

## HC pulls up I-T dept for software: Taxpayers can now claim 87A tax rebate

*Bombay High Court finds Income Tax Department's restriction on rebate claims for certain income types to be unfair and arbitrary*



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The Bombay High Court ruled this week that the Income Tax Department (ITD) was wrong in arbitrarily modifying its utility software to deny rebates on special rate incomes after July 5, 2024.

The court asked the department to rectify the Income Tax returns (ITR) utility software and process all valid Section 87A rebate claims. Taxpayers with a taxable income of up to Rs 5 lakh under the old tax regime or up to Rs 7 lakh under the new tax regime can avail of the rebate, reducing their liability to zero.

The court criticised the department for restricting taxpayers from using the Section 87A tax rebate on special rate incomes. It emphasised that no taxpayer can be denied any benefit provided under the Income Tax Act, 1961.

S R Patnaik, partner (head - taxation) at Cyril Amarchand Mangaldas, explained the case.

The High Court judgment arises out of a public interest litigation filed by the Chamber of Tax Consultants regarding the modification of the utility on the e-filing portal of the ITD, wherein taxpayers were prevented from claiming rebate under section 87A of the Income Tax Act, 1961. The facility was available online till July 5, 2024 and was abruptly discontinued by the ITD.

“It was contended by the petitioners that a taxpayer has the statutory right to make a claim of his/her choice and ITD cannot restrict the same by creating procedural impediments. They further submitted that the ITD cannot design the online returns as per their own understanding of the law,” said Patnaik.

“Whereas the ITD contended that the modification was valid because it is clear that claim for rebate under the proviso to section 87A shall only be available for the total income calculated as per section 115BAC(1A) of the IT Act. It was argued that a rebate under the proviso to section 87A cannot be claimed for other income under Chapter XII of the IT Act dealing with tax with respect to certain special income such as short term capital gains, long term capital gains, etc.”

Ritika Nayyar, partner at Singhania & Co, explained what the court order says.

“The court ruled in favour of taxpayers who were unable to claim the Section 87A rebate due to software changes. The court found the Income Tax Department's restriction on rebate claims for certain income types to be unfair and arbitrary and ruled that denying/prohibiting the right to claim the rebate was unconstitutional. Whether the claim is valid or not would be tested through the return processing machinery of the Department post filing the returns. The court ordered the department to modify the software to allow these claims and extended the deadline for filing revised returns. This ruling upholds taxpayers' right to claim benefits provided by law.

“The court's intervention affirms that procedural hurdles—such as software updates—cannot override taxpayers' statutory rights,” said Pallav Pradyumn Narang, partner at CNK.

“It sets an important precedent that procedural hurdles should not obstruct legitimate claims under the Income Tax Act and tax authorities must ensure taxpayer-friendly reporting mechanisms are in place that are in compliance with extant legal provisions.

“However, the correctness of claiming the Section 87A rebate on special rate incomes remains subject to scrutiny. The tax department will evaluate claims individually during assessment proceedings, making it crucial for taxpayers to ensure compliance with legal provisions while claiming the rebate,” said Narang.

“Though taxpayers can claim the rebate under section 87A in the updated income tax return utility, they can expect the tax authorities to disallow such a claim at the tax assessments stage,” said Sumeet Agrawal, associate partner at Economic Laws Practice.