

# Early bird ITR filer in the dock

July tweak in tax filing utility behind Section 87A fiasco



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IN RECENT DAYS, a surge of tax intimation orders has taken many taxpayers who filed their income tax returns (ITR) before July 5, 2024, by surprise. These notices, issued by the Income Tax (I-T) department, primarily target individuals who believed they had accurately calculated the rebate and filed their ITRs correctly. The confusion stems from an update to the ITR filing utility which altered the way the rebate under Section 87A is applied.

## What is Section 87A?

Section 87A offers a rebate on income tax for individual taxpayers whose total income falls below a specified threshold. Under the old tax regime, the maximum rebate is ₹12,500, effectively eliminating tax liability for incomes up to ₹5 lakh. In contrast, the new tax regime raises the income threshold to ₹7 lakh, with the rebate capped at ₹25,000.

However, there is a key exception under the Income Tax Act, wherein long-term capital gains (LTCG) tax is excluded from the Section 87A rebate. As per Section 112A, if total income includes LTCGs, the rebate is calculated after deducting the tax payable on those gains. This exception applies solely to LTCGs, while other types of special income—such as short-term capital gains or lottery winnings—are considered when calculating the rebate.

## Update in tax filing utility

In July 2024, the I-T department updated the tax filing utility to exclude all special income from the rebate calculation under Section 87A. Ideally, only tax on LTCG should have been excluded. The sudden exclusion of all special rate incomes not only raised concerns about the consistency and transparency of the utility's updates but also called into question the legality and accuracy of the utility's implementation in accordance with the law.

Since the rebate under Section 87A is automatically calculated by the ITR utility, taxpayers had no choice but to rely on the system-generated computation. As a result, many filed their returns based on this automated calculation. However, individuals who had filed their returns using the previous version of the utility,

excluding only LTCG for the rebate calculation under Section 87A, are now receiving demand notices.

## Way forward

Many taxpayers are questioning whether the department's approach of excluding all special-rated income from the rebate calculation

is legally correct or merely a technical glitch in the updated utility. Since the notices are auto-generated, they appear to have been triggered by the incorrect logic applied in the system. With around 20% of individual returns are for a total income below ₹7 lakh, the notices are significant in number.

Since these notices are primarily the result of a technical glitch, the I-T department should issue a clarification. Ideally, it should withdraw these notices on a case-by-case basis as these are placing undue pressure on taxpayers who filed their returns correctly and in good faith. We hope the department takes swift action to resolve the issue.

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