA No.572/RJT/2025

iii) Jayshreeben Jayantibhai Palsana Vs. ITO in ITA No.1014/Ahd/2025

iv) Basty Keshava Shenoy Vs. ITO in ITA No.3134/Bang/2025

5. Before us, ld. DR was unable to distinguish the decisions, referred to by ld. Counsel for the assessee as above, nor she was able to draw my attention to any contrary decision of either the Jurisdictional High Court or the Hon'ble Apex Court in this regard.

6. We have gone through the orders of the ITAT, referred to by the ld. Counsel for the assessee, and have noted that it has been consistently 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, i.e. short term capital gain taxable at rates specified u/s 111A of the Act. The findings of the ITAT in the case of **Pranay M Kothari Vs. DCIT in ITA No.3469/Chny/2025** dated **23.03.2026** at para 7 to 9 of the order as under:-

……….

7. 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 istrite 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."

8. Further, we find support from the decision of the Coordinate Bench in JayshreebenJayantibhaiPalsanaShingala Sheri ITO [ITA No.1014/Ahd/2025, order dated 12.08.2025), where it was held as under:-

"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 sub section (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 doesnot 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) [TS 5026-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/AddI.CIT(A) relying on the decision of Beena ManishbhaiFofaria 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."

9. 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.

7. The ITAT in the other decisions has also reiterated the proposition of law as above. The decision rendered by the ITAT in the cases above, squarely applies to the facts of the present case, following which, we hold that there is no infirmity in the order of the Ld.CIT(A)

holding the assessee entitled to rebate u/s 87A of the Act on the taxes paid on short term capital gain.

8. In effect, the appeal of the Revenue is **dismissed.**

Order pronounced in the Open Court on 20.08.2026

Sd/-	Sd/-
(Kuldip Singh)	(Annapurna Gupta)
JUDICIAL MEMBER	ACCOUNTANT MEMBER

Dated 20.08.2026
Mittali, Sr. PS
Copy forwarded to:

1. Appellant
2. Respondent
3. CIT
4. CIT(Appeals)
5. DR: ITAT

By Order,

Asst. Registrar
ITAT, Jaipur