ADOPTION OF STAMP DUTY VALUE TO COMPUTE CAPITAL GAINS CANNOT SHRINK SECTION 54F EXEMPTION: CHENNAI ITAT

The Chennai Bench of the Income Tax Appellate Tribunal (ITAT) in **T. Srikanth v. DCIT [ITA No. 3792/Chny/2025]** has unequivocally held that the deeming fiction created u/s 50C of the Income-tax Act, 1961 ('the Act'), which substitutes stamp duty value as the "full value of consideration" for computing capital gains u/s 48, cannot be imported into section 54F to reduce the quantum of exemption available to a taxpayer who has reinvested the entire actual sale consideration in a new residential house.

Brief facts and background:

- The assessee sold five properties for actual sale consideration of Rs. 2.03 crores and disclosed Long Term Capital Gains (LTCG) of approximately Rs.1.98 crores.
- The assessee invested Rs. 2.16 crores towards purchase of land and construction of a new residential house and claimed the entire capital gains as exempt u/s 54F.
- The Assessing Officer ("AO") invoked section 50C and adopted the stamp duty value of Rs. 4.63 crore as "full value of consideration" and computed LTCG of about Rs. 4.59 crore. The AO then used this deemed consideration to restrict section 54F relief proportionately to about Rs. 2.13 crores, taxing the balance capital gain of about Rs. 2.45 crores.
- The assessee contended that the deeming fiction created u/s 50C applies only for computing capital gains u/s 48 and cannot be extended to determine exemption u/s 54F. It was argued that since the entire actual consideration was invested in a new residential house, the capital gains were fully exempt u/s 54F.

Decision of the ITAT:

The issue before the ITAT was whether can the deemed "full value of consideration" u/s 50C be used as "net consideration" in the section 54F formula. While deciding the said issue in favour of taxpayer, the ITAT held as under:

✓ **Section 50C is confined to computation of capital gains:** Section 50C operates only for computing capital gains u/s 48. It substitutes stamp duty value as "full value of consideration" only for that limited purpose. The deeming fiction cannot be extended to section 54F.

✓ **"Net consideration" in section 54F means actual consideration:** ITAT drew distinction between 'net consideration' and 'full value of consideration'. The

Explanation to section 54F(1) defines "net consideration" as the full value of consideration received or accruing on transfer, reduced by transfer expenses- ITAT held that this refers to actual sale consideration and not the higher deemed value u/s 50C.

- ✓ **No extension of deeming fictions:** Applying the Supreme Court's principle in Mancheri P Ahmed v. Kuthiravattam Estate Receiver, it was held that legal fiction must be strictly confined to its purpose and cannot be carried into other provisions. Thus, fiction u/s section 50C cannot be imported into section 54F.
- ✓ **Taxpayer cannot be forced to invest what he never received:** If section 50C were applied to section 54F, the assessee would have to invest a deemed amount never actually received, which is untenable.

Laying the aforesaid legal principles, the ITAT allowed full exemption to the assessee. Since the assessee invested Rs. 2.16 crore in the new house, exceeding the actual consideration of Rs.2.03 crore, the entire LTCG was held exempt u/s 54F.

VA Comments:

- ➢ This ruling settles, at least at the ITAT level, a practically significant controversy that routinely arises in capital gains assessments involving properties transactions at value below stamp duty value.
- ➢ This ruling reaffirms the principle that deeming provisions should be construed strictly and cannot be extended beyond their intended purpose- section 50C deems the "full value of consideration" for computation of capital gains but does not alter the meaning of "net consideration" used in section 54F.
- ➢ Practical outcome of the ruling would be that, although section 50C may still apply for computing capital gains, its impact would be considerably reduced in cases where the assessee **reinvests the entire actual consideration** in accordance with sections 54/54F.
- ➢ Moreover, where only a **part of the actual consideration is re-invested** for the purpose of claiming exemption u/s 54F, one may reasonably conclude that the proportionate exemption u/s 54F (i.e. Actual investment/ Actual net consideration) shall be allowed from the capital gains computed with reference to the deemed consideration u/s 50C.

For any details and clarifications, please feel free to write to:

Mr. Rohit Jain, Senior Partner (rohit@vaishlaw.com)
Mr. Deepesh Jain, Associate Partner (deepesh@vaishlaw.com)
Ms. Arushi Aggarwal (arushi@vaishlaw.com)

Corporate, Tax and Business Advisory Law Firm

DELHI	MUMBAI	BENGALURU
1st, 9th, 11th Floor, Mohan Dev Building, 13, Tolstoy Marg, New Delhi, 110001 (India)	106, Peninsula Centre, Dr. S.S. Rao Road, Parel, Mumbai, 400012 (India)	Bhive Premium Ramanashree (MG Road) No. 2/1, Brunton Road, Off MG Road, Opposite Old Passport Office Bengaluru, 560001 (India)
+91 11 42492525 delhi@vaishlaw.com	+91 22 42134101 mumbai@vaishlaw.com	+91 80 40903588 / 89 bangalore@vaishlaw.com