

Section 87A Battle: A Landmark Ruling or a Temporary Breather?



TAX LAW



Saurabh Giri



1. Introduction to the Case

A taxpayer filed ITR-3 (AY 2024-25) under the new tax regime, declaring ₹5,40,670 total income, including ₹1,09,842 STCG (Sec 111A). The CPC disallowed ₹16,422 of the 87A rebate, allowing only ₹5,917.



The Dispute: The taxpayer challenged the disallowance, arguing that 87A applies to total income, including STCG, as there's no explicit exclusion in the law.



The Verdict: CIT (A), Mumbai, ruled in Favor of the taxpayer, setting a legal precedent and sparking debates on whether 87A rebate applies to STCG under the new regime.



Legal Arguments Made by the Taxpayer



Section 87A Should Not Be Read in Isolation

- . The taxpayer contended that Section 87A should be read along with Section 115BAC(1A).**
- . Isolating the proviso to Section 87A leads to ambiguity and undue hardship.**
- . Chapter XII of the IT Act, which contains Section 115BAC, also prescribes special tax rates for STCG (Sec 111A) and LTCG (Sec 112A, 112).**



Legal Interpretation of the Word

"Under"

- The term “under” in the proviso to Section 87A means "in accordance with," implying that Section 87A must align with Section 115BAC(1A).
- The proviso to Section 87A should not be broadly interpreted to exclude STCG without clear legislative intent.



Section 115BAC (1A) Has an Overriding Effect

- Section 115BAC (1A) states:
"Notwithstanding anything contained in this Act but subject to the provisions of this Chapter, the income tax payable in respect of the total

income of a person, being an individual...."

- . The phrase “notwithstanding anything contained” gives it an overriding effect on other IT Act provisions.**
- . However, it remains subject to Chapter XII, which governs taxability of STCG, LTCG, etc.**
- . Court precedents cited:**
 - South India Corporation (P) Ltd vs Secretary, Board of Revenue Trivandrum and Another (1964) – Supreme Court**
 - Union of India vs Brigadier P.S. Gill (2012) – Supreme Court**
 - KEI Industries vs Commissioner (CESTAT)**



One Total Income, Not Two

- . Total income is defined in Section 2(45) as the sum of all incomes under Section 5.
- . 115BAC(1A) applies to total income, which includes STCG.
- . If the legislature intended to exclude STCG from 87A, it would have explicitly done so (like in Section 112A for LTCG).



No Explicit Disallowance in the Law

- . Rebate under 87A is expressly disallowed on LTCG (Sec 112A), but no such bar exists for STCG under Sec 111A or LTCG under Sec 112.



No Government Announcement on Limiting Rebate

- . The Finance Minister's Budget 2024 speech did not mention any limitation of rebate to income taxable only under slab rates.**
- . If the government intended to exclude STCG, it would have announced it publicly.**



What the Income Tax Department Said

- . The CPC (Centralized Processing Centre) interpreted the proviso to Section 87A restrictively, allowing the rebate only on income taxed at slab rates under 115BAC(1A).**
- . According to the department, STCG (Sec 111A) falls under Chapter XII, which prescribes special rates, and thus should not be eligible for 87A rebate.**
- . This interpretation was challenged and overruled by CIT (A).**



CIT (A)'s Ruling in Favor of the Taxpayer

- . The rebate under Section 87A is not part of Chapter VIA, where deductions are restricted for STCG and LTCG.**
- . A conjoint reading of Sections 87A, 111A, and 112A shows no express prohibition of rebate on STCG.**
- . CPC's restrictive interpretation of 87A rebate was incorrect, and the taxpayer's rebate claim was upheld.**



Expert Opinions on Key Legal Takeaways



Akhil Aggarwal, Partner, A A S S & Associates

- The Finance Act, 2023 amendments clearly state that rebate applies to total income under the new tax regime.
- CIT(A) ruling ensures taxpayers get the intended rebate on STCG.



Kunal Savani, Partner, Cyril Amarchand Mangaldas

- Bombay High Court ruled against arbitrary restrictions imposed by CPC on claiming 87A rebates.
- The statutory right of taxpayers to claim rebates must be respected.



Rashi Khanna, Associate Partner, DMD Advocates

- The dispute is not fully resolved.
- CBDT should issue a clarification to prevent unnecessary litigation.



Way Forward for Taxpayers



File an Appeal If 87A Rebate Is Denied

- If CPC has disallowed your 87A rebate on STCG under Sec 111A, file an appeal with CIT(A) citing this ruling.



Use the CIT(A) Order as Precedent

- Until a High Court or Supreme Court ruling, taxpayers can refer to this CIT(A) order to challenge any denial of rebate.



Seek a CBDT Clarification

- Commerce chambers & tax associations should request CBDT for an official clarification on 87A rebate applicability.



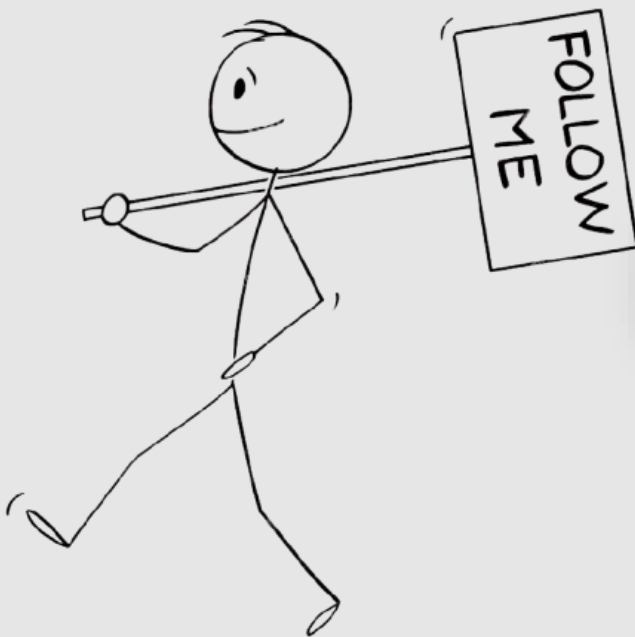
Monitor Future Legal Developments

- . The IT Department may challenge the ruling in higher courts or introduce legislative amendments to clarify the position.**



Final Takeaway

This ruling offers relief to taxpayers claiming rebates on STCG under Section 111A but remains a contentious issue that may require further legal clarification.



Saurabh Giri