



**BOMBAY  
CHARTERED  
ACCOUNTANTS'  
SOCIETY**

Date: 18 July 2024

To:

**Smt. Nirmala Sitharaman**  
**The Hon'ble Finance Minister,**  
Government of India,  
New Delhi

**Shri Ravi Agrawal**  
**The Chairman,**  
Central Board of Direct Taxes (CBDT),  
New Delhi

**Subject: Immediate Rectification of Faulty Income Tax Return (ITR) Filing Utility**

**Respected Madam/Sir,**

We are writing to bring to your urgent attention a critical issue regarding the Income Tax Return (ITR) filing utilities available on the e-filing portal of the Income Tax Department since July 5, 2024. The utilities are currently enforcing incorrect income tax liability by not allowing legitimate claim for rebate under section 87A of the Income Tax Act for certain incomes.

**Key Issues:**

1. **Incorrect Restriction of Rebate u/s 87A:**

- 1.1. The current ITR filing utilities do not permit the lawful rebate under section 87A for all special rate incomes.. This directly contradicts the legislative provisions which restrict the rebate only for long-term capital gains on equity shares or equity-oriented mutual funds taxable at 10% under Section 112A.

**Section 87A of the Income Tax Act**

- 1.2. Before the amendment by the Finance Act 2023, section 87A read as under-  
*"Rebate of income-tax in case of certain individuals.*

*87A. An assessee, being an individual resident in India, whose total income does not exceed five hundred thousand rupees, shall be entitled to a deduction, from the amount*



# BOMBAY CHARTERED ACCOUNTANTS' SOCIETY

*of income-tax (as computed before allowing the deductions under this Chapter) on his total income with which he is chargeable for any assessment year, of an amount equal to hundred per cent of such income-tax or an amount of twelve thousand and five hundred rupees, whichever is less.*

- 1.3. Finance Act, 2023 has inserted a proviso in section 87A of the Income Tax Act, w.e.f. 1.4.2024:

*"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."*

- 1.4. A perusal of the pre-amended and amended section 87A, clearly shows that an assessee with a total income up to Rs 5 lakhs under the old regime and up to Rs 7 lakhs under the new regime is entitled to a rebate of Rs 12,500 and Rs 25,000 respectively. It is clear that section 87A does not impose any restriction or condition that denies the benefit of this rebate if the assessee has income subject to tax at a special rate.
- 1.5. We wish to highlight the fact that no other income taxable at a special rate, apart from the long-term capital gains on equity shares or equity-oriented mutual funds (taxable at a special rate of 10% without indexation under Section 112A), includes any restriction or condition preventing the rebate under section 87A. Only sub-section (6) of Section 112A specifies that the rebate under section 87A shall not be available for long-term capital gains on equity shares or equity-oriented mutual funds taxable at 10% under this section.



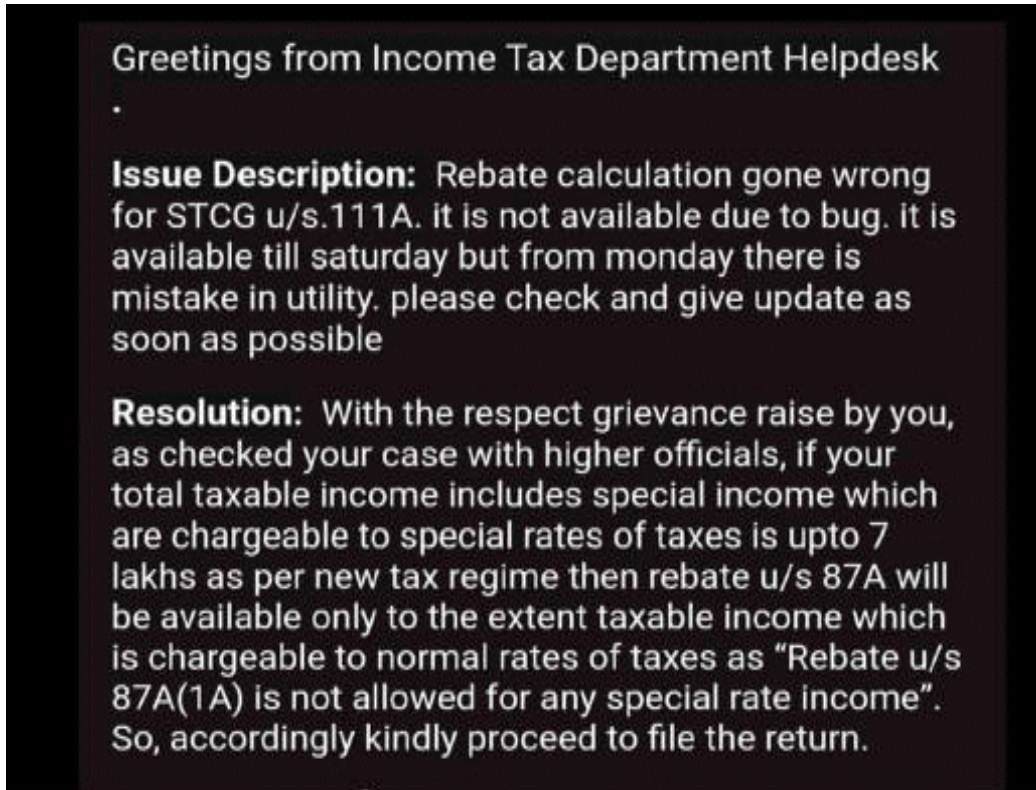
- 1.6. Thus, a perusal of all special income sections and section 87A makes it evident that the rebate under section 87A is not available, in both the old and new regimes, only for long-term capital gains on equity shares or equity-oriented mutual funds taxable at 10% under Section 112A. There is no restriction specified in the Income Tax Act for the non-availability of the rebate under section 87A for any other income taxable at a special rate, including short-term capital gains on equity shares or equity-oriented mutual funds taxable at 15% under Section 111A.
- 1.7. Until July 5, 2024, there was no confusion regarding this, and the return filing utilities on the Income Tax Department's e-filing portal were functioning correctly. However, as of July 5, 2024, the new income tax return filing utilities (ITR forms) uploaded on the e-filing portal are incorrectly disallowing the rebate under section 87A for all types of incomes taxable at special rates under Schedule SI.
- 1.8. The new ITR filing utilities are not allowing the rebate under section 87A for various special rate incomes, including short-term capital gains on equity shares or equity-oriented mutual funds taxable at 15% under Section 111A. Unfortunately, these updated ITR filing utilities are restricting this rebate without any corresponding amendments in section 87A or any of the respective special income sections of the Income Tax Act.
- 1.9. Consequently, taxpayers with total incomes up to Rs 5 / 7 lakhs under the old / new regimes are forced to pay income tax on their special rate taxable incomes (excluding Section 112A), contrary to the legislative provisions of the Income Tax Act, due to a faulty return filing utility.

2. **Misinterpretation of provisions of section 87A:**

- 2.1. A Grievance redressal screenshot from the Income Tax Department's helpdesk is being circulated on social media platforms. It states that "*if your total taxable income includes special income chargeable to special rates of taxes up to 7 lakhs as per the new tax regime, then the rebate under Section 87A will be available only to the extent of taxable income chargeable to normal rates of tax, as rebate under Section 87A(1A) is not allowed for any special rate income. So kindly proceed to file the return.*"



The said screenshot is being reproduced here-



- 2.2. It may be appreciated that there is currently no subsection (1A) in Section 87A of the Income Tax Act, as erroneously referred to by the helpdesk in the screenshot. It appears that the reference to subsection (1A) of Section 115BAC in the newly inserted proviso by the Finance Act 2023, pertaining to the new regime, has been misinterpreted as a new subsection (1A) in Section 87A, which does not exist.

3. **Immediate Need for Rectification:**

The statutory deadline for return filing for non-auditable cases is fast approaching on July 31, 2024. It is imperative that these utilities are corrected immediately to avoid undue hardship to taxpayers and to ensure compliance with the Income Tax Act.

**Request for Action:**

Given the gravity of the situation, it is crucial that the Ministry of Finance, CBDT, and the concerned authorities take immediate cognizance of these issues. We request that:

- The faulty ITR filing utilities be rectified without delay to align with the provisions of the Income Tax Act.





# BOMBAY CHARTERED ACCOUNTANTS' SOCIETY

- A clear and accurate clarification be issued regarding the application of section 87A to prevent further confusion among taxpayers and tax professionals.

Your prompt attention to this matter will greatly help in maintaining the integrity of the tax filing process and ensuring that taxpayers are not unduly penalized due to systemic errors.

Thank you for your consideration.

Yours faithfully,

**CA Anand Bathiya**  
President

**CA Deepak Shah**  
Chairman  
Taxation Committee of the BCAS.

**CA Anil Sathe**  
Co-Chairman