

UNIT – 4 : CAPITAL GAINS

LEARNING OUTCOMES

After studying this unit, you would be able to –

- ◆ **comprehend** the scope of income chargeable under this head;
- ◆ **comprehend** and identify the assets classified as “capital assets” for the purposes of chargeability under this head;
- ◆ **comprehend** the meaning of short-term capital asset and long-term capital asset;
- ◆ **compute** the period of holding for determining whether an asset is a short-term capital asset or long-term capital asset;
- ◆ **identify** the transactions to be considered as transfer for the purpose of capital gains;
- ◆ **identify** the transactions not regarded as transfer;
- ◆ **compute** the capital gains from transfer of capital assets in the manner prescribed;
- ◆ **determine** the cost of acquisition and indexed cost of acquisition, in case of long term capital asset for the purpose of computing the capital gains;
- ◆ **compute** capital gains in case of depreciable assets;
- ◆ **compute** capital gains in case of market linked debentures and other specified securities;
- ◆ **compute** capital gains in case of slump sale;
- ◆ **compute** the exemption available for investment of capital gains/net consideration on transfer of certain assets;
- ◆ **compute** the capital gains chargeable to tax after deducting the exemptions available in respect of capital gains;
- ◆ **appreciate** the concessional tax treatment available for short-term capital gains and for long term capital gains on transfer of listed equity shares/units of an equity oriented fund;
- ◆ **compute** the tax liability applying the special rates of tax on long-term capital gains and short-term capital gains and the normal rates of tax.

Proforma for computation of income under the head "Capital Gains"

	Particulars	Amt (₹)	Amt (₹)
In case of a Short-term capital asset (STCA)	Full value of consideration received or accruing as a result of transfer	xxx	
	Less: Expenditure incurred wholly and exclusively in connection with such transfer (for e.g., brokerage on sale)	xxx	
	<i>(Note: Deduction on account of STT paid will not be allowed)</i>		
	Net Sale Consideration		xxx
	Less: Cost of acquisition (COA) [Refer table at page 3.464]	xxx	
	Cost of improvement (COI) [Refer table at page 3.466]	xxx	xxx
	Short-term capital gain (STCG)		xxx
In case of a Long-term capital asset (LTCA)	Less: Exemption under sections 54B/54D		xxx
	Short-term capital gain chargeable to tax		xxx
	In case transfer takes place before 23.7.2024		
	Full value of consideration received or accruing as a result of transfer	xxx	
	Less: Expenditure incurred wholly and exclusively in connection with such transfer (for e.g., brokerage on sale)	xxx	
	<i>(Note: Deduction on account of STT paid will not be allowed)</i>		
	Net Sale Consideration		xxx
In case of a Long-term capital asset (LTCA)	Less: Indexed cost of acquisition (ICOA)	xxx	
	Cost of acquisition × $\frac{\text{CII for the year in which the asset is transferred}}{\text{CII for the year in which the asset was first held by the assessee or P.Y. 2001-02, whichever is later}}$		
	Less: Indexed cost of improvement (ICOI)	xxx	xxx
	Cost of improvement × $\frac{\text{CII for the year in which the asset is transferred}}{\text{CII for the year in which the improvement took place}}$		

	Long-term capital gains (LTCG)		xxx
	Less: Exemption under sections 54/54B/54D/54EC/54F [Refer Table at pages 3.468-3.470]		xxx
	Long-term capital gains chargeable to tax		xxx
	In case transfer takes place on or after 23.7.2024		
	Full value of consideration received or accruing as a result of transfer	xxx	
	Less: Expenditure incurred wholly and exclusively in connection with such transfer (for e.g., brokerage on sale) (Note: Deduction on account of STT paid will not be allowed)	xxx	
	Net Sale Consideration		xxx
	Less: Cost of acquisition (COA) [Refer table at page 3.464]	xxx	
	Less: Cost of improvement (COI) [Refer table at page 3.466]	xxx	xxx
	Long-term capital gains (LTCG)		xxx
	Less: Exemption under sections 54/54B/54D/54EC/54F [Refer Table at pages 3.468-3.470]		xxx
	Long-term capital gains chargeable to tax		xxx

Rate of tax on Short-term Capital Gains (STCG)

Section	Rate of tax	
111A	STCG arising on transfer of listed equity shares, units of equity-oriented fund and unit of business trust¹ - STT should have been paid on such sale.	
	If transfer takes place	Rate of tax
	Before 23.7.2024	15%
	On or after 23.7.2024	20%
	STCG arising from transaction undertaken in foreign currency on a recognized stock exchange located in an International Financial Services Centre (IFSC) would be taxable at a concessional rate of 15% or 20%, as the case may be, even though STT is not paid in respect of such transaction.	

¹The provisions relating to business trust would be dealt at Final level.

Note - STCG arising on transfer of **other Short-term Capital Assets** would be chargeable at normal rates of tax.

Rates of tax on Long-term Capital Gains (LTCG)

Section	Rate of tax	
112A	- LTCG exceeding ₹ 1,25,000 would be taxable @10%, if transfer takes place before 23.7.2024 @12.5%, if transfer takes place on or after 23.7.2024 - on the transfer of following long-term capital assets - - listed equity shares, if STT has been paid on acquisition and transfer of such shares - units of equity-oriented fund and unit of business trust, if STT has been paid on transfer of such units - Total exemption in a previous year cannot exceed ₹ 1.25 lakhs. If such transaction is undertaken on a recognized stock exchange located in an IFSC, LTCG would be taxable at a concessional rate of 10% or 12.5%, as the case may be, where the consideration for transfer is received or receivable in foreign currency, even though STT is not paid in respect of such transaction. - Benefit of indexation and currency fluctuation would not be available.	
112	Long-term capital asset (LTCA)	Rate of tax
	If transfer takes place before 23.7.2024	
	Unlisted securities, or shares of a closely held company	Non-corporate non-resident/ foreign company - 10% without the benefit of indexation and foreign currency fluctuation Other Assesseees – 20% with indexation benefit
	Listed securities (other than a unit) or a zero-coupon bond	- 10% without indexation or - 20% with indexation benefit whichever is more beneficial to the assessee
	Other Assets (other than taxable u/s 112A)	- 20% with indexation benefit

If transfer takes place on or after 23.7.2024	
Land or building or both if acquired before 23.7.2024	Individual or HUF, being a resident – 12.5% without indexation or 20% with indexation benefit, whichever is more beneficial to the assessee Other Assesseees – 12.5% without indexation
- Land or building or both if acquired on or after 23.7.2024 or - Other Assets (other than taxable u/s 112A)	12.5% without indexation [In case of non-residents, LTCG on transfer of unlisted securities, or shares of a closely held company, would be taxable @12.5% without indexation and foreign currency fluctuation]

Notes:

- In case of **a resident individual or a Hindu Undivided Family (HUF)**, the LTCG taxable u/s 112 or 112A or STCG taxable u/s 111A shall be reduced by the unexhausted basic exemption limit and the balance shall be subject to tax.
- In respect of bonds or debentures (whether listed or unlisted) transferred before 23.7.2024, the resultant capital gains will be considered either long-term or short-term, based on the holding period, and taxed accordingly. If unlisted debentures or bonds are transferred on or after 23.7.2024, the resulting capital gains will always be treated as short-term, regardless of the holding period. Indexation benefit is in any case not available for bonds/debentures, even if transferred before 23.07.2024.
- **No deduction under Chapter VI-A** can be claimed in respect of such LTCG chargeable to tax u/s 112 or u/s 112A or STCG chargeable to tax u/s 111A.
- Rebate u/s 87A **is not available** in respect of tax payable on LTCG **u/s 112A**.
- In case the assessee pays tax under default tax regime, enhanced surcharge of 25% would not be levied on dividend income, STCG taxable u/s 111A and LTCG taxable u/s 112 and u/s 112A.
- In case the assessee exercises the option of shifting out of the default tax regime under section 115BAC, enhanced surcharge of 25% or 37% would not be levied on dividend income, STCG taxable u/s 111A and LTCG taxable u/s 112 and u/s 112A.

Period of holding [Section 2(42A)]**[In case transfer takes place before 23.7.2024]**

STCA, if held for ≤ 12 months	{	• Security (other than unit) listed in a recognized stock exchange • Unit of equity oriented fund/unit of UTI • Zero Coupon bond
LTCA, if held for > 12 months		
STCA, if held for ≤ 24 months	{	• Unlisted shares • Land or building or both
LTCA, if held for > 24 months		
STCA, if held for ≤ 36 months	{	• Unlisted securities other than shares • Other capital assets
LTCA, if held for > 36 months		

[In case transfer takes place on or after 23.7.2024]

STCA, if held for ≤ 12 months	{	• Security listed in a recognized stock exchange • Unit of equity oriented fund/UTI • Zero Coupon bond
LTCA, if held for > 12 months		
STCA, if held for ≤ 24 months	{	• Other capital assets
LTCA, if held for > 24 months		

Note – It is to be noted that as per section 50AA, capital gains arising from transfer of the following assets would always be capital gains arising from transfer of short-term capital assets irrespective of the period of holding of such assets:

- units of a specified mutual fund acquired on or after 1.4.2023,
- market linked debentures,
- unlisted bond and unlisted debenture which is transferred or redeemed or matures on or after 23.7.2024.

4.1 INTRODUCTION

Section 45 provides that any profits or gains arising from the **transfer** of a **capital asset** effected in the previous year will be chargeable to income-tax under the head 'Capital Gains'. Such capital gains will be deemed to be the income of the previous year in which the transfer took place. In this charging section, two terms are important. One is "capital asset" and the other is "transfer".

Hence, in this unit on capital gains, we begin our discussion with the definition of "capital asset" and "transfer". Thereafter, we will proceed to discuss the various circumstances under which capital gains tax is levied. There are certain transactions which are not to be regarded as transfer for the purposes of capital gains. These transactions have also been discussed in this chapter. There is a separate method of computation of capital gains in respect of depreciable assets. Also, there are exemptions in cases where capital gains are invested in specified assets. All these aspects are being discussed in this unit.

4.2 CAPITAL ASSET

Definition: According to section 2(14), a capital asset means –

- (a) property of any kind held by an assessee, whether or not connected with his business or profession.
- (b) any securities held by a Foreign Institutional Investor which has invested in such securities in accordance with the SEBI regulations.
- (c) any unit linked insurance policy (ULIP) issued on or after 1.2.2021, to which exemption under section 10(10D) does not apply on account of premium payable exceeding ₹ 2,50,000 for any of the previous years during the term of such policy.

In a case where premium is payable by a person for more than one ULIP issued on or after 1.2.2021 and the aggregate of premium payable on such ULIPs exceed ₹ 2,50,000 for any of the previous years during the term of any such ULIP(s), the exemption under section 10(10D) would be available in respect of any of those ULIPs (at the option of the assessee) whose aggregate premium payable does not exceed ₹ 2,50,000 for any of the previous years during their term. All other ULIPs would be capital assets.

Note – Provisions relating to taxability or otherwise of ULIPs issued on or after 1.2.2021 are not being made applicable at Intermediate level. Accordingly, section 45(1B) has been excluded by way of Study Guidelines. Consequently, reference to such ULIPs has not been made in the discussion of section 10(10D) and in the definition of equity oriented fund for the purpose of section 111A and 112A in the Study Material.

However, it does not include—

- (i) **Stock-in trade:** Any stock-in-trade [other than securities referred to in (b) above], consumable stores or raw materials held for the purpose of the business or profession of the assessee;

Whether a particular asset is stock-in-trade or capital asset does not depend upon the nature of the item, but the manner in which the same is held. The item would be stock-in-trade in the hands of the assessee who deals or trades in that item; however, the same item would be capital asset for the assessee who holds it as an investment.

Example: A dealer in real estate holds a piece of land as stock-in-trade. But the same will be capital asset for an assessee who holds it as an investment.

The exclusion of stock-in-trade from the definition of capital asset is only in respect of sub-clause (a) above and not sub-clause (b). This implies that even if the nature of such security in the hands of the Foreign Portfolio Investor is stock in trade, the same would be treated as a capital asset and the profit on transfer would be taxable as capital gains.

Further, the Explanatory Memorandum to the Finance (No.2) Bill, 2014 clarifies that the income arising from transfer of such security by a Foreign Portfolio Investor (FPI) would be in the nature of capital gain, irrespective of the presence or otherwise in India, of the Fund manager managing the investments of the assessee.

- (ii) **Personal effects:** Personal effects, that is to say, movable property (including wearing apparel and furniture) held for personal use by the assessee or any member of his family dependent on him.

EXCLUSIONS:

- (a) jewellery;
- (b) archaeological collections;
- (c) drawings;

- (d) paintings;
- (e) sculptures; or
- (f) any work of art.

Definition of Jewellery- Jewellery is a capital asset and the profits or gains arising from the transfer of jewellery held for personal use are chargeable to tax under the head "capital gains". For this purpose, the expression 'jewellery' includes the following:

- (i) Ornaments made of gold, silver, platinum or any other precious metal or any alloy containing one or more of such precious metals, whether or not containing any precious or semi-precious stones and whether or not worked or sewn into any wearing apparel;
- (ii) Precious or semi-precious stones, whether or not set in any furniture, utensil or other article or worked or sewn into any wearing apparel.

(iii) Rural agricultural land in India i.e., agricultural land in India which is not situated in any specified area.

As per the definition, only rural agricultural lands in India are excluded from the purview of the term 'capital asset'. Hence urban agricultural lands constitute capital assets. Accordingly, the agricultural land described in (a) and (b) below, being land situated within the specified urban limits, would fall within the definition of "capital asset", and transfer of such land would attract capital gains tax -

- (a) agricultural land situated in any area within the jurisdiction of a municipality or cantonment board having population of not less than ten thousand, or
- (b) agricultural land situated in any area within such distance, measured aerially, in relation to the range of population as shown hereunder -

	Shortest aerial distance from the local limits of a municipality or cantonment board referred to in item (a)	Population according to the last preceding census of which the relevant figures have been published before the first day of the previous year.
(i)	≤ 2 kms	> 10,000
(ii)	> 2 kms but ≤ 6 kms	> 1,00,000
(iii)	> 6 kms but ≤ 8 kms	> 10,00,000

Example

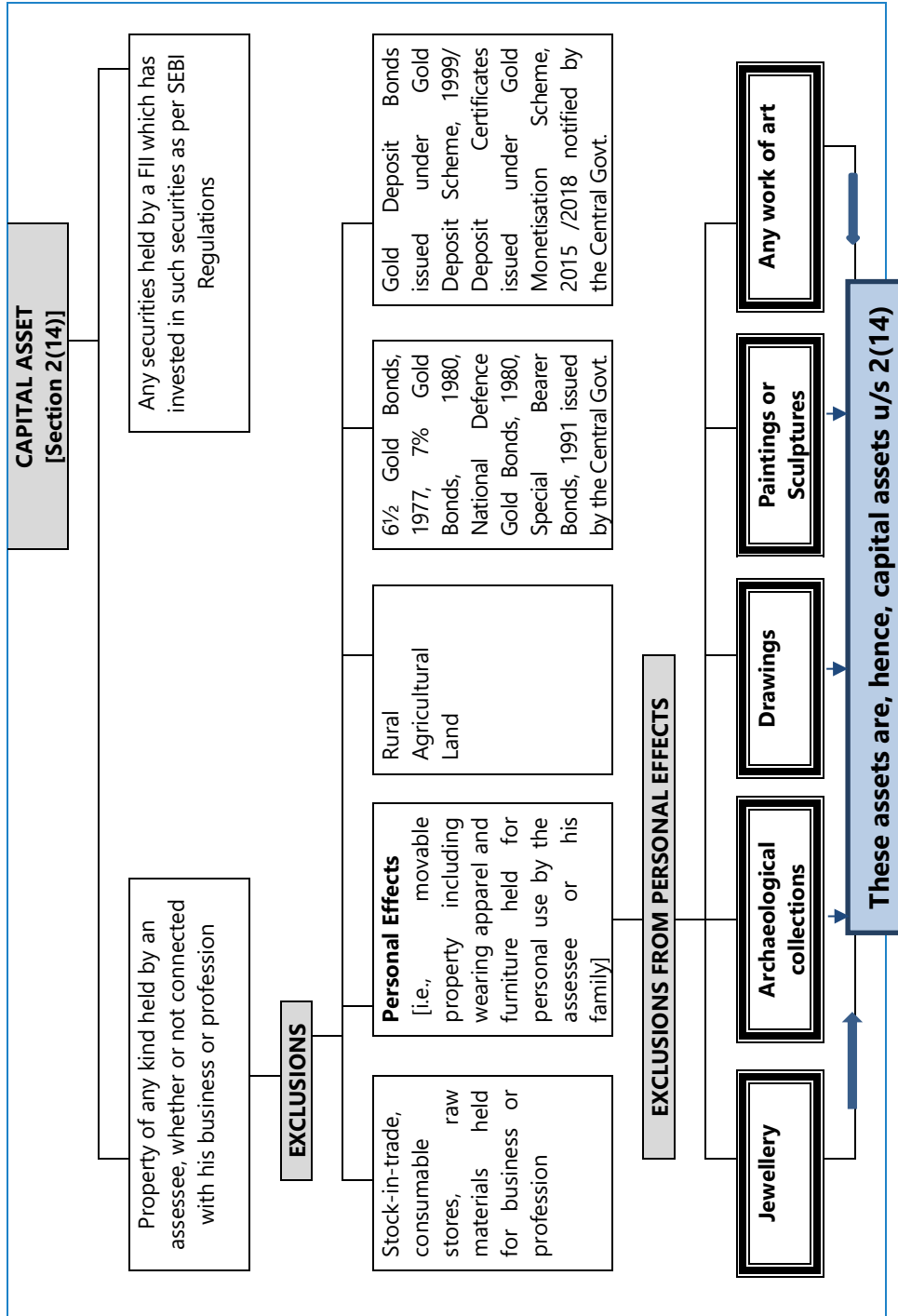
	Area	Shortest aerial distance from the local limits of a municipality or cantonment board referred to in item (a)	Population according to the last preceding census of which the relevant figures have been published before the first day of the previous year.	Is the land situated in this area a capital asset?
(i)	A	1 km	9,000	No
(ii)	B	1.5 kms	12,000	Yes
(iii)	C	2 kms	11,00,000	Yes
(iv)	D	3 kms	80,000	No
(v)	E	4 kms	3,00,000	Yes
(v)	F	5 kms	12,00,000	Yes
(vi)	G	6 kms	8,000	No
(vii)	H	7 kms	4,00,000	No
(viii)	I	8 kms	10,50,000	Yes
(ix)	J	9 kms	15,00,000	No

Explanation regarding gains arising on the transfer of urban agricultural land – *Explanation 1* to section 2(1A) clarifies that capital gains arising from transfer of any agricultural land situated in any non-rural area (as explained above) will not constitute agricultural revenue within the meaning of section 2(1A).

In other words, the capital gains arising from the transfer of such urban agricultural land would not be treated as agricultural income for the purpose of exemption u/s 10(1). Hence, such gains would be subject to u/s 45.

- (iv) **Specified Gold Bonds:** 6½% Gold Bonds, 1977, or 7% Gold Bonds, 1980, or National Defence Gold Bonds, 1980, issued by the Central Government;
- (v) **Special Bearer Bonds, 1991** issued by the Central Government;
- (vi) **Gold Deposit Bonds** issued under the Gold Deposit Scheme, 1999 or deposit certificates issued under the Gold Monetisation Scheme, 2015 and Gold Monetisation Scheme, 2019 notified by the Central Government.

Note – 'Property' includes and shall be deemed to have always included any rights in or in relation to an Indian company, including rights of management or control or any other rights whatsoever.





4.3 SHORT TERM AND LONG TERM CAPITAL ASSETS

- **Definition:** As per section 2(42A), **short-term capital asset** means a capital asset held by an assessee **for not more than 36 months** immediately preceding the date of its transfer.

*However, w.e.f. 23.7.2024, a capital asset will be a short-term capital asset if it is held by an assessee for not more than **24 months** immediately preceding the date of its transfer.*

As per section 2(29A), long-term capital asset means a capital asset which is not a short-term capital asset.

Accordingly, based on the period of holding capital assets would be classified as short-term or long-term capital asset as follows:

<i>Capital Asset</i>	<i>STCG, if held for</i>	<i>LTCG, if held for</i>
<i>In case transfer takes place before 23.7.2024</i>		
• Security (other than unit) listed in a recognized stock exchange • Unit of equity oriented fund/unit of UTI • Zero Coupon bond	<i>≤ 12 months</i> <i>immediately preceding the date of its transfer</i>	<i>> 12 months</i> <i>immediately preceding the date of its transfer</i>
• Unlisted shares • Land or building or both	<i>≤ 24 months</i> <i>immediately preceding the date of its transfer</i>	<i>> 24 months</i> <i>immediately preceding the date of its transfer</i>
• Unlisted securities other than shares • Other capital assets	<i>≤ 36 months</i> <i>immediately preceding the date of its transfer</i>	<i>> 36 months</i> <i>immediately preceding the date of its transfer</i>
<i>In case transfer takes place on or after 23.7.2024</i>		
• Security listed in a recognized stock exchange • Unit of equity-oriented fund/unit of UTI • Zero Coupon bond	<i>≤ 12 months</i> <i>immediately preceding the date of its transfer</i>	<i>> 12 months</i> <i>immediately preceding the date of its transfer</i>

• Other capital assets	≤ 24 months immediately preceding the date of its transfer	> 24 months immediately preceding the date of its transfer
------------------------	--	---

Note – As per section 50AA, capital gains arising from transfer of the following assets would always be capital gains arising from transfer of short-term capital assets irrespective of the period of holding of such assets -

- units of a specified mutual fund acquired on or after 1.4.2023,
- market linked debentures,
- unlisted bond and unlisted debenture which is transferred or redeemed or matures on or after 23.7.2024.

• **Meaning of certain terms:**

Term	Meaning
Equity oriented fund	A fund set up under a scheme of a mutual fund² and (i) in a case where the fund invested in the units of another fund which is traded on a recognised stock exchange – I. a minimum of 90% of the total proceeds of such fund is invested in the units of such other fund; and II. such other fund also invests a minimum of 90% of its total proceeds in the equity shares of domestic companies listed on a recognised stock exchange; and (ii) in any other case, a minimum of 65% of the total proceeds of such fund is invested in the equity shares of domestic companies listed on a recognised stock exchange. However, the percentage of equity shareholding or unit held in respect of the fund, as the case may be, shall be computed with reference to the annual average of the monthly averages of the opening and closing figures.

²Specified under section 10(23D)

Zero Coupon Bond [Section 2(48)]	A bond - issued by any infrastructure capital company or infrastructure capital fund or infrastructure debt fund³ or a public sector company or a scheduled bank on or after 1st June, 2005, - in respect of which no payment and benefit is received or receivable before maturity or redemption from such issuing entity and - which the Central Government may notify in this behalf.
---	---

Note: The income from transfer of a zero-coupon bond (not being held as stock-in-trade) is to be treated as capital gains. Section 2(47)(iva) provides that maturity or redemption of a zero coupon bond shall be treated as a transfer for the purposes of capital gains tax.

- **Determination of period of holding [Clause (i) of Explanation 1 to section 2(42A)]:** In determining period of holding of any capital asset by the assessee in the circumstances stated in column (1), the period shall be determined by considering the period specified in Column (2).

Determination of period of holding

S. No.	Circumstances (Column 1)	Period of holding (Column 2)
1	Where shares held in a company in liquidation	The period subsequent to the date of liquidation of company shall be excluded.
2	Where asset becomes the property of an assessee by virtue of section 49(1)	The period for which the capital asset was held by the previous owner shall be included.
3	Where inventory of business is converted into or treated as a capital asset by the assessee	Period from the date of conversion or treatment as a capital asset shall be considered.
4	Where share/s in the Indian company (amalgamated company) , becomes the property of an assessee in lieu of	The period for which the share(s) was held by the assessee in the amalgamating company shall be included.

³ Infrastructure debt fund notified by Central Government under section 10(47)

	share/s held by him in the amalgamating company at the time of transfer referred under section 47(vii).	
5	Where the share or any other security is subscribed by the assessee on the basis of right to subscribe to any share or security or by the person in whose favour such right is renounced by the assessee	Period from the date of allotment of such share or security shall be reckoned.
6	Where the right to subscribe to any share or security is renounced in favour of any other person	Period from the date of offer of such right by the company or institution shall be reckoned
7	Where any financial asset is allotted without any payment and on the basis of holding of any other financial asset	Period from the date of allotment of such financial asset shall be reckoned
8	Where share/s in the Indian company being a resulting company becomes the property of an assessee in consideration of demerger	The period for which the share/s were held by the assessee in demerged company shall be included
9	Where equity share in a company becomes the property of the assessee by way of conversion of preference shares into equity shares referred under section 47(xb)	The period for which the preference shares were held by the assessee shall be included
10	(i) Where Electronic Gold Receipt is issued by a Vault Manager in respect of gold deposited [Conversion of gold into Electronic Gold Receipt as referred to in section 47(viid)]	The period for which such gold was held by the assessee prior to conversion into the Electronic Gold Receipt

	(ii) Where gold is released in respect of an Electronic Gold Receipt [Conversion of Electronic Gold Receipt into gold as referred to in section 47(viid)]	The period for which such Electronic Gold Receipt was held by the assessee prior to its conversion into gold
11	Where any specified security or sweat equity shares is allotted or transferred, directly or indirectly, by the employer free of cost or at concessional rate to his employees (including former employees)	Period from the date of allotment or transfer of such specified security or sweat equity shares shall be reckoned
	“Sweat equity shares” means equity shares issued by a company to its employees or directors at a discount or for consideration other than cash for providing know-how or making available rights in the nature of intellectual property rights or value additions, by whatever name called.	

- **Period of holding in respect of other capital assets** - The period for which any capital asset is held by the assessee shall be determined in accordance with any rules made by the CBDT in this behalf. Accordingly, the CBDT has inserted Rule 8AA in the Income-tax Rules, 1962 to provide for method of determination of period of holding of capital assets, other than the capital assets mentioned in clause (i) of *Explanation 1* to section 2(42A).

Specifically, in the case of a capital asset, being a share or debenture of a company, which becomes the property of the assessee in the circumstances mentioned in section 47(x), there shall be included the period for which the bond, debenture, debenture-stock or deposit certificate, as the case may be, was held by the assessee prior to the conversion.

Note: Section 47(x) provides that any transfer by way of conversion of bonds or debentures, debenture-stock or deposit certificates in any form, of a company into shares or debentures of that company shall not be regarded as transfer for the purposes of levy of capital gains tax.



4.4 TRANSFER: WHAT IT MEANS? [SECTION 2(47)]

Section 2(47) contains an inclusive definition of the term 'transfer'. Accordingly, transfer in relation to a capital asset includes the following types of transactions—

- (i) the sale, exchange or relinquishment of the asset; or
- (ii) the extinguishment of any rights therein; or
- (iii) the compulsory acquisition thereof under any law; or

Example: *Acquisition of industrial undertaking under the Industries (Development and Regulation) Act, 1951.*

- (iv) the owner of a capital asset may convert the same into the stock-in-trade of a business carried on by him. Such conversion is treated as transfer; or

Example: *Where an investor in shares starts a business of dealing in shares and treats existing investments as stock-in-trade of the newly set up business, such conversion shall be regarded as transfer for the purpose of capital gains.*

- (v) the maturity or redemption of a zero-coupon bond; or
- (vi) Part-performance of the contract: Sometimes, possession of an immovable property is given in consideration of part-performance of a contract.

Example:

A enters into an agreement for the sale of his house. The purchaser gives the entire sale consideration to A. A hands over complete rights of possession to the purchaser since he has received the entire sale consideration. Under the Income-tax Act, the above transaction is considered as transfer.

- (vii) Lastly, there are certain types of transactions which have the effect of transferring or enabling the enjoyment of an immovable property.

Example:

A person may become a member of a co-operative society, company or other association of persons which may be building houses/flats. When he pays an agreed amount, the society etc. hands over possession of the house to the person concerned. No conveyance is registered. For the purpose of income-tax, the above transaction is a transfer.

ILLUSTRATION 1

How will you calculate the period of holding in case of the following assets?

- (1) *Shares held in a company in liquidation*
- (2) *Bonus shares*
- (3) *Flat in a co-operative society*

SOLUTION

- (1) **Shares held in a company in liquidation** - The period after the date on which the company goes into liquidation shall be excluded while calculating the period of holding. Therefore, the period of holding shall commence from the date of acquisition and end with the date on which the company goes into liquidation.
- (2) **Bonus shares** - The period of holding shall be reckoned from the date of allotment of bonus shares and will end with the date of transfer.
- (3) **Flat in a co-operative society** - The period of holding shall be reckoned from the date of allotment of shares in the society and will end with the date of transfer.

Note – Any transaction whether by way of becoming a member of, or acquiring shares in, a co-operative society or by way of any agreement or any arrangement or in any other manner whatsoever which has the effect of transferring, or enabling enjoyment of, any immovable property is a transfer as per section 2(47)(vi).

Hence, it is possible to take a view that any date from which such right is obtained may be taken as the date of acquisition.



4.5 SCOPE AND YEAR OF CHARGEABILITY [SECTION 45]

(i) General Provision [Section 45(1)]

Any profits or gains arising from the transfer of a capital asset effected in the previous year (other than exemptions covered under this chapter) shall be chargeable to income-tax under this head **in the previous year in which the transfer took place.**

Year of chargeability - Capital gains are chargeable as the income of the previous year in which the sale or transfer takes place. In other words, for determining the year of chargeability, the relevant date of transfer is not the date of the agreement to sell, but the actual date of sale *i.e.*, the date on which the effect of transfer of title to the property as contemplated by the parties has taken place⁴.

However, as already noted, Income-tax Act has recognised certain transactions as transfer in spite of the fact that conveyance deed might not have been executed and registered. Power of Attorney sales as explained above or co-operative society transactions for acquisition of house are examples in this regard.

(ii) Insurance Receipts [Section 45(1A)]

Where any person receives any money or other assets under any insurance from an insurer on account of damage to or destruction of any capital asset, as a result of

- flood, typhoon, hurricane, cyclone, earthquake or other convulsion of nature,
- riot or civil disturbance,
- accidental fire or explosion or
- of action by an enemy or action taken in combating an enemy (whether with or without declaration of war),

then, any profits or gains arising from receipt of such money or other assets shall be chargeable to income-tax under the head "Capital gains" and shall be deemed to be the income of **such person for the previous year in which such money or other asset was received.**

Full value of consideration: In order to compute capital gains, the value of any money or the fair market value of other assets on the date of such receipt shall be deemed to be the full value of the consideration received or accruing as a result of the transfer of such capital assets.

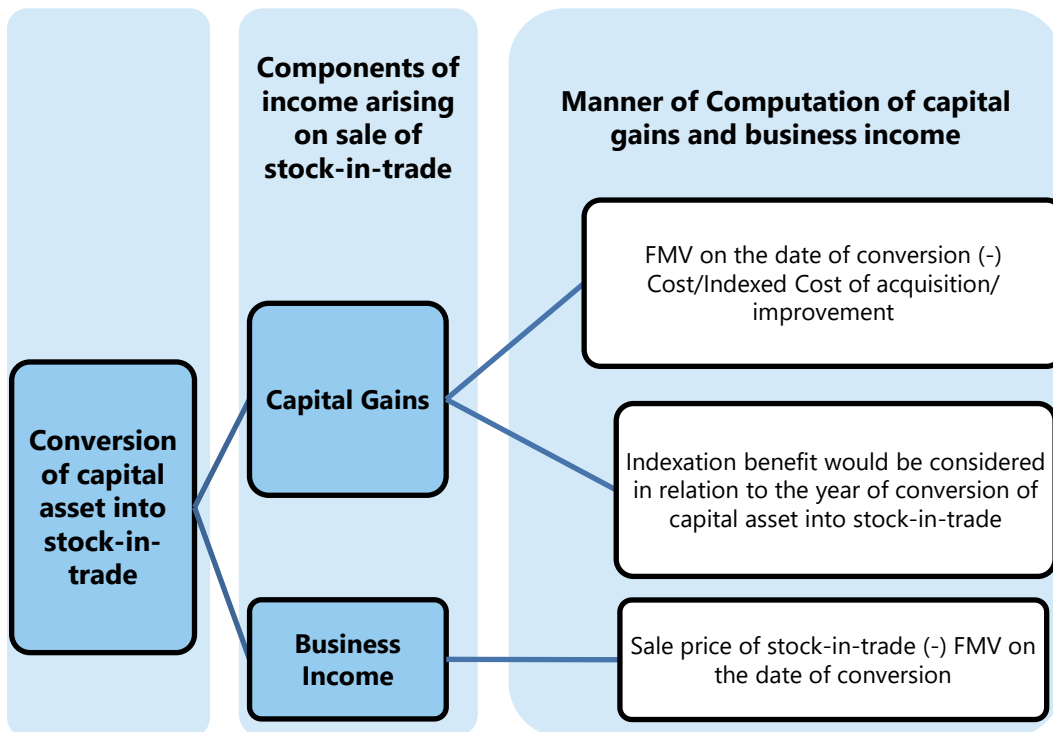
(iii) Conversion or treatment of a capital asset as stock-in-trade [Section 45(2)]

A person who is the owner of a capital asset may convert the same or treat it as stock-in-trade of the business carried on by him. As noted above, the above transaction is a transfer.

⁴*Alapati Venkatramiah v. CIT [1965] 57 ITR 185 (SC)*

As per section 45(2), notwithstanding anything contained in section 45(1), being the charging section, the profits or gains arising from the above conversion or treatment will be chargeable to income-tax as **his income of the previous year in which such stock-in-trade is sold or otherwise transferred by him.**

Full value of consideration: In order to compute the capital gains, the fair market value of the asset on the date of such conversion or treatment shall be deemed to be the full value of the consideration received as a result of the transfer of the capital asset.



Note – Both Capital Gains and Business income are chargeable to tax in the year in which stock-in-trade is sold or otherwise transferred.

ILLUSTRATION 2

A is the owner of a car. On 1-4-2024, he starts a business of purchase and sale of motor cars. He treats the above car as part of the stock-in-trade of his new business. He sells the same on 31-3-2025 and gets a profit of ₹ 1 lakh. Discuss the tax implication in his hands under the head "Capital gains".

SOLUTION

Since car is a personal asset, conversion or treatment of the same as the stock-in-

trade of his business will not be trapped by the provisions of section 45(2). Hence, A is not liable to capital gains tax.

ILLUSTRATION 3

X converts his capital asset (acquired on June 10, 2006 for ₹60,000) into stock-in-trade on March 10, 2024. The fair market value on the date of the above conversion was ₹5,50,000. He subsequently sells the stock-in-trade so converted for ₹6,00,000 on June 10, 2024. Discuss the year of chargeability of capital gain and business income.

SOLUTION

Since the capital asset is converted into stock-in-trade during the previous year 2023-24 relevant to the A.Y. 2024-25, it will be a transfer u/s 2(47) during the P.Y. 2023-24. However, the profits or gains arising from the above conversion will be chargeable to tax during the A.Y. 2025-26, since the stock-in-trade has been sold only on June 10, 2024. For this purpose, the fair market value on the date of such conversion (i.e. 10th March, 2024) will be the full value of consideration for computation of capital gains. The capital gains would be computed by reducing the indexed cost of acquisition therefrom, since the transfer (i.e., conversion of capital asset into stock in trade) took place during the P.Y. 2023-24. The business income of ₹ 50,000 (i.e., ₹ 6,00,000 (-) ₹ 5,50,000, being the fair market value on the date of conversion) would also be taxable in the A.Y.2025-26. Thus, both capital gains and business income would be chargeable to tax in the A.Y.2025-26.

(iv) Compensation on compulsory acquisition [Section 45(5)]

Sometimes, a building or some other capital asset belonging to a person is taken over by the Central Government by way of compulsory acquisition. In that case, the consideration for the transfer is determined by the Central Government of RBI. When the Central Government pays the above compensation, capital gains may arise. Such capital gains are **chargeable as income of the previous year in which such compensation is received**.

Enhanced Compensation - Many times, persons whose capital assets have been taken over by the Central Government and who get compensation from the Government go to the Court of law for enhancement of compensation. If the court awards a compensation which is higher than the original compensation, the difference thereof will be chargeable to capital gains in the year in which the same is received from the government.

Cost of acquisition in case of enhanced compensation - For this purpose, the cost of acquisition and cost of improvement shall be taken to be *nil*.

Compensation received in pursuance of an interim order deemed as income chargeable to tax in the year of final order - In order to remove the uncertainty regarding the year in which the amount of compensation received in pursuance of an interim order of the Court, Tribunal or other authority is to be charged to tax, it is provided that such compensation shall be deemed to be income chargeable under the head 'Capital gains' in the previous year in which the final order of such Court, Tribunal or other authority is made.

Reduction of enhanced compensation - Where capital gain has been charged on the compensation received by the assessee for the compulsory acquisition of any capital asset or enhanced compensation received by the assessee and subsequently such compensation is reduced by any Court, Tribunal or any authority, the assessed capital gain of that year shall be recomputed by taking into consideration the reduced amount. This re-computation shall be done by way of rectification⁵.

Death of the transferor - It is possible that the transferor may die before he receives the enhanced compensation. In that case, the enhanced compensation will be chargeable to tax in the hands of the person who receives the same.



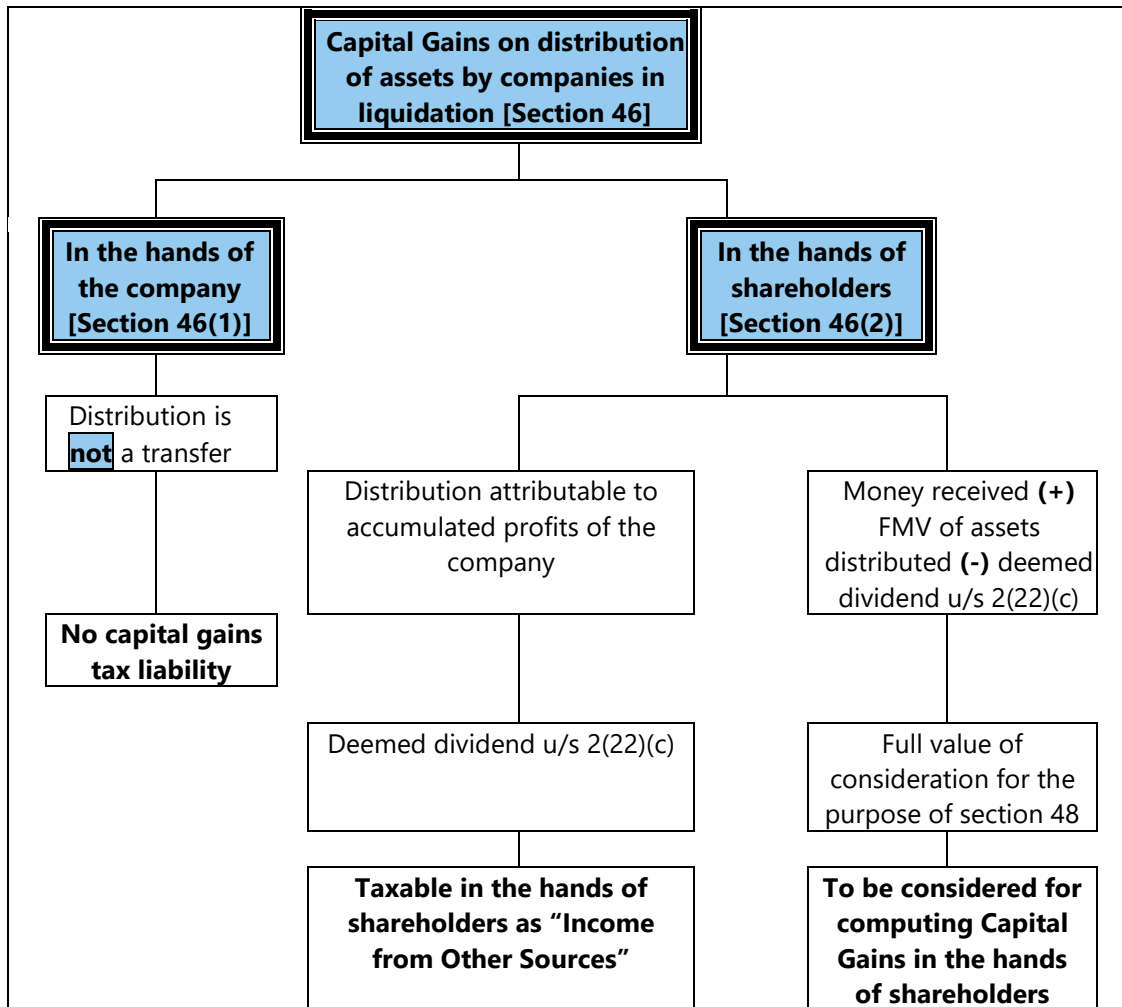
4.6 CAPITAL GAINS ON DISTRIBUTION OF ASSETS BY COMPANIES IN LIQUIDATION [SECTION 46]

- (1) **In the hands of liquidated company:** Where the assets of a company are distributed to its shareholders on its liquidation, such distribution shall **not** be regarded as a transfer by the company for the purposes of section 45 [Section 46(1)].

The above section is restricted in its application to the circumstances mentioned therein *i.e.*, the assets of the company must be distributed in specie to shareholders on the liquidation of the company. If, however, the liquidator sells the assets of the company resulting in a capital gain and distributes the funds so collected, the company will be liable to pay tax on such gains.

⁵under section 155

- (2) **In the hands of shareholders:** Shareholders receive money or other assets from the company on its liquidation. They will be chargeable to income-tax under the head 'capital gains' in respect of the market value of the assets received on the date of distribution, or the moneys so received by them. The portion of the distribution which is attributable to the accumulated profits of the company is to be treated as dividend income under section 2(22)(c), which would be taxable in the hands of shareholders. The same will be deducted from the amount received/fair market value for the purpose of determining the consideration for computation of capital gains.





4.7 CAPITAL GAINS ON BUYBACK OF SHARES OR SPECIFIED SECURITIES [SECTION 46A]

- (1) **In case of shares of a company other than a domestic company and specified securities:** Any consideration received by a holder of specified securities (other than shares of a domestic company) from any company on purchase of its specified securities is chargeable to tax in the hands of the holder of specified securities. The difference between the cost of acquisition and the value of consideration received by the holder of securities is chargeable to tax as capital gains in his hands. The computation of capital gains shall be made in accordance with the provisions of section 48.

Such capital gains shall be chargeable in the year in which such securities were purchased by the company. For this purpose, "specified securities" shall have the same meaning as given in *Explanation* to section 77A of the Companies Act, 1956⁶.

As far as shares are concerned, this provision would be attracted in the hands of the shareholder only if the shares are bought back by a company, other than a domestic company.

- (2) **In case of buy back of shares effected before 1.10.2024 by domestic companies:** *In case of buyback of shares (whether listed or unlisted) before 1.10.2024 by a domestic company, additional income-tax@20% (plus surcharge @12% and cess@4%) is leviable in the hands of the company⁷. Consequently, the income arising to the shareholders in respect of such buyback of shares by the domestic company is exempt under section 10(34A), since the domestic company is liable to pay additional income-tax on the buyback of shares.*
- (3) **In case of buy back of shares effected on or after 1.10.2024 by domestic companies:** *In case of buyback of shares (whether listed or unlisted) on or after 1.10.2024 by a domestic company, the sum paid by a domestic company for purchase of its own shares would be treated as dividend and taxable under*

⁶ Now section 68 of the Companies Act, 2013

⁷ Under section 115QA

the head "Income from Other Sources" in the hands of shareholders. No deduction for expenses would be available against such dividend income.

Consequently, as per section 46A, value of consideration received by a shareholder on buy back of shares by a domestic company would be Nil and the difference between the cost of acquisition and the value of consideration received by the shareholder will result into capital loss. The same can be set off and carried forward as per the applicable set-off & carry forward provisions of the Act. If it is long-term capital loss, it can be set-off only against long-term capital gains. If it is a short-term capital loss, it can set-off against both long term capital gains and short term capital gains. For details, refer Chapter: 5: Aggregation of income, Set-off and Carry Forward of Losses.



4.8 TRANSACTIONS NOT REGARDED AS TRANSFER [SECTION 47]

Section 47 specifies certain transactions which will not be regarded as transfer for the purpose of capital gains tax:

- (1) **Total or partial partition of a HUF:** Any distribution of capital assets on the total or partial partition of a HUF [Section 47(i)].
- (2) **A gift or will or an irrevocable trust by individual or HUF:** Any transfer of a capital asset by an individual or HUF under a gift or will or an irrevocable trust [Section 47(iii)].

Note – Upto A.Y. 2024-25, transfer of a capital asset (other than shares, debentures or warrants allotted by a company under any ESOP) under a gift or will or irrevocable trust by any person was not considered as a transfer.

- (3) **Transfer of capital asset by holding company to its wholly owned Indian subsidiary company:** Any transfer of capital asset by a company to its subsidiary company [Section 47(iv)].

Conditions:

- (i) The parent company or its nominee must hold the whole of the shares of the subsidiary company; and
- (ii) The subsidiary company must be an Indian company.

- (4) **Transfer of capital asset by a subsidiary company to its 100% holding company, being an Indian company:** Any transfer of capital asset by a subsidiary company to the holding company [Section 47(v)].

Conditions:

- (i) The whole of shares of the subsidiary company must be held by the holding company; and
- (ii) The holding company must be an Indian company.

Exception - The exemption mentioned in 3 or 4 above will not apply if a capital asset is transferred as stock-in-trade.

- (5) **Transfer of capital asset by amalgamating company to amalgamated Indian company, in a scheme of amalgamation:** Any transfer, in a scheme of amalgamation, of a capital asset by the amalgamating company to the amalgamated company if the amalgamated company is an Indian company [Section 47(vi)].

- (6) **Transfer of capital asset by the demerged company to the resulting Indian company, in a scheme of demerger:** Any transfer in a demerger, of a capital asset by the demerged company to the resulting company, if the resulting company is an Indian company [Section 47(vib)].

- (7) **Transfer or issue of shares by a resulting company, in a scheme of demerger:** Any transfer or issue of shares by the resulting company, in a scheme of demerger to the shareholders of the demerged company, if the transfer is made in consideration of the demerger of the undertaking [Section 47(vid)].

- (8) **Transfer of shares by a shareholder in a scheme of amalgamation:** Any transfer by a shareholder, in a scheme of amalgamation, of shares held by him in the amalgamating company [Section 47(vii)].

Conditions:

- (i) The transfer is made in consideration of the allotment to him of any share/s in the amalgamated company, except where the shareholder himself is the amalgamated company;
- (ii) The amalgamated company is an Indian company.

Example:

Let us take a case where A Ltd., an Indian company, holds 60% of shares in B Ltd. B Ltd. amalgamates with A Ltd. Since A Ltd. itself is the shareholder of B Ltd., A Ltd., being the amalgamated company, cannot issue shares to itself. However, A Ltd. has to issue shares to the other shareholders of B Ltd.

ILLUSTRATION 4

M held 2000 shares in a company ABC Ltd., an Indian company. This company amalgamated with another Indian company XYZ Ltd. during the previous year ending 31-3-2025. Under the scheme of amalgamation, M was allotted 1000 shares in the new company. The market value of shares allotted is higher by ₹ 50,000 than the value of holding in ABC Ltd. The Assessing Officer proposes to treat the transaction as an exchange and to tax ₹ 50,000 as capital gain. Is he justified?

SOLUTION

In the above example, the transaction is squarely covered by the exemption explained above and the proposal of the Assessing Officer to treat the transaction as a transfer is not justified.

- (9) Transfer of Government Security outside India by a non-resident to another non-resident:** Any transfer of a capital asset, being a Government Security carrying a periodic payment of interest, made outside India through an intermediary dealing in settlement of securities, by a non-resident to another non-resident [Section 47(viib)]
- (10) Redemption of sovereign gold bonds by an Individual:** Redemption by an individual of sovereign gold bonds issued by RBI under the Sovereign Gold Bond Scheme, 2015 [Section 47(viic)]
- (11) Conversion of gold into Electronic Gold Receipt or vice a versa:** Any transfer of a capital asset, being conversion of gold into Electronic Gold Receipt issued by a Vault Manager, or conversion of Electronic Gold Receipt into gold [Section 47(viid)]
- (12) Transfer of specified capital asset to the Government or university etc.:** Any transfer of any of the following capital asset to the Government or to the University or the National Museum, National Art Gallery, National Archives or any other public museum or institution notified by the Central

Government to be of national importance or to be of renown throughout any State

- (i) work of art
- (ii) archaeological, scientific or art collection
- (iii) book
- (iv) manuscript
- (v) drawing
- (vi) painting
- (vii) photograph or
- (viii) print [Section 47(ix)].

(13) Transfer on conversion of bonds or debentures etc. into shares or debentures: Any transfer by way of conversion of bonds or debentures, debenture stock or deposit certificates in any form, of a company into shares or debentures of that company [Section 47(x)].

(14) Conversion of preference shares into equity shares: Any transfer by way of conversion of preference shares of a company into equity shares of that company [Section 47(xb)].

(15) Transfer of capital asset under Reverse Mortgage: Any transfer of a capital asset in a transaction of reverse mortgage under a scheme made and notified by the Central Government [Section 47(xvi)].

The Reverse Mortgage scheme is for the benefit of senior citizens, who own a residential house property. In order to supplement their existing income, they can mortgage their house property with a scheduled bank or housing finance company, in return for a lump-sum amount or for a regular monthly/quarterly/annual income. The senior citizens can continue to live in the house and receive regular income, without the botheration of having to pay back the loan.

The loan will be given up to, say, 60% of the value of residential house property mortgaged. Also, the bank/housing finance company would undertake a revaluation of the property once every 5 years. The borrower can use the loan amount for renovation and extension of residential property, family's medical and emergency expenditure etc., amongst others. However, he cannot use the amount for speculative or trading purposes.

The Reverse Mortgage Scheme, 2008, now includes within its scope, disbursement of loan by an approved lending institution, in part or in full, to the annuity sourcing institution, for the purposes of periodic payments by way of annuity to the reverse mortgagor. This would be an additional mode of disbursement i.e., in addition to direct disbursements by the approved lending institution to the Reverse Mortgagor by way of periodic payments or lump sum payment in one or more tranches.

An annuity sourcing institution has been defined to mean Life Insurance Corporation of India or any other insurer registered with the Insurance Regulatory and Development Authority.

Maximum Period of Reverse Mortgage Loan:

	Mode of disbursement	Maximum period of loan
(a)	Where the loan is disbursed directly to the Reverse Mortgagor	20 years from the date of signing the agreement by the reverse mortgagor and the approved lending institution.
(b)	Where the loan is disbursed, in part or in full, to the annuity sourcing institution for the purposes of periodic payments by way of annuity to the Reverse mortgagor	The residual life time of the borrower.

The bank will recover the loan along with the accumulated interest by selling the house after the death of the borrower. The excess amount will be given to the legal heirs. However, before resorting to sale of the house, preference will be given to the legal heirs to repay the loan and interest and get the mortgaged property released.

Therefore, section 47(xvi) clarifies that any transfer of a capital asset in a transaction of reverse mortgage under a scheme made and notified by the Central Government would not amount to transfer for the purpose of capital gains.

Exemption of income received in a transaction of reverse mortgage [Section 10(43)]: Section 10(43), further, provides that the amount received by the senior citizen as a loan, either in lump sum or in installments, in a transaction of reverse mortgage would be exempt from income-tax.

ILLUSTRATION 5

In which of the following situations capital gains tax liability does not arise?

- (i) *Mr. A purchased gold in 1970 for ₹ 25,000. In the P.Y. 2024-25, he gifted it to his son at the time of marriage. Fair market value (FMV) of the gold on the day the gift was made was ₹ 1,00,000.*
- (ii) *A house property is purchased by a Hindu undivided family in 1945 for ₹ 20,000. It is given to one of the family members in the P.Y. 2024-25 at the time of partition of the family. FMV on the date of partition was ₹ 12,00,000.*
- (iii) *Mr. B purchased 50 convertible debentures for ₹ 40,000 in 1995 which are converted into 500 shares worth ₹ 85,000 in November 2024 by the company.*

SOLUTION

We know that capital gains arises only when we transfer a capital asset. The liability of capital gains tax in the situations given above is discussed as follows:

- (i) As per the provisions of section 47(iii), gift of a capital asset by an individual is **not** regarded as transfer for the purpose of capital gains. Therefore, capital gains tax liability does not arise in the given situation.
- (ii) As per the provisions of section 47(i), distribution of a capital asset (being in kind) on the total or partial partition of Hindu undivided family is **not** regarded as transfer for the purpose of capital gains. Therefore, capital gains tax liability does not arise in the given situation.
- (iii) As per the provisions of section 47(x), conversion of bonds or debentures, debenture stock or deposit certificates in any form of a company into shares or debentures of that company is **not** regarded as transfer for the purpose of capital gains. Therefore, capital gains tax liability does not arise in the given situation.

ILLUSTRATION 6

Mr. Abhishek a senior citizen, mortgaged his residential house with a bank, under a notified reverse mortgage scheme. He was getting loan from bank in monthly installments. Mr. Abhishek did not repay the loan on maturity and hence gave possession of the house to the bank, to discharge his loan. How will the treatment of long-term capital gain be on such reverse mortgage transaction?

SOLUTION

Section 47(xvi) provides that any transfer of a capital asset in a transaction of reverse mortgage under a scheme made and notified by the Central Government shall not be considered as a transfer for the purpose of capital gain.

Accordingly, the mortgaging of residential house with bank by Mr. Abhishek will not be regarded as a transfer. Therefore, no capital gain will be charged on such transaction.

Further, section 10(43) provides that the amount received by the senior citizen as a loan, either in lump sum or in installment, in a transaction of reverse mortgage would be exempt from income-tax. Therefore, the monthly installment amounts received by Mr. Abhishek would not be taxable.

ILLUSTRATION 7

Examine, with reasons, whether the following statements are True or False.

- (i) *Alienation of a residential house in a transaction of reverse mortgage under a scheme made and notified by the Central Government is treated as "transfer" for the purpose of capital gains.*
- (ii) *Zero coupon bonds of eligible corporation, held for 14 months, will be long-term capital assets.*
- (iii) *Zero Coupon Bond means a bond on which no payment and benefits are received or receivable before maturity or redemption.*

SOLUTION

- (i) **False:** As per section 47(xvi), such alienation in a transaction of reverse mortgage under a scheme made and notified by the Central Government is not regarded as "transfer" for the purpose of capital gains.
- (ii) **True:** Section 2(42A) defines the term 'short-term capital asset'. Under the proviso to section 2(42A), zero coupon bond held for not more than 12 months will be treated as a short-term capital asset. Consequently, such bonds held for more than 12 months will be a long-term capital asset.
- (iii) **True:** As per section 2(48), 'Zero Coupon Bond' means a bond issued by any infrastructure capital company or infrastructure capital fund or infrastructure debt fund or a public sector company, or Scheduled Bank on or after 1st June 2005, in respect of which no payment and benefit is

received or receivable before maturity or redemption from such issuing entity and which the Central Government may notify in this behalf.



4.9 IMPORTANT DEFINITIONS

(a) Amalgamation [Section 2(1B)] - "Amalgamation", in relation to companies, means -

- the merger of one or more companies with another company or
- the merger of two or more companies to form one company

(the company or companies which so merge being referred to as the amalgamating company or companies and the company with which they merge or which is formed as a result of the merger, as the amalgamated company) in such a manner that -

- (i) all the property of the amalgamating company or companies immediately before the amalgamation becomes the property of the amalgamated company by virtue of the amalgamation;
- (ii) all the liabilities of the amalgamating company or companies immediately before the amalgamation become the liabilities of the amalgamated company by virtue of the amalgamation;
- (iii) shareholders holding not less than three-fourth in value of the shares in the amalgamating company or companies (other than shares already held therein immediately before the amalgamation by, or by a nominee for, the amalgamated company or its subsidiary) become shareholders of the amalgamated company by virtue of the amalgamation,

otherwise than as a result of the acquisition of the property of one company by another company pursuant to the purchase of such property by the other company or as a result of the distribution of such property to the other company after the winding up of the first mentioned company.

(b) Demerger [Section 2(19AA)] - "Demerger", in relation to companies, means the transfer, pursuant to a scheme of arrangement under sections 230 to 232 of the Companies Act, 2013, by a demerged company of its one or more undertaking to any resulting company in such a manner that -

- (i) all the property of the undertaking, being transferred by the demerged company, immediately before the demerger, becomes the property of the resulting company by virtue of the demerger;
- (ii) all the liabilities relatable to the undertaking, being transferred by the demerged company, immediately before the demerger, become the liabilities of the resulting company by virtue of the demerger;
- (iii) the property and the liabilities of the undertaking or undertakings being transferred by the demerged company are transferred at values appearing in its books of account immediately before the demerger;

However, this provision does not apply where, in compliance to the Indian Accounting Standards specified in Annexure to the Companies (Indian Accounting Standards) Rules, 2015, the resulting company records the value of the property and the liabilities of the undertaking or undertakings at a value different from the value appearing in the books of account of the demerged company, immediately before the demerger.

For the purpose of determining the value of the property, any change in the value of assets consequent to their revaluation shall be ignored.

- (iv) the resulting company issues, in consideration of the demerger, its shares to the shareholders of the demerged company on a proportionate basis;

Note - If the resulting company is a shareholder of the demerged company, it cannot issue shares to itself. However, the resulting company has to issue shares to the other shareholders of the demerged company.

- (v) the shareholders holding not less than three-fourths in value of the shares in the demerged company (other than shares already held therein immediately before the demerger, or by a nominee for, the resulting company or, its subsidiary) become shareholders of the resulting company or companies by virtue of the demerger, otherwise than as a result of the acquisition of the property or assets of the demerged company or any undertaking thereof by the resulting company;
- (vi) the transfer of the undertaking is on a going concern basis;

- (vii) the demerger is in accordance with the conditions, if any, notified⁸ by the Central Government in this behalf.

Reconstruction or splitting up of a public sector company into separate companies shall be deemed to be a demerger, if such reconstruction or splitting up has been made to transfer any asset of the demerged company to the resulting company and the resulting company –

- (a) is a public sector company on the appointed day indicated in such scheme as may be approved by the Central Government or any other body authorized under the Companies Act, 1956 or any other law for the time being in force governing such public sector companies; and
 - (b) fulfils such other conditions as may be notified by the Central Government [*Explanation 6*].
- (c) **Demerged Company** - Demerged company means the company whose undertaking is transferred, pursuant to a demerger, to a resulting company.
- (d) **Resulting Company** - Resulting company means one or more companies (including a wholly owned subsidiary thereof) to which the undertaking of the demerged company is transferred in a demerger and, the resulting company in consideration of such transfer of undertaking, issues shares to the shareholders of the demerged company and includes any authority or body or local authority or public sector company or a company established, constituted or formed as a result of demerger.

4.10 MODE OF COMPUTATION OF CAPITAL GAINS [SECTION 48]

- (i) **Computation of capital gains:** The income chargeable under the head 'Capital gains' shall be computed by deducting the following items from the full value of the consideration received or accruing as a result of the transfer of the capital asset:
- (1) Expenditure incurred wholly and exclusively in connection with such transfer like brokerage, stamp duty, registration fee, legal expenses etc.

⁸under sub-section (5) of section 72A

(2) The cost of acquisition and cost of any improvement thereto.

However, the cost of acquisition of the asset or the cost of improvement thereto would not include the deductions claimed on interest u/s 24(b) or under the provisions of Chapter VI-A.

Interest on loan taken for acquisition, construction, repairs, reconstruction of house property is allowable as deduction under section 24(b). Sections 80EE and 80EEA in Chapter VI-A provide for deduction of interest payable on loan taken for acquisition of house property, subject to fulfillment of certain conditions.

The interest allowed as deduction under section 24(b) while computing income from house property and interest allowed as deduction under section 80EE or 80EEA of Chapter VI-A would not be included in the cost of acquisition or cost of improvement while computing capital gains on transfer of house property.

- (ii) **No deduction in respect of STT:** No deduction shall, however, be allowed in computing the income chargeable under the head "Capital Gains" in respect of any amount paid on account of securities transaction tax (STT) under Chapter VII of the Finance (No.2) Act, 2004.
- (iii) **Cost inflation index:** *Under section 48, for computation of **long-term capital gains arising from the transfer which takes place before 23.7.2024**, the cost of acquisition and cost of improvement will be increased by applying the cost inflation index (CII). Once the cost inflation index is applied to the cost of acquisition and cost of improvement, it becomes indexed cost of acquisition and indexed cost of improvement.*

"Cost Inflation Index" in relation to a previous year means such index as may be notified by the Central Government having regard to 75% of average rise in the Consumer Price Index (Urban) for the immediately preceding previous year to such previous year.

Indexed cost of acquisition means an amount which bears to the cost of acquisition, the same proportion as CII for the year in which the asset is transferred bears to the CII for the first year in which the asset was held by the assessee or for the year beginning on 1st April, 2001, whichever is later.

Similarly, indexed cost of any improvement means an amount which bears to the cost of improvement, the same proportion as CII for the year in which

the asset is transferred bears to the CII for the year in which the improvement to the asset took place.

*Below is the summary showing the indexation benefit available to different types of long-term capital assets **which are transferred before 23.7.2024** -*

Long-term capital assets which are transferred before 23.7.2024	Indexation benefit
<i>Bonds or debentures</i>	No
<i>Capital indexed bonds issued by the Government</i>	Yes
<i>Sovereign Gold Bond issued by the RBI under the Sovereign Gold Bond Scheme, 2015</i>	Yes
<i>Depreciable assets</i>	N.A. since it will be short term capital gain
<i>Unit of a specified mutual fund acquired on or after 1.4.2023</i>	
<i>Marked linked debentures</i>	
<i>Equity share in a company on which STT is paid both at the time of acquisition and transfer</i>	No
<i>Unit of equity oriented fund or unit of business trust on which STT is paid at the time of transfer</i>	No
<i>Other long-term capital assets</i>	Yes

Consequent to the amendment made by the Finance (No. 2) Act, 2024 in section 48, no indexation benefit is allowable on **long-term capital gains arising on transfer of any capital assets taking place on or after 23.7.2024**.

Computation of tax on LTCG on transfer of land or building or both on or after 23.7.2024 [Section 112]

A resident individual or HUF, while computing tax on LTCG on transfer of land or building or both, has the option to take the benefit of indexation under section 112 in respect of long-term capital gains arising on transfer of land or building or both which is acquired before 23.7.2024 and transferred on or after 23.7.2024. Accordingly, LTCG on transfer of such land or building or both are subject to lower of tax @12.5% (on LTCG computed without indexation benefit) or @20% (on LTCG computed with indexation benefit).

It may be noted that this benefit to a resident individual or HUF is to be given only while computing tax on LTCG under section 112 on transfer of land or

*building or both and not while computing Income under the head "Capital Gains" which would form part of gross total income/total income. Thus, for computing income under the head "Capital Gains" to be included in gross total income, indexation benefit is **not** to be given even in case of resident individual/HUF transferring land or building or both on or after 23.7.2024 which was acquired before 23.7.2024.*

The cost inflation indices for the financial years so far have been notified as under:

Financial Year	Cost Inflation Index
2001-02	100
2002-03	105
2003-04	109
2004-05	113
2005-06	117
2006-07	122
2007-08	129
2008-09	137
2009-10	148
2010-11	167
2011-12	184
2012-13	200
2013-14	220
2014-15	240
2015-16	254
2016-17	264
2017-18	272
2018-19	280
2019-20	289
2020-21	301
2021-22	317
2022-23	331
2023-24	348
2024-25	363

- (iv) **Full value of consideration of shares, debentures or warrants issued under ESOP in case of transfer under a gift etc. upto A.Y. 2024-25** - In case where shares, debentures or warrants allotted by a company directly or indirectly to its employees under the Employees' Stock Option Plan or Scheme in accordance with the guidelines issued in this behalf by the Central Government are transferred under a gift or irrecoverable trust upto A.Y. 2024-25, then the market value on the date of such transfer shall be deemed to be the full value of consideration received or accruing as a result of transfer of such asset.
- (v) **Special provision for non-residents** – In case of non-residents who invest foreign exchange to acquire capital assets, capital gains arising from the transfer of shares or debentures of an Indian company is to be computed in the following manner:
- The cost of acquisition, the expenditure incurred wholly and exclusively in connection with the transfer and the full value of the consideration are to be converted into the same foreign currency with which such shares were acquired. The conversion has to be done at the average of Telegraphic Transfer Buying Rate (TTBR) and Telegraphic Transfer Selling Rate (TTSR) on the respective dates.
 - The resulting capital gains shall be reconverted into Indian currency by applying the TTBR on the date of transfer.

The aforesaid manner of computation of capital gains shall be applied for every purchase and sale of shares or debentures in an Indian company. This will provide relief from risk of foreign currency fluctuation to non-residents.

Benefit of indexation will **not** be available in this case.

On long-term capital gains arising from transfer of unlisted securities or shares of a company in which public are not substantially interested, non-residents and foreign companies are subject to tax at a concessional rate of 10% (without indexation benefit or currency conversion) if such transfer takes place before 23.7.2024 and @12.5% (without indexation benefit or currency conversion) if such transfer takes place on or after 23.7.2024 [Section 112].

Note – The benefit of currency conversion would **not** be applicable to the long-term capital gains arising from the transfer of the following assets referred to in section 112A –

- (i) equity share in a company on which STT is paid both at the time of acquisition and transfer
- (ii) unit of equity oriented fund or unit of business trust on which STT is paid at the time of transfer.



4.11 ASCERTAINMENT OF COST IN SPECIFIED CIRCUMSTANCES [SECTION 49]

A person becomes the owner of a capital asset not only by purchase but also by several other methods. Section 49 gives guidelines as to how to compute the cost under different circumstances.

Section	Circumstance	Cost of acquisition
49(1)	Where the capital asset became the property of the assessee: (i) on any distribution of assets on the total or partition of a HUF; (ii) under a gift or will by an individual or HUF (by any person upto 31.3.2024); (iii) by succession, inheritance or devolution; (iv) on any distribution of assets on the liquidation of a company; (v) under a transfer to revocable or an irrevocable trust; (vi) under any transfer of capital asset by a holding company to its wholly owned subsidiary Indian company or by a subsidiary company to its 100% holding Indian company, referred to in section 47(iv) and 47(v), respectively;	Cost for which the previous owner of the property acquired it. Notes – Cost of improvement – To the cost of acquisition, the cost of improvement to the asset, incurred by the previous owner or the assessee on or after 1.4.2001 must be added. Period of holding - It may be noted that section 2(42A) provides that in all such cases, for determining the period for which the capital asset is held by the transferee, the period of holding of the asset by the previous owner shall also be considered. Benefit of indexation - The Bombay High Court, in CIT v. Manjula J. Shah 16 Taxman 42, held that the indexed cost of acquisition in case of gifted asset

	(vii) under any transfer referred to in section 47(vi) of a capital asset by amalgamating company to the amalgamated Indian company, in a scheme of amalgamation; (viii) under any transfer referred to in section 47(vib), of a capital asset by the demerged company to the resulting Indian company, in a scheme of demerger; (ix) by conversion by an individual of his separate property into a HUF property, by the mode referred to in section 64(2).	<i>has to be computed with reference to the year in which the previous owner first held the asset and not the year in which the assessee became the owner of the asset.</i> <i>As per the plain reading of the provisions of section 48, however, the indexed cost of acquisition would be determined by taking CII for the year in which asset is first held by the assessee.</i> <i>The benefit of indexation would be available for the capital assets which are transferred before 23.7.2024.</i>
49(2)	Where shares in an amalgamated company which is an Indian company become the property of the assessee in consideration of the transfer of shares referred to in section 47(vii) held by him in the amalgamating company under a scheme of amalgamation.	The cost of acquisition to him of the shares in the amalgamated company shall be taken as the cost of acquisition of the shares in the amalgamating company.
49(2A)	Where a person becomes the owner of shares or debentures in a company during the process of conversion of bonds or debentures, debenture stock or deposit certificates referred under section 47(x).	That part of the cost of debentures, debenture stock, bond or deposit certificate in relation to which such asset (shares or debentures) is acquired by that person.
49(2AA)	Where the capital gain arises from the transfer of specified security or sweat equity shares referred to in section 17(2)(vi)	Fair market value which has been taken into account for perquisite valuation.
49(2AE)	Where equity shares of a company, became the property of the	That part of the cost of the preference share in relation to

	assessee in consideration of transfer by way of conversion of preference shares of the company [Section 47(xb)]	which such equity shares are acquired by the assessee.
49(2C)	In case of demerger	The cost of acquisition of the shares in the resulting company shall be the amount which bears to the cost of acquisition of shares held by the assessee in the demerged company the same proportion as the net book value of the assets transferred in a demerger bears to the net worth of the demerged company immediately before such demerger. Cost of acquisition of shares in the resulting company = $A \times \frac{B}{C}$ A = Cost of acquisition of shares held in the demerged company B = Net book value of the assets transferred in a demerger C = Net worth of the demerged company i.e., the aggregate of the paid up share capital and general reserves as appearing in the books of account of the demerged company immediately before the demerger.
49(2D)	In case of demerger	The cost of acquisition of the original shares held by the shareholder in the demerged company shall be deemed to have been reduced by the amount as so arrived under the sub-section (2C)

49(4)	Where the capital gain arises from the transfer of such property which has been subject to tax under section 56(2)(x)	The value taken into account for the purposes of section 56(2)(x).
49(9)	Where the capital gain arises from the transfer of a capital asset which was used by the assessee as inventory earlier before its conversion into capital asset	The fair market value of the inventory as on the date on such conversion determined in the prescribed manner
49(10)	Where a capital asset, being an Electronic Gold Receipt issued by a Vault Manager became the property of the person as consideration for transfer of gold [Section 47(viid)]	The cost of gold in the hands of the person in whose name Electronic Gold Receipt is issued.
	Where gold is released against an Electronic Gold Receipt, which became the property of the person as consideration for transfer of Electronic Gold Receipt [Section 47(viid)]	The cost of the Electronic Gold Receipt in the hands of such person.



4.12 COST OF ACQUISITION [SECTION 55(2)]

Cost of acquisition is the price that the assessee has paid, or the amount that the assessee has incurred, for acquisition of the asset. Expenses incurred for completing the title are a part of the cost of acquisition. For eg: Stamp duty.

Cost of acquisition in relation to the following assets is as follows:

- (1) Goodwill of a business or profession or a trademark or brand name associated with a business or profession or any other intangible asset or a right to manufacture, produce or process any article or thing, or right to carry on any business or profession, tenancy rights, stage carriage permits and loom hours, or any other right**
- (i) In case of acquisition from previous owner:** In the case of the above capital assets, if the assessee has purchased them from a previous owner, the cost of acquisition means the amount of the purchase price.

Example:

If A purchases a stage carriage permit from B for ₹ 2 lakhs, ₹ 2 lakhs will be the cost of acquisition for A.

However, in case of a capital asset, being goodwill of a business or profession, in respect of which depreciation under section 32(1) has been obtained by the assessee in any previous year (upto P.Y.2019-20), the cost of acquisition of such goodwill would be the amount of the purchase price as reduced by the total amount of depreciation (upto P.Y.2019-20) obtained by the assessee under section 32(1).

(ii) In case of circumstances mentioned under section 49(1)(i)/(ii)/(iii)/(iv):

In cases where the capital asset became the property of the assessee by any of the following modes from the previous owner, and such capital assets were acquired by the previous owner by purchase, cost of acquisition to the assessee will be the amount of the purchase price for such previous owner:-

- (1) On any distribution of assets on the total or partial partition of a Hindu undivided family.
- (2) *Under a gift or will by an individual or HUF (Upto A.Y. 2024-25, gift or will by any person).*
- (3) By succession, inheritance or devolution.
- (4) On any distribution of assets on the liquidation of a company.
- (5) Under a transfer to a revocable or an irrevocable trust.
- (6) Under any transfer of a capital asset referred to in –
 - (i) **section 47(iv)** – transfer by a holding company to its 100% subsidiary Indian company;
 - (ii) **section 47(v)** – transfer by a subsidiary company to its 100% holding company, being an Indian company,
 - (iii) **section 47(vi)** – transfer in a scheme of amalgamation by the amalgamating company to the amalgamated company, being an Indian company
 - (iv) **section 47(vib)** – transfer in a demerger, by the demerged company to the resulting company, being an Indian company.

- (7) Where the assessee is a Hindu undivided family, by the mode referred to in section 64(2) i.e., conversion of self-acquired property of a member of a HUF into the property of the HUF (For details, read Chapter 4).

However, in case of a capital asset, being goodwill of a business or profession, in respect of which depreciation under section 32(1) has been obtained by **the assessee** in any previous year (upto P.Y.2019-20), the cost of acquisition of such goodwill would be the amount of the purchase price for such previous owner as reduced by the total amount of depreciation (upto P.Y.2019-20) obtained by **the assessee** under section 32(1).

- (iii) **In any other case [i.e., in case of self-generated assets]:** In case of self-generated assets, namely, goodwill of a business or profession or any other intangible asset or a trademark or brand name associated with a business or profession or a right to manufacture, produce or process any article or thing, or right to carry on any business or profession, tenancy rights, stage carriage permits, or loom hours, or any other right, the cost of acquisition will be taken to be nil.

(2) Financial assets

Many a time, persons who own shares or other securities become entitled to subscribe to any additional shares or securities. Further, they are also allotted additional shares or securities without any payment. Such shares or securities are referred to as financial assets in Income-tax Act. Section 55 provides the basis for ascertaining the cost of acquisition of such financial assets.

- (i) **Original shares (which form the basis of entitlement of rights shares):** In relation to the original financial asset on the basis of which the assessee becomes entitled to any additional financial assets, cost of acquisition means the amount actually paid for acquiring the original financial assets.
- (ii) **Rights entitlement (which is renounced by the assessee in favour of a person):** In relation to any right to renounce the said entitlement to subscribe to the financial asset, when such a right is renounced by the assessee in favour of any person, cost of acquisition shall be taken to be *nil* in the case of such assessee.

- (iii) **Rights shares acquired by the assessee:** In relation to the financial asset, to which the assessee has subscribed on the basis of the said entitlement, cost of acquisition means the amount actually paid by him for acquiring such asset.
- (iv) **Bonus Shares:** In relation to the financial asset allotted to the assessee without any payment and on the basis of holding of any other financial assets, cost of acquisition shall be taken to be nil in the case of such assessee.

In other words, where bonus shares are allotted without any payment on the basis of holding of original shares, the cost of such bonus shares will be nil in the hands of the original shareholder.

Bonus shares allotted before 01.04.2001 - In respect of bonus shares allotted before 1.4.2001, although the cost of acquisition of the shares is nil, the assessee may opt for the fair market value as on 1.4.2001 as the cost of acquisition of such bonus shares.

Bonus shares allotted before 1.2.2018, on which STT has been paid at the time of transfer – In case of transfer of bonus shares allotted before 1.2.2018 on which STT has been paid at the time of transfer, the cost would be the higher of –

- (i) **Actual cost of acquisition** (i.e., Nil, in case of bonus shares allotted on or after 1.4.2001; and FMV on 1.4.2001, in case of business shares allotted before 1.4.2001)
- (ii) **Lower of –**
- (a) FMV as on 31.1.2018; and
 - (b) Actual sale consideration
- (v) **Rights shares which are purchased by the person in whose favour the assessee has renounced the rights entitlement:** In the case of any financial asset purchased by the person in whose favour the right to subscribe to such assets has been renounced, cost of acquisition means the aggregate of the amount of the purchase price paid by him to the person renouncing such right and the amount paid by him to the company or institution for acquiring such financial asset.

(3) Long-term capital assets referred to in section 112A

The cost of acquisition in relation to the long-term capital assets being,

- equity shares in a company on which STT is paid both at the time of purchase and transfer or
- unit of equity oriented fund or unit of business trust on which STT is paid at the time of transfer.

acquired before 1st February, 2018 shall be the higher of

- (i) cost of acquisition of such asset; and
- (ii) lower of
 - (a) the fair market value of such asset; and
 - (b) the full value of consideration received or accruing as a result of the transfer of the capital asset.

Meaning of Fair Market value

S. No.	Circumstance	Fair Market Value
(i)	In a case where the capital asset is listed on any recognized stock exchange as on 31.01.2018	<u>If there is trading in such asset on such exchange on 31.01.2018</u> The highest price of the capital asset quoted on such exchange on the said date <u>If there is no trading in such asset on such exchange on 31.01.2018</u> The highest price of such asset on such exchange on a date immediately preceding 31.01.2018 when such asset was traded on such exchange.
(ii)	In a case where the capital asset is a unit which is not listed on any recognized stock exchange as on 31.01.2018	The net asset value of such unit as on the said date

(iii)	In a case where the capital asset is an equity share in a company which is - not listed on a recognized stock exchange as on 31.01.2018 but listed on such exchange on the date of transfer - <i>not listed on a recognized stock exchange as on 31.01.2018 or which became the property of the assessee in consideration of shares which is not listed on such exchange as on 31.1.2018 by way of transaction covered under section 47 but listed on such exchange subsequent to the date of transfer (where transfer is in respect of sale of unlisted equity shares under an offer for sale to the public included in an initial public offer)</i> - listed on a recognized stock exchange on the date of transfer and which became the property of the assessee in consideration of share which is not listed on such exchange as on 31.01.2018 by way of transaction not regarded as transfer under section 47	An amount which bears to the cost of acquisition the same proportion as CII for the financial year 2017-18 bears to the CII for the first year in which the asset was held by the assessee or on 01.04.2001, whichever is later.
-------	--	---

(4) Any other capital asset

- (i) Where the capital asset become the property of the assessee before 1-4-2001,** cost of acquisition means the cost of acquisition of the asset to the assessee or the fair market value of the asset on 1-4-2001, at the option of the assessee.

Example: A house property was purchased by Mr. A on 1.1.1992 for ₹ 30,000 and the fair market value of the same was ₹ 1,40,000 as on 1.4.2001. Cost of acquisition of the said property would be ₹ 1,40,000.

However, in case of capital asset, being land or building or both, the fair market value of such asset on 1-4-2001 shall not exceed the stamp duty value, wherever available, of such asset as on 1-4-2001.

Example: In the above example, if the stamp duty value of the property was ₹ 1,20,000 as on 1.4.2001, cost of acquisition of such property would be ₹ 1,20,000, being the stamp value as on 1.4.2001 and not ₹ 1,40,000.

- (ii) Where the capital asset became the property of the assessee by any of the modes specified in section 49(1):** The cost of acquisition to the assessee will be the cost of acquisition to the previous owner. Even in such cases, where the capital asset became the property of the previous owner before 1-4-2001, the assessee can opt the fair market value as on 1-4-2001 as the cost of acquisition.

However, in case of capital asset, being land or building or both, the fair market value of such asset on 1-4-2001 shall not exceed the stamp duty value, wherever available, of such asset as on 1-4-2001.

Note: The provisions contained in (i) & (ii) of (4) above shall also apply to the financial assets mentioned in (i) to (v) of (2) and long term capital assets referred to in section 112A of (3) above.

- (iii) Where the capital asset became the property of the assessee on the distribution of the capital assets of a company on its liquidation** and the assessee has been assessed to capital gains in respect of that asset under section 46, the cost of acquisition means the fair market value of the asset on the date of distribution.
- (iv) A share or a stock of a company** may become the property of an assessee under the following circumstances:

- (a) the consolidation and division of all or any of the share capital of the company into shares of larger amount than its existing shares.
- (b) the conversion of any shares of the company into stock,
- (c) the re-conversion of any stock of the company into shares,
- (d) the sub-division of any of the shares of the company into shares of smaller amount, or
- (e) the conversion of one kind of shares of the company into another kind.

In the above circumstances the cost of acquisition to the assessee will mean the cost of acquisition of the asset calculated with reference to the cost of acquisition of the shares or stock from which such asset is derived.

- (5) **Where the cost for which the previous owner acquired the property cannot be ascertained**, the cost of acquisition to the previous owner means the fair market value on the date on which the capital asset became the property of the previous owner.

Cost of Acquisition of certain assets: At a Glance

Sl. No.	Nature of asset	Cost of acquisition
1	Goodwill of business or profession, trademark, brand name or any other intangible asset etc., - Self generated - Acquired from previous owner However, in case of capital asset, being goodwill of a business or profession, in respect of which depreciation u/s 32(1) has been obtained by the assessee in any P.Y. (upto P.Y.2019-20) - became the property of the assessee by way of distribution of assets on total or partial partition of HUF, under a gift or will by an individual or HUF (by any person upto 31.3.2024), by succession, inheritance, distribution of assets	Nil Purchase price Purchase price as reduced by the total amount of depreciation obtained by the assessee under section 32(1). Purchase price for such previous owner

	on liquidation of a company, etc. and previous owner has acquired it by purchase However, in case of capital asset, being goodwill of a business or profession which was acquired by the previous owner by purchase and in respect of which depreciation u/s 32(1) has been obtained by the assessee in any P.Y. (upto P.Y.2019-20)	Purchase price for such previous owner as reduced by the total amount of depreciation obtained by the assessee u/s 32(1).
2.	Bonus Shares: Allotted before 1.4.2001 Allotted on or after 1.4.2001 Bonus shares allotted before 1.2.2018, on which STT has been paid at the time of transfer	FMV as on 1.4.2001 Nil The higher of – (i) Actual cost of acquisition (i.e., Nil, in case of bonus shares allotted on or after 1.4.2001; and FMV on 1.4.2001, in case of bonus shares allotted before 1.4.2001) (ii) Lower of – (a) FMV as on 31.1.2018; and (b) Actual sale consideration
3.	Rights Shares: Original shares (which form the basis of entitlement of rights shares) Rights entitlement (which is renounced by the assessee in favour of a person) Rights shares acquired by the assessee Rights shares which are purchased by the person in whose favour the assessee has renounced the rights entitlement	Amount actually paid for acquiring the original shares Nil Amount actually paid for acquiring the rights shares Purchase price paid to the renouncer of rights entitlement as well as the amount paid to the company which has allotted the rights shares.

4	Long term capital assets being, - equity shares in a company on which STT is paid both at the time of purchase and transfer or - unit of equity oriented fund or unit of business trust on which STT is paid at the time of transfer, acquired before 1st February, 2018	Cost of acquisition shall be the higher of (i) actual cost of acquisition of such asset; and (ii) lower of - the fair market value of such asset; and - the full value of consideration received or accruing as a result of the transfer of the capital asset.
5	Any other capital asset Where such capital asset became the property of the assessee before 1.4.2001 Where capital assets became the property of the assessee by way of distribution of assets on total or partial partition of HUF, under a gift or will by an individual or HUF (by any person upto 31.3.2024), by succession, inheritance, distribution of assets on liquidation of a company, etc. and the capital asset became the property of the previous owner before 1.4.2001.	Cost of the asset to the assessee, or FMV as on 1.4.2001, at the option of the assessee. However, in case of capital asset being land or building, FMV as on 1.4.2001 shall not exceed stamp duty value as on 1.4.2001. Cost to the previous owner or FMV as on 1.4.2001, at the option of the assessee. However, in case of capital asset being land or building, FMV as on 1.4.2001 shall not exceed stamp duty value as on 1.4.2001.
	<i>The provisions contained in (5) above shall also apply to the assets mentioned in (3) and (4) above.</i>	
6	Where cost of the property in the hands of previous owner cannot be ascertained	The FMV on the date on which the capital asset become the property of the previous owner would be considered as cost of acquisition.

ILLUSTRATION 8

Mr. A converts his capital asset acquired for an amount of ₹ 50,000 in June, 2004 into stock-in-trade in the month of November, 2023. The fair market value of the asset on the date of conversion is ₹ 4,50,000. The stock-in-trade was sold for an amount of ₹ 6,50,000 in the month of September, 2024. What will be the tax treatment?

Financial year	Cost Inflation Index
2004-05	113
2023-24	348
2024-25	363

SOLUTION

The capital gains on the sale of the capital asset converted to stock-in-trade is taxable in the given case. It arises in the year of conversion (i.e. P.Y. 2023-24) but will be taxable only in the year in which the stock-in-trade is sold (i.e. P.Y. 2024-25). Profits from business will also be taxable in the year of sale of the stock-in-trade (P.Y. 2024-25).

The LTCG and business income for the A.Y.2025-26 are calculated as under:

Particulars	₹	₹
Profits and Gains from Business or Profession		
Sale proceeds of the stock-in-trade	6,50,000	
Less: Cost of the stock-in-trade (FMV on the date of conversion)	4,50,000	2,00,000
Long Term Capital Gains		
Full value of the consideration (FMV on the date of the conversion)	4,50,000	
Less: Indexed cost of acquisition (₹ 50,000 x 348/113)	1,53,982	2,96,018

Note: For the purpose of indexation, the cost inflation index of the year in which the asset is converted into stock-in-trade should be considered.

Since the transfer (conversion into stock-in-trade) took place in the P.Y. 2023-24, the benefit of indexation would be available. The date of sale of stock-in trade is not relevant for determining whether benefit of indexation would be available.



4.13 COST OF IMPROVEMENT [SECTION 55(1)]

(1) **Goodwill or any other intangible asset of a business, etc. [Section 55(1)(b)(1)]:** In relation to a capital asset being goodwill or any other intangible asset of a business or a right to manufacture, produce or process any article or thing, or right to carry on any business or profession or any other right, the cost of improvement shall be taken to be **Nil**.

(2) **Any other capital asset [Section 55(1)(b)(2)]:**

Circumstance		Cost of improvement
(i) Where the capital asset became the property of the previous owner or the assessee before 1.4.2001		
	(a) In a case covered u/s 49(1), where the capital asset became the property of the previous owner and the assessee before 1.4.2001	All expenditure of a capital nature incurred in making any addition or alteration to the capital asset on or after 1.4.2001 by the assessee.
	(b) In a case covered u/s 49(1), where the capital asset became the property of the previous owner before 1.4.2001 but became the property of the assessee on or after 1.4.2001	All expenditure of a capital nature incurred in making any addition or alteration to the capital asset on or after 1.4.2001 by the previous owner and the assessee.
	(c) In a case <u>not</u> covered u/s 49(1)	All expenditure of a capital nature incurred in making any addition or alteration to the capital asset on or after 1.4.2001 by the assessee.
(ii) Where the capital asset became the property of the previous owner and the assessee on or after 1.4.2001		
	(a) In a case covered u/s 49(1)	All expenditure of a capital nature incurred in making any addition or alteration to the capital asset by the previous owner and the assessee.

	(b) In a case not covered u/s 49(1)	All expenditure of a capital nature incurred in making any addition or alteration to the capital asset by the assessee after it became the assessee's property.
--	--	--

In a nutshell, in a case covered under section 49(1), cost of improvement would include expenditure of a capital nature on addition or alteration to the capital asset by the previous owner or the assessee or both on or after 1.4.2001. In a case not covered under section 49(1), cost of improvement would include expenditure of a capital nature on addition or alteration to the capital asset by the assessee on or after 1.4.2001.

However, cost of improvement does not include any expenditure which is deductible in computing the income chargeable under the head "Income from house property", "Profits and gains of business or profession" or "Income from other sources". Routine expenses on repairs and maintenance do not form part of cost of improvement.

4.14 COMPUTATION OF CAPITAL GAINS IN CASE OF DEPRECIABLE ASSETS [SECTIONS 50 & 50A]

- (1) **Transfer of depreciable assets [Section 50]:** Section 50 provides for the computation of capital gains in case of depreciable assets. It may be noted that where the capital asset is a depreciable asset forming part of a block of assets, section 50 will have over-riding effect in spite of anything contained in section 2(42A) which defines a short-term capital asset.

Accordingly, where the capital asset is an asset forming part of a block of assets in respect of which depreciation has been allowed, the provisions of sections 48 and 49 shall be subject to the following modification:

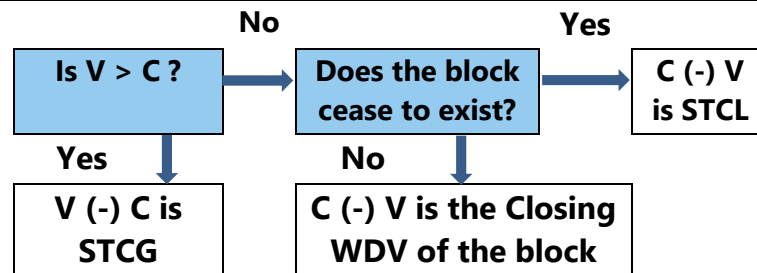
- Where the full value of consideration received or accruing for the transfer of the asset plus the full value of such consideration for the transfer of any other capital asset falling with the block of assets during previous year exceeds the aggregate of the following amounts namely:

- (1) expenditure incurred wholly and exclusively in connection with such transfer;
- (2) WDV of the block of assets at the beginning of the previous year;
- (3) the actual cost of any asset falling within the block of assets acquired during the previous year

such excess shall be deemed to be the capital gains arising from the transfer of short-term capital assets.

- Where all assets in a block are transferred during the previous year, the block itself will cease to exist. In such a situation, the difference between the sale value of the assets and the WDV of the block of assets at the beginning of the previous year together with the actual cost of any asset falling within that block of assets acquired by the assessee during the previous year will be deemed to be the capital gains arising from the transfer of short-term capital assets.

Transfer of depreciable assets : Tax consequences



Symbol	Description
V	Full value of consideration
C	Opening WDV of Block (+) Actual Cost of Asset acquired in the Block during the P.Y. (+) Expenses in connection with transfer of asset
STCG	Short Term Capital Gain
STCL	Short Term Capital Loss
WDV	Written Down Value

- (2) **Cost of acquisition in case of power sector assets [Section 50A]:** With respect to the power sector, in case of depreciable assets referred to in section 32(1)(i), the provisions of sections 48 and 49 shall apply subject to the modification that the WDV of the asset [as defined in section 43(6)], as adjusted, shall be taken to be the cost of acquisition.

ILLUSTRATION 9

Singhania & Co., a sole proprietorship owns six machines, put in use for business in March, 2023. The depreciation on these machines is charged @15%. The opening balance of these machines after providing depreciation for P.Y. 2023-24 was ₹ 8,50,000. Three of the old machines were sold on 10th June, 2024 for ₹ 11,00,000. A second hand plant was bought for ₹ 8,50,000 on 30th November, 2024.

You are required to:

- (i) *determine the claim of depreciation for Assessment Year 2025-26.*
- (ii) *compute the capital gains liable to tax for Assessment Year 2025-26.*
- (iii) *If Singhania & Co. had sold the three machines in June, 2024 for ₹ 21,00,000, will there be any difference in your above workings? Explain.*

SOLUTION

- (i) **Computation of depreciation for A.Y.2025-26**

Particulars	₹
Opening balance of the block as on 1.4.2024 [i.e., W.D.V. as on 31.3.2024 after providing depreciation for P.Y. 2023-24]	8,50,000
Add: Purchase of second-hand plant during the year	8,50,000
	17,00,000
Less: Sale consideration of old machinery during the year	11,00,000
W.D.V of the block as on 31.03.2025	6,00,000

Since the value of the block as on 31.3.2025 comprises of a new asset which has been put to use for less than 180 days, depreciation is restricted to 50% of the prescribed percentage of 15% i.e. depreciation is restricted to 7½%. Therefore, the depreciation allowable for the year is ₹ 45,000, being 7½% of ₹ 6,00,000.

(ii) The provisions under section 50 for computation of capital gains in the case of depreciable assets can be invoked only under the following circumstances:

- (a) When one or some of the assets in the block are sold for consideration more than the value of the block.
- (b) When all the assets are transferred for a consideration more than the value of the block.
- (c) When all the assets are transferred for a consideration less than the value of the block.

Since in the first two cases, the sale consideration is more than the written down value of the block, the computation would result in short term capital gains.

In the third case, since the written down value of the block exceeds the sale consideration, the resultant figure would be a short-term capital loss of the block.

In the given case, capital gains will not arise as the block of asset continues to exist, and some of the assets are sold for a price which is lesser than the written down value of the block.

(iii) If the three machines are sold in June, 2024 for ₹ 21,00,000, then short term capital gains would arise, since the sale consideration is more than the aggregate of the written down value of the block at the beginning of the year and the additions made during the year.

Particulars	₹	₹
Sale consideration		21,00,000
Less: Opening balance of the block as on 1.4.2024 [i.e., W.D.V. as on 31.3.2024 after providing depreciation for P.Y. 2023-24]	8,50,000	
Purchase of second plant during the year	8,50,000	17,00,000
Short term capital gains		4,00,000



4.15 COMPUTATION OF CAPITAL GAINS IN CASE OF MARKET LINKED DEBENTURES [SECTIONS 50AA]

- (1) **Transfer of unit of a Specified Mutual Fund or Market Linked Debenture or unlisted bond or unlisted debenture:** Section 50AA provides for the computation of capital gains in case of transfer or redemption or maturity of
- unit(s) of a Specified Mutual Fund acquired on or after 1.4.2023 or
 - a Market Linked Debenture or
 - an unlisted bond or unlisted debentures which is transferred or redeemed or matures on or after 23.7.2024.

Section 50AA will have an overriding effect in spite of anything contained in section 2(42A) which defines a short-term capital asset and section 48 providing the manner of computation of capital gains.

Accordingly, capital gain arising from the transfer or redemption or maturity of unit of a Specified Mutual Fund acquired on or after 1.4.2023 or Market Linked Debenture or an unlisted bond or unlisted debentures which is transferred or redeemed or matures on or after 23.7.2024 would be deemed to be short term capital gains and chargeable to tax at normal rate of tax.

- (2) **Computation of capital gains:** The full value of consideration received or accruing as a result of the transfer or redemption or maturity of such debenture or unit or bond as reduced by the cost of acquisition of the debenture or unit and the expenditure incurred wholly and exclusively in connection with such transfer or redemption or maturity would be deemed to be the capital gains.
- (3) **No deduction in respect of STT:** No deduction would be allowed in computing the income chargeable under the head "Capital Gains" in respect of any sum paid on account of securities transaction tax (STT) under Chapter VII of the Finance (No.2) Act, 2004.

(4) **Meaning of certain terms:**

S. No.	Term	Meaning
(i)	Market Linked Debenture	A security (i) which has an underlying principal component in the form of debt security; and (ii) where the returns are linked to market returns on other underlying securities or indices. It includes any security classified or regulated as a market linked debenture by the SEBI.
(ii)	Specified Mutual Fund	A Mutual Fund where not more than 35% of its total proceeds is invested in the equity shares of domestic companies. However, the percentage of equity shareholding held in respect of the Specified Mutual Fund shall be computed with reference to the annual average of the daily closing figures.



4.16 CAPITAL GAINS IN RESPECT OF SLUMP SALE [SECTION 50B]

- (1) **Meaning of slump sale [Section 2(42C)]** – Slump sale means transfer of one or more undertakings, by any means, for a lump sum consideration without values being assigned to the individual assets and liabilities in such transfer.

Term	Meaning
Undertaking [Explanation 1]	It includes any part of an undertaking, or a unit or division of an undertaking or a business activity taken as a whole, but does not include individual assets or liabilities or any combination thereof not constituting a business activity.
Transfer [Explanation 3]	Meaning assigned to it in section 2(47) [It would include sale, exchange, relinquishment of capital asset, extinguishment of any rights therein, compulsory acquisition under any law etc. – See detailed definition in page 3.374]

Note - The determination of the value of an asset or liability for the sole purpose of payment of stamp duty, registration fees or other similar taxes or fees shall not be regarded as assignment of values to individual assets or liabilities.

- (2) **Capital gains – Whether long-term or short-term? [Section 50B(1)]** - Any profits or gains arising from the slump sale of one or more undertakings held for more than 36 months, shall be chargeable to income-tax as capital gains arising from the transfer of long-term capital assets and shall be deemed to be the income of the previous year in which the transfer took place.

Any profits and gains arising from such transfer of one or more undertakings held by the assessee for not more than 36 months shall be deemed to be short-term capital gains.

- (3) **Deemed cost of acquisition and cost of improvement [Section 50B(2)(i)]** -The net worth of the undertaking or the division, as the case may be, shall be deemed to be the cost of acquisition and the cost of improvement for the purposes of sections 48 and 49 in relation to capital assets of such undertaking or division transferred. No indexation benefit would be available even if it results in a long-term capital gain, irrespective of the date of transfer of the undertaking i.e., whether before or on or after 23.7.2024.

- (4) **Deemed full value of consideration [Section 50B(2)(ii)]** – Fair market value of the capital assets as on the date of transfer, calculated in the prescribed manner, shall be deemed to be the full value of the consideration received or accruing as a result of the transfer of such capital asset.

Accordingly, the CBDT has prescribed that, for the purpose of section 50B(2)(ii), the fair market value (FMV) of capital assets would be the higher of –

- (i) FMV 1, being the fair market value of capital assets transferred by way of slump sale (determined on the date of slump sale); and
- (ii) FMV 2, being the fair market value of the consideration (monetary and non-monetary) received or accruing as a result of transfer by way of slump sale

- (5) **Report of a Chartered Accountant [Section 50B(3)]** - Every assessee, in the case of slump sale, shall furnish in the prescribed form on or before 30th

September of the A.Y. [i.e., the specified date referred under section 44AB, being the date one month prior to the due date for filing return of income under section 139(1)], a report of a chartered accountant indicating the computation of net worth of the undertaking or division, as the case may be, and certifying that the net worth of the undertaking or division has been correctly arrived at in accordance with the provisions of this section.

(6) Meaning of Certain Terms:

Explanation	Term	Particulars
1	Net worth	Aggregate value of total assets of the undertaking or division as reduced by the value of liabilities of such undertaking or division as appearing in the books of account. However, any change in the value of assets on account of revaluation of assets shall not be considered for this purpose
2	Aggregate value of total assets of undertaking or division	In the case of depreciable assets: The written down value of block of assets determined in accordance with the provisions contained in sub-item (C) of item (i) of section 43(6)(c); In case of capital asset, being goodwill of a business or profession, which has not been acquired by the assessee by purchase from a previous owner [Self-generated goodwill]: Nil Capital asset in respect of which 100% deduction is claimed: In case of capital assets in respect of which the whole of the expenditure has been allowed or is allowable as a deduction under section 35AD: Nil; For all other assets: Book value

Capital Gains on Slump Sale of an Undertaking [Section 50B]

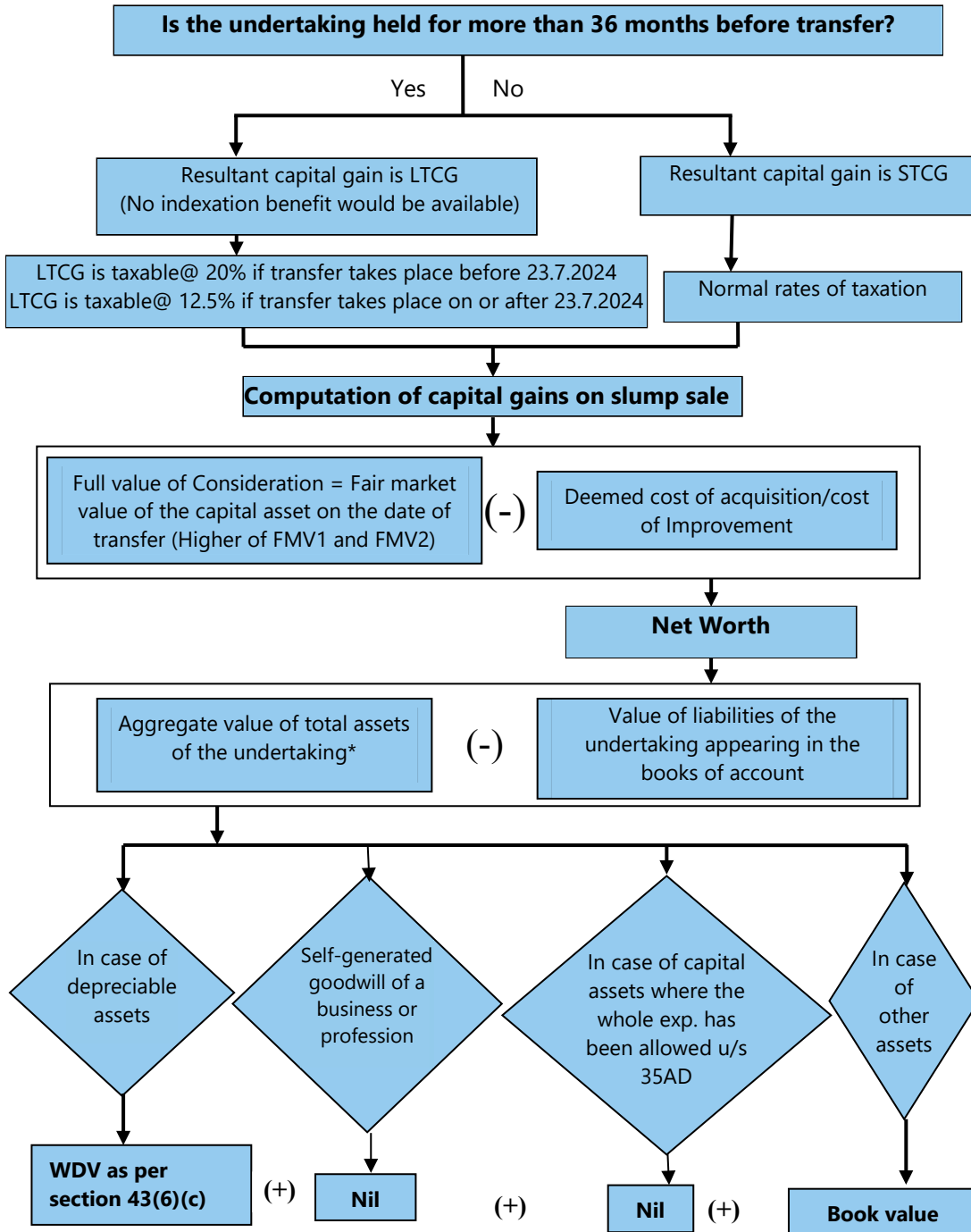


ILLUSTRATION 10

Mr. A is a proprietor of Akash Enterprises, having 2 units. He transferred on 1.4.2024 his Unit 1 by way of slump sale for a total consideration of ₹ 25 lakhs. The fair market value of capital assets of unit 1 on 1.4.2024 is ₹ 30 lakhs. Unit 1 was started in the year 2005-06. The expenses incurred for this transfer were ₹ 28,000. His Balance Sheet as on 31.3.2024 is as under:

Liabilities	Total (₹)	Assets	Unit 1(₹)	Unit 2 (₹)	Total (₹)
Own Capital	15,00,000	Land	12,00,000	2,00,000	14,00,000
Revaluation Reserve (for land of unit 1)	3,00,000	Machinery	3,00,000	1,00,000	4,00,000
Bank loan (70% for unit 1)	2,00,000	Debtors	1,00,000	40,000	1,40,000
Trade creditors (25% for unit 1)	1,50,000	Other assets	1,50,000	60,000	2,10,000
Total	21,50,000	Total	17,50,000	4,00,000	21,50,000

Other information:

- Revaluation reserve is created by revising upward the value of the land of Unit 1.
- No individual value of any asset is considered in the transfer deed.
- Other assets of Unit 1 include patents acquired on 1.7.2022 for ₹ 50,000 on which no depreciation has been charged.
- The value of machinery represents the written down value as per the Income-tax Act, 1961.

Compute the capital gain for the assessment year 2025-26.

SOLUTION**Computation of capital gains on slump sale of Unit 1**

Particulars	₹
Full value of consideration [Higher of FMV of capital assets of Unit 1 on 1.4.2024 or FMV of monetary consideration received]	30,00,000

Less: Expenses for transfer	28,000
	29,72,000
Less: Net worth (<i>See Note 1 below</i>)	12,50,625
Long-term capital gain	17,21,375

Notes:**1. Computation of net worth of Unit 1 of Akash Enterprises**

Particulars	₹	₹
Land (excluding ₹ 3 lakhs on account of revaluation)		9,00,000
Machinery		3,00,000
Debtors		1,00,000
Patents (<i>See Note 2 below</i>)		28,125
Other assets (₹ 1,50,000 – ₹ 50,000)		1,00,000
Total assets		14,28,125
Less: Creditors (25% of ₹ 1,50,000)	37,500	
Bank Loan (70% of ₹ 2,00,000)	1,40,000	1,77,500
Net worth		12,50,625

2. Written down value of patents as on 1.4.2024

Value of patents:	₹
Cost as on 1.7.2022	50,000
Less: Depreciation @ 25% for Financial Year 2022-23	12,500
Balance as on 1.4.2023	37,500
Less: Depreciation for Financial Year 2023-24	9,375
Balance as on 1.4.2024	28,125

- 3.** Since the Unit is held for more than 36 months, capital gain arising would be long term capital gain. However, indexation benefit is not available in case of slump sale.



4.17 DEEMED FULL VALUE OF CONSIDERATION FOR COMPUTING CAPITAL GAINS [SECTIONS 50C, 50CA & 50D]

S. No.	Capital Asset	Section	Circumstance	Deemed Full Value of consideration for computing Capital Gains
1.	Land or Building or both	50C	(1) If Stamp Duty Value > 110% of consideration received or accruing as a result of transfer (a) If date of agreement is different from the date of transfer and whole or part of the consideration is received by way of account payee cheque or account payee bank draft or ECS or through such other prescribed electronic modes (IMPS, UPI, RTGS, NEFT, Net banking, debit card, credit card or BHIM Aadhar Pay) on or before the date of agreement (b) If date of agreement is different from the date of transfer but the whole or part of the consideration has not been received by way of account payee cheque or account payee bank draft or ECS or through such other prescribed electronic mode on or before the date of agreement. However, if the stamp duty value on the date of agreement or the date of transfer, as the case may be $\leq 110\%$ of the sale consideration received	Stamp Duty Value Stamp Duty Value on the date of agreement Stamp Duty Value on the date of transfer Consideration so received

		Example Let us take a case where for transfer of building – - the actual consideration is ₹ 100 lakh; - the stamp duty value on the date of agreement is ₹ 109 lakh; and - the stamp duty value on the date of transfer is ₹ 112 lakh (i) If any part of the consideration is paid by prescribed electronic mode on or before the date of agreement The actual consideration of ₹ 100 lakh would be the full value of consideration, since stamp duty value of ₹ 109 lakhs on the date of agreement does not exceed 110% of actual consideration of ₹ 100 lakhs. (ii) If no part of the consideration is paid by prescribed electronic mode on or before the date of agreement Stamp duty value of ₹ 112 lakhs on the date of transfer would be the full value of consideration, since the same exceeds 110% of actual consideration of ₹ 100 lakhs.	
		(2) Where the Assessing Officer refers the valuation to a Valuation Officer, on the assessee's claim that the stamp duty value exceeds the FMV of the property on the date of transfer and the stamp duty value has not been disputed in any appeal or revision or no reference has been made before any other authority, court or High Court (a) If Valuation by Valuation Officer > Stamp Duty Value (b) If Valuation by Valuation Officer < Stamp Duty Value	Stamp Duty Value Valuation by Valuation Officer

		155(15)	(3) If stamp duty value has been adopted as full value of consideration, and subsequently the value is revised in any appeal or revision	Value so revised in such appeal or revision
2.	Unquoted shares	50CA	If consideration received or accruing as a result of transfer < FMV of such share determined in the prescribed manner The provisions of this section would not, however, be applicable to any consideration received or accruing as a result of transfer by such class of persons and subject to such conditions as may be prescribed.	FMV of such share determined in the prescribed manner
3.	Any Capital asset	50D	Where the consideration received or accruing as a result of the transfer of a capital asset by an assessee is not ascertainable or cannot be determined	FMV of the said asset on the date of transfer

Meaning of certain terms:

S. No.	Term	Section	Meaning
(i)	Stamp Duty Value	50C	The value adopted or assessed or assessable by any authority of a State Government (Stamp Valuation Authority) for the purpose of payment of stamp duty
(ii)	Assessable	50C	The term 'assessable' has been defined to mean the price which the stamp valuation authority would have, notwithstanding anything to the contrary contained in any other law for the time being in force, adopted or assessed, if it were referred to such authority for the purposes of the payment of stamp duty. The term "assessable" has been added to cover transfers executed through power of attorney.
(iii)	Quoted Shares	50CA	The share quoted on any recognized stock exchange with regularity from time to time, where the quotation of such share is based on current transaction made in the ordinary course of business.

Note – The valuation rules prescribed in Rule 11UA for valuation of unquoted equity shares would be dealt with at the Final level.



4.18 ADVANCE MONEY RECEIVED [SECTION 51]

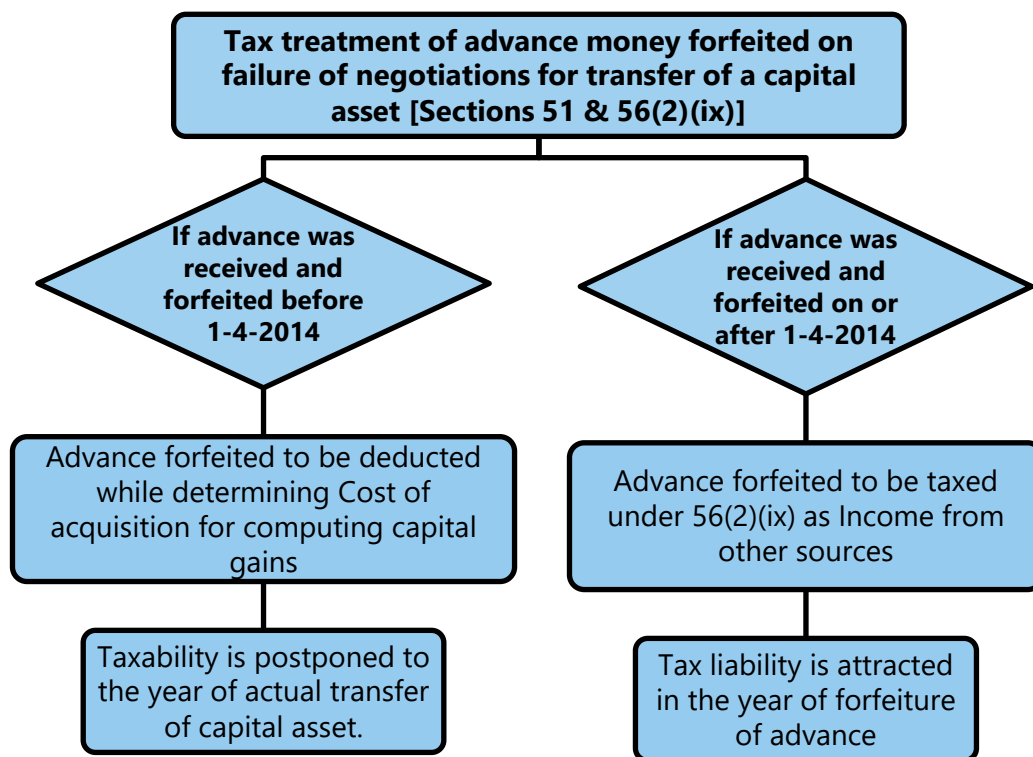
It is possible for an assessee to receive some advance in regard to the transfer of capital asset. Due to the break-down of the negotiation, the assessee may have retained the advance.

Section 51 provides that while calculating capital gains, the above advance retained by the assessee must go to reduce the cost of acquisition. However, if advance has been received and retained by the previous owner and not the assessee himself, then the same will not go to reduce the cost of acquisition of the assessee.

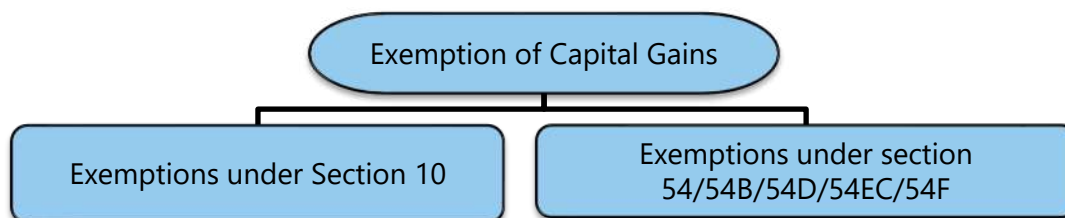
Section 56(2)(ix) provides for the taxability of any sum of money, received as an advance or otherwise in the course of negotiations for transfer of a capital asset. Consequently, such sum shall be chargeable to income-tax under the head 'Income from other sources', if such sum is forfeited on or after 1st April, 2014 and the negotiations do not result in transfer of such capital asset.

In order to avoid double taxation of the advance received and retained, section 51 provides that where any sum of money received as an advance or otherwise in the course of negotiations for transfer of a capital asset has been included in the total income of the assessee for any previous year in accordance with section 56(2)(ix), then, such amount shall not be deducted from the cost for which the asset was acquired or the written down value or the fair market value, as the case may be, in computing the cost of acquisition.

However, any such sum of money forfeited before 1st April, 2014, will be deducted from the cost of acquisition for computing capital gains.



4.19 EXEMPTION OF CAPITAL GAINS



I. Exemptions under section 10

Exemption of capital gains on compulsory acquisition of agricultural land situated within specified urban limits [Section 10(37)]

With a view to mitigate the hardship faced by the farmers whose agricultural land situated in specified urban limits has been compulsorily acquired, clause (37) of section 10 exempts the capital gains arising to an individual or a HUF from transfer of agricultural land by way of compulsory acquisition.

Such exemption is available where the compensation or the enhanced compensation or consideration, as the case may be, is received on or after 1.4.2004.

The exemption is available only when such land has been used for agricultural purposes during the preceding two years immediately preceding the date of transfer by such individual or a parent of his or by such HUF.

II. Exemption of Capital Gains under section 54/54B/54D/54EC/54F

(i) Capital Gains on sale of residential house [Section 54]

Eligible assessee – Individual & HUF

Conditions to be fulfilled

- There should be a transfer of residential house (buildings or lands appurtenant thereto)
- It must be a long-term capital asset
- Income from such house should be chargeable under the head "Income from house property"
- **Where the amount of capital gains exceeds ₹ 2 crore**

Where the amount of capital gain exceeds ₹ 2 crore, **one residential house in India** should be –

- purchased within 1 year before or 2 years after the date of transfer; (or)
- constructed within a period of 3 years after the date of transfer.

Where the amount of capital gains does not exceed ₹ 2 crore

Where the amount of capital gains does not exceed ₹ 2 crore, the assessee i.e., individual or HUF, may at his option,

- purchase **two residential houses in India** within 1 year before or 2 years after the date of transfer (or)
- construct **two residential houses in India** within a period of 3 years after the date of transfer.

Where during any assessment year, the assessee has exercised the option to purchase or construct two residential houses in India, he shall not be subsequently entitled to exercise the option for the same or any other assessment year.

This implies that if an assessee has availed the option of claiming benefit of section 54 in respect of purchase of two residential houses

in Jaipur and Jodhpur, say, in respect of capital gains of ₹ 1.50 crores arising from transfer of residential house at Bombay in the P.Y. 2024-25, then, he will not be entitled to avail the benefit of section 54 again in respect of purchase of two residential houses in, say, Pune and Baroda, in respect of capital gains of ₹ 1.20 crores arising from transfer of residential house in Jaipur in the P.Y. 2027-28, even though the capital gains arising on transfer of the residential house at Jaipur does not exceed ₹ 2 crore.

- If such investment is not made before the date of filing of return of income, then, the capital gain has to be deposited under the Capital Gains Account Scheme (CGAS) [Refer points (vi) and (vii) of this sub-heading]. However, the capital gain in excess of ₹ 10 crore would not be taken into account for the purpose of deposit in CGAS.
- Amount utilized by the assessee for purchase or construction of new asset and the amount so deposited shall be deemed to be the cost of new asset. The deemed cost of the new asset would be restricted to ₹ 10 crores for the purpose of exemption under section 54.

Quantum of Exemption

- If cost of new residential house or houses, as the case may be $\geq$ long term capital gains, entire long term capital gains is exempt.
- If cost of new residential house or houses, as the case may be $<$ long term capital gains, long term capital gains to the extent of cost of new residential house is exempt.

However, if the cost of new residential house(s) exceeds ₹ 10 crores, the amount exceeding ₹ 10 crore would not be taken into account for exemption. It means the maximum exemption that can be claimed by the assessee u/s 54 is ₹ 10 crore.

Examples:

1. If the long-term capital gains is ₹ 2.05 crore and the cost of the new house is ₹ 3 crore, then, the entire long-term capital gains of ₹ 2.05 crore is exempt.
2. If long-term capital gains is ₹ 2.05 crore and cost of new house is ₹ 1.55 crore, then, long-term capital gains is exempt only upto ₹ 1.55 crore. Balance ₹ 50 lakhs is taxable/s 112.

Example

(1)	(2)	(3)	(4)	(5)
S.No.	LTCG computed	Cost of new residential house	Amount in column (3) or ₹ 10 crore, whichever is lower	Exempt LTCG [Lower of column (2) and column (4)]
(1)	₹ 7 crore	₹ 12 crore	₹ 10 crore	₹ 7 crore
(2)	₹ 12 crore	₹ 14 crore	₹ 10 crore	₹ 10 crore
(3)	₹ 11 crore	₹ 9 crore	₹ 9 crore	₹ 9 crore
(4)	₹ 15 crore	₹ 13 crore	₹ 10 crore	₹ 10 crore

Examples

1. If the LTCG is ₹ 8 crore and the assessee has incurred ₹ 5 crore in construction of new residential house upto the due date u/s 139(1) i.e., 31.7.2025/ 31.10.2025, as the case may be, then, as per section 54(2), he can deposit the amount of ₹ 3 crore not appropriated by him towards construction of house upto 31.7.2025/31.10.2025, as the case may be, in Capital Gains Account Scheme (CGAS) for claiming exemption under section 54. If he deposits, say, ₹ 2 crore, in CGAS on or before the due date u/s 139(1), the deemed cost of the new residential house would be ₹ 7 crore (₹ 5 crore + ₹ 2 crore). The amount exempt u/s 54 would be ₹ 7 crore.
2. If the LTCG is ₹ 14 crore and the assessee has already incurred ₹ 7 crore in construction of new residential house upto 31.7.2025/31.10.2025, as the case may be, then, as per section 54(2), he can deposit the difference of ₹ 3 crore (₹ 10 crore - ₹ 7 crore) in CGAS for claiming exemption u/s 54. If he deposits, say, ₹ 2 crore in CGAS on or before the due date u/s 139(1), the deemed cost of the new residential house would be ₹ 9 crore (₹ 7 crore + ₹ 2 crore). The amount exempt under section 54 would be ₹ 9 crore.

Consequences of transfer of new asset before 3 years

- If the new asset is transferred before 3 years from the date of its acquisition or construction, then cost of the asset will be reduced by capital gains exempted earlier for computing capital gains.

- **Example:** The long-term capital gains is ₹ 2.05 crore and the cost of the new house is ₹ 3 crore, the entire long-term capital gains of ₹ 2.05 crore will be exempt. If the new house was sold after 18 months for ₹ 5 crore, then, short term capital gain chargeable to tax would be –

Particulars	₹
Net Consideration	5,00,00,000
Less: Cost of acquisition minus capital gains exempt earlier (₹ 3,00,00,000 – ₹ 2,05,00,000)	95,00,000
Short term capital gains chargeable to tax	4,05,00,000

ILLUSTRATION 11

Mr. Cee purchased a residential house on July 20, 2022 for ₹ 10,00,000 and made some additions to the house incurring ₹ 2,00,000 in August 2022. He sold the house property in April 2024 for ₹ 20,00,000. Out of the sale proceeds, he spent ₹ 5,00,000 to purchase another house property in September 2024.

What is the amount of capital gains taxable in the hands of Mr. Cee for the A.Y.2025-26?

SOLUTION

The house is sold before 24 months from the date of purchase. Hence, the house is a short-term capital asset and no benefit of indexation would be available.

Particulars	₹
Sale consideration	20,00,000
Less: Cost of acquisition	10,00,000
Cost of improvement	2,00,000
Short-term capital gains	8,00,000

Note - The exemption of capital gains under section 54 is available only in case of long-term capital asset. As the house is short-term capital asset, Mr. Cee cannot claim exemption under section 54. Thus, the amount of taxable short-term capital gains is ₹ 8,00,000.

(ii) Capital gains on transfer of agricultural land [Section 54B]

Eligible assessee – Individual & HUF

Conditions to be fulfilled

- There should be a transfer of urban agricultural land.

- Such land must have been used for agricultural purposes by the assessee, being an individual or his parent, or a HUF in the 2 years immediately preceding the date of transfer.
- He should purchase another agricultural land (urban or rural) within 2 years from the date of transfer.
- If such investment is not made before the date of filing of return of income, then the capital gain has to be deposited under the CGAS (*Refer points (vi) and (vii) of this sub-heading.*). Amount utilized by the assessee for purchase of new asset and the amount so deposited shall be deemed to be the cost of new asset.

Quantum of exemption

- If cost of new agricultural land $\geq$ capital gains, entire capital gains is exempt.
- If cost of new agricultural land $<$ capital gains, capital gains to the extent of cost of new agricultural land is exempt.

Examples:

1. If the capital gains is ₹3 lakhs and the cost of the new agricultural land is ₹4 lakhs, then, the entire capital gains of ₹3 lakhs is exempt.
2. If capital gains is ₹3 lakhs and cost of new agricultural land is ₹2 lakhs, then, capital gains is exempt only upto ₹2 lakhs.

Consequences of transfer of new agricultural land before 3 years

- If the new agricultural land is transferred before 3 years from the date of its acquisition, then cost of the land will be reduced by capital gains exempted earlier for computing capital gains of new agricultural land.
- However, if the new agricultural land is a rural agricultural land, there would be no capital gains on transfer of such land.
- Continuing in the above example 1, if the new agricultural land (urban land) is sold after, say, 1 year for ₹6 lakhs, then short term capital gain chargeable to tax would be –

Particulars	₹
Net consideration	6,00,000
Less: Cost of acquisition minus capital gains exempt earlier (₹ 4,00,000 – ₹ 3,00,000)	1,00,000
Short-term capital gains chargeable to tax	5,00,000

(iii) Capital Gains on transfer by way of compulsory acquisition of land and building of an industrial undertaking [Section 54D]

Eligible assessee – Any assessee

Conditions to be fulfilled

- There must be compulsory acquisition of land and building or any right in land or building forming part of an industrial undertaking.
- The land and building should have been used by the assessee for purposes of the business of the industrial undertaking in the 2 years immediately preceding the date of transfer.
- The assessee must purchase any other land or building or construct any building (for shifting or re-establishing the existing undertaking or setting up a new industrial undertaking) within 3 years from the date of transfer.
- If such investment is not made before the date of filing of return of income, then the capital gain has to be deposited under the CGAS. (*Refer point (vi) and (vii) of this sub-heading*). Amount utilized by the assessee for purchase of new asset and the amount so deposited shall be deemed to be the cost of new asset.

Quantum of exemption

- If cost of new asset $\geq$ Capital gains, entire capital gains is exempt.
- If cost of new asset $<$ Capital gains, capital gains to the extent of cost of new asset is exempt.

Note: The exemption in respect of capital gains from transfer of capital asset would be available even in respect of short-term capital asset, being land or building or any right in any land or building, provided such capital asset is used by assessee for the industrial undertaking belonging to him, even if he was not the owner for the said period of 2 years.

Consequences of transfer of new asset before 3 years

- If the new asset is transferred before 3 years from the date of its acquisition, then cost of the asset will be reduced by capital gains exempted earlier for computing capital gains.

(iv) Capital Gains not chargeable on investment in certain bonds [Section 54EC]

Eligible assessee – Any assessee

Conditions to be fulfilled

- There should be transfer of a long-term capital asset **being land or building or both**.
- Such asset can also be a depreciable asset (in this case, building) held for more than 24 months⁹.
- The capital gains arising from such transfer should be invested in a long-term specified asset within 6 months from the date of transfer.
- **Long-term specified asset** means specified bonds, redeemable after 5 years, issued on or after 1.4.2018 by the National Highways Authority of India (NHAI) or the Rural Electrification Corporation Limited (RECL) or any other bond notified by the Central Government in this behalf [Bonds of Power Finance Corporation (PFC) and Indian Railways Finance Corporation (IRFC)].
- The assessee should not transfer or convert or avail loan or advance on the security of such bonds for a period of **5 years** from the date of acquisition of such bonds.

Quantum of exemption

- Capital gains or amount invested in specified bonds, whichever is lower.
- The maximum investment which can be made in notified bonds or bonds of NHAI and RECL, out of capital gains arising from transfer of one or more assets, during the previous year in which the original asset is transferred and in the subsequent financial year **cannot exceed ₹ 50 lakhs**.

Violation of condition

- In case of transfer or conversion of such bonds or availing loan or advance on security of such bonds before the expiry of 5 years, the capital gain exempted earlier shall be taxed as long-term capital gain in the year of violation of condition.

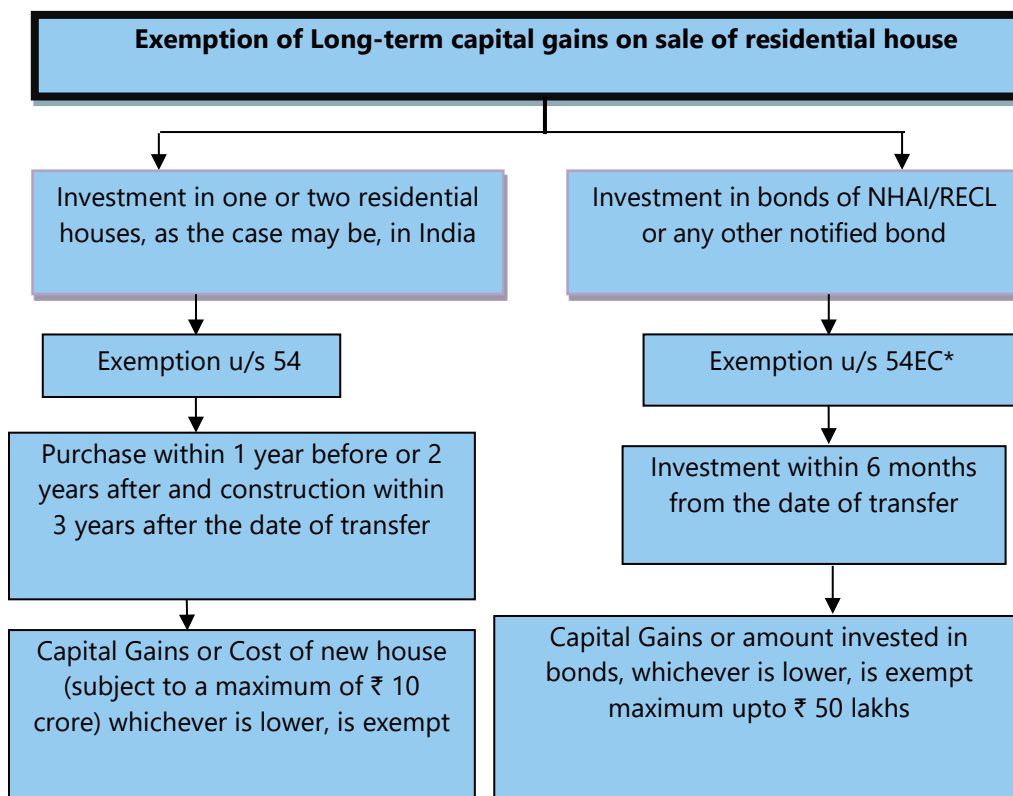
⁹ CIT v. Dempo Company Ltd (2016) 387 ITR 354 (SC)

ILLUSTRATION 12

Long term capital gain of ₹ 75 lakhs arising from transfer of building on 1.5.2024 will be exempt from tax if such capital gain is invested in the bonds redeemable after five years, issued by NHAI under section 54EC. Examine with reasons whether the given statement is true or false having regard to the provisions of the Income-tax Act, 1961.

SOLUTION

False: The exemption under section 54EC has been restricted, by limiting the maximum investment in long term specified assets (i.e. bonds of NHAI or RECL or any other bond notified by Central Government in this behalf, redeemable after 5 years) to ₹ 50 lakhs, whether such investment is made during the relevant previous year or the subsequent previous year, or both. Therefore, in this case, the exemption under section 54EC can be availed only to the extent of ₹ 50 lakhs, provided the investment is made before 1.11.2024 (i.e., within six months from the date of transfer).



**The exemption under section 54EC is available in respect of capital gains on transfer of capital asset being land or building or both.*

(v) **Capital gains in case of investment in residential house [Section 54F]**

Eligible assessee: Individuals/ HUF

Conditions to be fulfilled

- There must be transfer of a **long-term capital asset**, not being a residential house.
- Transfer of plot of land is also eligible for exemption
- The assessee should -
 - Purchase **one residential house situated in India** within a period of 1 year before or 2 years after the date of transfer; or
 - **Construct one residential house in India** within 3 years from the date of transfer.
 - If such investment is not made before the date of filing of return of income, then, the net sale consideration has to be deposited under the CGAS. (*Refer points (vi) and (vii) of this sub-heading*). However, the net consideration in excess of ₹ 10 crore would not be taken into account for the purpose of deposit in CGAS.
 - Amount utilized by the assessee for purchase or construction of new asset and the amount so deposited shall be deemed to be the cost of new asset. The deemed cost of new asset would be restricted to ₹ 10 crores for the purpose of exemption under section 54F.
- The assessee should **not** own more than one residential house on the date of transfer.
- The assessee should **not** –
 - purchase any other residential house within a period of 2 years or
 - construct any other residential house within a period of 3 years from the date of transfer of the original asset.

Quantum of exemption

- If cost of new residential house $\geq$ Net sale consideration of original asset, entire capital gains is exempt.

- If cost of new residential house < Net sale consideration of original asset, only proportionate capital gains is exempt i.e.

$$\text{LTCG} \times \frac{\text{Amount invested in new residential house}}{\text{Net sale consideration}}$$

However, if the cost of new residential house/ amount invested in new residential house exceeds ₹ 10 crore, the amount exceeding ₹ 10 crore would not be taken into account for exemption.

Example

	(1)	(2)	(3)	(4)	(5)
	Net Consideration	LTCG computed	Cost of new residential house	Amount in column (3) or ₹ 10 crores, whichever is lower	Exempt LTCG
(1)	₹ 15 crore	₹ 7.5 crore	₹ 12 crore	₹ 10 crore	₹ 7.5 crore x 10/15 = ₹ 5 crore
(2)	₹ 20 crore	₹ 12 crore	₹ 15 crore	₹ 10 crore	₹ 12 crore x 10/20 = ₹ 6 crore
(3)	₹ 16 crore	₹ 12 crore	₹ 8 crore	₹ 8 crore	₹ 12 crore x 8/16 = ₹ 6 crore
(4)	₹ 10 crore	₹ 6 crore	₹ 10 crore	₹ 10 crore	₹ 6 crore x 10/10 = ₹ 6 crore
(5)	₹ 12 crore	₹ 6 crore	₹ 12 crore	₹ 10 crore	₹ 6 crore x 10/12 = ₹ 5 crore

Examples

1. If the net consideration is ₹ 9 crore, the capital gain is ₹ 4.50 crore and the amount incurred for construction of new residential house upto 31.7.2025/31.10.2025, as the case may be, is ₹ 5 crore, then, as per section 54F(4), the assessee can deposit the amount of ₹ 4 crore (i.e., ₹ 9 crore – ₹ 5 crore) not appropriated towards construction upto 31.7.2025/31.10.2025, as the case may be, in CGAS for claiming exemption u/s 54F. If the assessee has deposited, say, ₹ 3 crore on or before 31.7.2025/31.10.2025, as the case may be, the deemed cost of new residential house

would be ₹ 8 crore (₹ 5 crore + ₹ 3 crore). The exemption u/s 54F would be ₹ 4 crore [i.e., ₹ 4.50 crore $\times$ ₹ 8 crore / ₹ 9 crore].

2. If the net consideration is ₹ 15 crore, the capital gain is ₹ 7.50 crore and the amount incurred for construction of new residential house upto 31.7.2025/31.10.2025, as the case may be, is ₹ 6 crore, the assessee can deposit ₹ 4 crore [i.e., ₹ 10 crore – ₹ 6 crore] on or before 31.7.2025/31.10.2025, as the case may be, in CGAS for claiming exemption u/s 54F. If the assessee has deposited, say, ₹ 3 crore on or before the due date of filing return u/s 139(1), the deemed cost of new residential house would be ₹ 9 crore (₹ 6 crore + ₹ 3 crore). The exemption u/s 54F would be ₹ 4.50 crore [i.e., ₹ 7.50 crore $\times$ ₹ 9 crore / ₹ 15 crore].

Consequences where the assessee purchases any other residential house within a period of 2 years or constructs any other residential house within a period of 3 years from the date of transfer of original asset:

The capital gains exempt earlier under section 54F shall be deemed to be taxable as long-term capital gains in the previous year in which such residential house is purchased or constructed.

Consequences if the new house is transferred within a period of 3 years from the date of its purchase

- Capital gains would arise on transfer of the new house; and
- The capital gains exempt earlier under section 54F would be taxable as long-term capital gains.

Note – In case the new residential house is sold after 2 years, the capital gains would be long-term capital gains.

(vi) Capital Gains Account Scheme (CGAS)

Under sections 54, 54B, 54D and 54F, capital gains is exempt to the extent of investment of such gains/ net consideration (in the case of section 54F) in specified assets within the specified time. If such investment is not made before the date of filing of return of income, then the capital gain or net consideration (in case of exemption under section 54F) has to be deposited under the CGAS. However, the capital gain in excess of ₹ 10 crore would not be taken into account for the purpose of deposit in CGAS in case of section 54

and the net consideration in excess of ₹ 10 crore would not be taken into account for the purpose of deposit in CGAS in case of section 54F.

Time limit

Such deposit in CGAS should be made before filing the return of income or on or before the due date of filing the return of income, whichever is earlier. In such cases, the amount already utilized for purchase or construction of new asset plus the amount deposited under the CGAS on or before due date u/s 139(1) would be deemed to be the cost of new asset. However, for the purpose of sections 54 and 54F, the amount so deemed to be the cost of the new asset cannot exceed ₹ 10 crore.

Proof of such deposit should be attached with the return. The deposit can be withdrawn for utilization for the specified purposes in accordance with the scheme.

Consequences if the amount deposited in CGAS is not utilized within the stipulated time of 2 years / 3 years

If the amount deposited is not utilized for the specified purpose within the stipulated period, then the **unutilized amount shall be charged as capital gain** of the previous year in which the specified period expires. In the case of section 54F, proportionate amount will be taxable.

CBDT Circular No.743 dated 6.5.96 clarifies that in the event of death of an individual before the stipulated period, the unutilized amount is not chargeable to tax in the hands of the legal heirs of the deceased individual. Such unutilized amount is not income but is a part of the estate devolving upon them.

(vii) Extension of time for acquiring new asset or depositing or investing amount of Capital Gain [Section 54H]

In case of compulsory acquisition of the original asset, where the compensation is not received on the date of transfer, the period available for acquiring a new asset or making investment in CGAS under sections 54, 54B, 54D, 54EC and 54F would be considered from the date of receipt of such compensation and not from the date of the transfer.

4.20 REFERENCE TO VALUATION OFFICER [SECTION 55A]

Section 55A provides that the Assessing Officer may refer the valuation of a capital asset to a Valuation Officer in the following circumstances with a view to ascertaining the fair market value of the capital asset for the purposes of capital gains -

- (i) In a case where the value of the asset as claimed by the assessee is in accordance with the estimate made by a registered valuer, if the Assessing Officer is of the opinion that the value so claimed is at variance with its fair market value.

Under this provision, the Assessing Officer can make a reference to the Valuation Officer in cases where the fair market value is taken to be the sale consideration of the asset. An Assessing Officer can also make a reference to the Valuation Officer in a case where the fair market value of the asset as on 01.04.2001 is taken as the cost of the asset, if he is of the view that there is any variation between the value as on 01.04.2001 claimed by the assessee in accordance with the estimate made by a registered valuer and the fair market value of the asset on that date.

- (ii) If the Assessing Officer is of the opinion that the fair market value of the asset exceeds the value of the asset as claimed by the assessee by more than 15% of the value of asset as claimed or by more than ₹ 25,000 of the value of the asset as claimed by the assessee.
- (iii) The Assessing Officer is of the opinion that, having regard to the nature of asset and other relevant circumstances, it is necessary to make the reference.

4.21 TAX ON SHORT TERM CAPITAL GAINS IN RESPECT OF EQUITY SHARES/ UNITS OF AN EQUITY ORIENTED FUND [SECTION 111A]

- (i) **Applicability of concessional rate of tax:** This section provides for a concessional rate of tax on the short-term capital gains on transfer of -
 - (1) an equity share in a company; or

- (2) a unit of a business trust¹⁰; or
- (3) a unit of an equity oriented fund

(ii) Concessional rate of tax in respect of STCG on transfer of certain assets:
The concessional rate of tax on the short-term capital in respect of transfer of above-mentioned assets is as follow:

<i>Date of transfer</i>	<i>Rate of Tax</i>
<i>before 23.7.2024</i>	<i>15%</i>
<i>on or after 23.7.2024</i>	<i>20%</i>

(iii) Conditions: The conditions for availing the benefit of this concessional rate are –

- (1) the transaction of sale of such equity share or unit should be entered into on or after 1.10.2004, being the date on which Chapter VII of the Finance (No. 2) Act, 2004 came into force; and
- (2) such transaction should be chargeable to securities transaction tax under the said Chapter.

However, short-term capital gains arising from transactions undertaken in foreign currency on a recognized stock exchange located in an International Financial Services Centre (IFSC) would be taxable at a *concessional rate of 15% or 20%, as the case may be*, even though STT is not leviable in respect of such transaction.

(iii) Adjustment of Unexhausted Basic Exemption Limit: In the case of resident individuals or HUF, if the basic exemption is not fully exhausted by any other income, then, such short-term capital gain will be reduced by the unexhausted basic exemption limit and only the balance would be taxed at *15% or 20%, as the case may be*. However, the benefit of availing the basic exemption limit is not available in the case of non-residents.

(iv) No deduction under Chapter VI-A against STCG taxable under section 111A: Deductions under Chapter VI-A cannot be availed in respect of such short-term capital gains on equity shares of a company or units of an equity

¹⁰ Chapter XII-FA of the Income-tax Act, 1961 and the related provisions dealing with the taxation aspects of business trust would be dealt with at the Final level.

oriented mutual fund or unit of a business trust included in the total income of the assessee.

4.22 TAX ON LONG TERM CAPITAL GAINS [SECTION 112]

- (i) **Concessional rate of tax:** Where the total income of an assessee includes long-term capital gains, tax is payable by the assessee at special rates on such long-term capital gains. The treatment of long-term capital gains in the hands of different types of assessee are as follows –

S. No.	Long-term capital asset (LTCA)	Rate of tax
I.	Where transfer takes place before 23.7.2024	
(i)	Unlisted securities, or shares of a closely held company	Non-corporate non-resident/ foreign company - 10% without the benefit of indexation and foreign currency fluctuation Other Assesseees – 20% with indexation benefit
(ii)	Listed securities (other than a unit) or a zero-coupon bond	- 10% without indexation or - 20% with indexation benefit whichever is more beneficial to the assessee
(iii)	Other Assets (other than taxable u/s 112A)	- 20% with indexation benefit
II.	Where transfer takes place on or after 23.7.2024	
(i)	Land or building or both if acquired before 23.7.2024	Individual or HUF, being a resident – 12.5% without indexation or 20% with indexation benefit, whichever is more beneficial to the assessee Other Assesseees – 12.5% without indexation

(ii)	- Land or building or both if acquired on or after 23.7.2024 or - Other Assets (other than taxable u/s 112A)	12.5% without indexation [In case of non-residents, LTCG on transfer of unlisted securities, or shares of a closely held company, would be taxable @12.5% without indexation and foreign currency fluctuation]
------	---	---

Important Points to remember –

- (1) **For Individuals or HUF (Residents):** If their total income (excluding long-term capital gains) is below the basic exemption limit, the unadjusted basic exemption limit can be reduced from the long-term capital gains. The remaining amount of long-term capital gains will be taxed at 20% (with indexation) or 12.5% (without indexation), depending on the date of transfer.
- (2) **Debentures or Bonds:** In respect of debentures or bonds (whether listed or unlisted) transferred or redeemed or matured before 23.7.2024, the resultant capital gains will be considered either long-term or short-term, based on the holding period, and taxed accordingly. If unlisted debentures or bonds are transferred or redeemed or matured on or after 23.7.2024, the resulting capital gains will always be treated as short-term, regardless of the holding period. Indexation benefit is in any case not available for bonds/debentures, even if transferred before 23.07.2024.
- (3) **Non-Residents and Foreign Companies:** Long-term capital gains from the transfer of listed shares (other than listed equity shares covered u/s 112A) or debentures of an Indian company (acquired in foreign currency) will be taxed as follows:
 - 20% (without indexation, but with foreign currency fluctuation adjustments) if the transfer takes place before 23.7.2024.
 - 12.5% (without indexation, but with foreign currency fluctuation adjustments) if the transfer takes place on or after 23.7.2024.
- (4) **No Chapter VI-A deduction against LTCG:** The provisions of section 112 make it clear that the deductions under Chapter VIA cannot be

availed in respect of the long-term capital gains included in the total income of the assessee.



4.23 TAX ON LONG TERM CAPITAL GAINS ON CERTAIN ASSETS [SECTION 112A]

- (i) **Applicability of concessional rate of tax:** Section 112A provides that notwithstanding anything contained in section 112, a concessional rate of tax will be leviable on the long-term capital gains **exceeding ₹ 1,25,000** on transfer of –

- (a) an equity share in a company; or
- (b) a unit of a business trust; or
- (c) a unit of an equity oriented fund

- (ii) **Concessional rate of tax in respect of LTCG on transfer of certain assets:**
The concessional rate of tax on the long-term capital in respect of transfer of above-mentioned assets is as follows:

Date of transfer	Rate of Tax
<i>before 23.7.2024</i>	<i>10% on LTCG exceeding ₹ 1,25,000</i>
<i>on or after 23.7.2024</i>	<i>12.5% on LTCG exceeding ₹ 1,25,000</i>
<i>However, the total exemption on LTCG in a previous year cannot exceed ₹ 1,25,000.</i>	

- (iii) **Conditions:** The conditions for availing the benefit of this concessional rate are –

- (a) In case of equity share in a company, STT has been paid on acquisition and transfer of such capital asset
- (b) In case of unit of an equity oriented fund or unit of business trust, STT has been paid on transfer of such capital asset.

However, the Central Government may, by notification in the Official Gazette, specify the nature of acquisition of equity share in a company on which the condition of payment of STT on acquisition would not be applicable.

Further, long-term capital gains arising from transaction undertaken on a recognized stock exchange located in an International Financial Service Centre (IFSC) would be taxable at a concessional rate of *10% or 12.5%, as the case may be*, where the consideration for transfer is received or receivable in foreign currency, even though STT is not leviable in respect of such transaction.

- (iii) Adjustment of Unexhausted Basic Exemption Limit:** In the case of resident individuals or HUF, if the basic exemption is not fully exhausted by any other income, then such long-term capital gain exceeding ₹ 1,25,000 will be reduced by the unexhausted basic exemption limit and only the balance would be taxed at *10% or 12.5%, as the case may be*.

However, the benefit of adjustment of unexhausted basic exemption limit is not available in the case of non-residents.

- (iv) No deduction under Chapter VI-A against LTCG taxable under section 112A:** Deductions under Chapter VI-A cannot be availed in respect of such long-term capital gains on equity shares of a company or units of an equity oriented mutual fund or unit of a business trust included in the total income of the assessee.
- (v) No benefit of rebate under section 87A against LTCG taxable under section 112A:** Rebate under section 87A is not available in respect of tax payable @10% on LTCG under section 112A.

Subsequent to insertion of section 112A, the CBDT has issued clarification F. No. 370149/20/2018-TPL dated 04.02.2018 in the form of a Question and Answer format to clarify certain issues raised in different for a on various issues relating to the new tax regime for taxation of long-term capital gains. The relevant questions raised and answers to such questions as per the said Circular are given hereunder. [Answers to certain questions have been revised incorporating the effect of amendments by the Finance (No. 2) Act, 2024]:

Q 1. What is the meaning of long term capital gains under the new tax regime for long term capital gains?

Ans 1. Long term capital gains mean gains arising from the transfer of long-term capital asset.

It provides for a new long-term capital gains tax regime for the following assets—

- i. Equity Shares in a company listed on a recognised stock exchange;
- ii. Unit of an equity oriented fund; and
- iii. Unit of a business trust.

The concessional tax rate u/s 112A applies to the above assets, if–

- a. the assets mentioned in (i) and (ii) are held for a period of “more than 12 months” from the date of acquisition and the asset mentioned in (iii) is held for a period of “more than 36 months” if transfer takes place before 23.7.2024. However, the period of holding would be “more than 12 months” if transfer of any of above assets take place on or after 23.7.2024.; and
- b. the Securities Transaction Tax (STT) is paid at the time of transfer. However, in the case of equity shares acquired after 1.10.2004, STT is required to be paid even at the time of acquisition (subject to notified exemptions).

Q 2. What is the point of chargeability of the tax?

Ans 2. The tax will be levied only upon transfer of the long-term capital asset on or after 1st April, 2018, as defined in clause (47) of section 2 of the Act.

Q 3. What is the method for calculation of long-term capital gains?

Ans 3. The long-term capital gains will be computed by deducting the cost of acquisition from the full value of consideration on transfer of the long-term capital asset.

Q 4. How do we determine the cost of acquisition for assets acquired on or before 31st January, 2018?

Ans 4. The cost of acquisition for the long-term capital asset acquired on or before 31st of January, 2018 will be the actual cost.

However, if the actual cost is less than the fair market value of such asset as on 31st of January, 2018, the fair market value will be deemed to be the cost of acquisition.

Further, if the full value of consideration on transfer is less than the fair market value, then such full value of consideration or the actual cost, whichever is higher, will be deemed to be the cost of acquisition.

Q 5. Please provide illustrations for computing long-term capital gains in different scenarios, in the light of answers to questions 4.

Ans 5. The computation of long-term capital gains in different scenarios is illustrated as under

Scenario 1 – An equity share is acquired on 1st of January, 2017 at ₹ 100, its fair market value is ₹ 200 on 31st of January, 2018 and it is sold on 1st of April, 2024 at ₹ 250. As the actual cost of acquisition is less than the fair market value as on 31st of January, 2018, the fair market value of ₹ 200 will be taken as the cost of acquisition and the long-term capital gain will be ₹ 50 (₹ 250 – ₹ 200).

Scenario 2 – An equity share is acquired on 1st of January, 2017 at ₹ 100, its fair market value is ₹ 200 on 31st of January, 2018 and it is sold on 1st of April, 2024 at ₹ 150. In this case, the actual cost of acquisition is less than the fair market value as on 31st of January, 2018. However, the sale value is also less than the fair market value as on 31st of January, 2018. Accordingly, the sale value of ₹ 150 will be taken as the cost of acquisition and the long-term capital gain will be NIL (₹ 150 – ₹ 150).

Scenario 3 – An equity share is acquired on 1st of January, 2017 at ₹ 100, its fair market value is ₹ 50 on 31st of January, 2018 and it is sold on 1st of April, 2024 at ₹ 150. In this case, the fair market value as on 31st of January, 2018 is less than the actual cost of acquisition, and therefore, the actual cost of ₹ 100 will be taken as actual cost of acquisition and the long-term capital gain will be ₹ 50 (₹ 150 – ₹ 100).

Scenario 4 – An equity share is acquired on 1st of January, 2017 at ₹ 100, its fair market value is ₹ 200 on 31st of January, 2018 and it is sold on 1st of April, 2024 at ₹ 50. In this case, the actual cost of acquisition is less than the fair market value as on 31st January, 2018. The sale value is less than the fair market value as on 31st of January, 2018 and also the actual cost of acquisition. Therefore, the actual cost of ₹ 100 will be taken as the cost of acquisition in this case. Hence, the long-term capital loss will be ₹ 50 (₹ 50 – ₹ 100) in this case.

Q 6. Whether the cost of acquisition will be inflation indexed?

Ans 6. Third proviso to section 48, provides that the long-term capital gain will be computed without giving effect to the provisions of the second provisos of section 48. Accordingly, it is clarified that the benefit of inflation indexation

of the cost of acquisition would not be available for computing long-term capital gains.

Note – This is irrespective of whether the transfer takes place before or on or after 23.7.2024.

Q 7. What will be the tax treatment of transfer made on or after 1st April 2018?

Ans 7. The long-term capital gains exceeding ₹ 1,25,000 arising from transfer of listed equity shares/ units of equity oriented fund/business trust on or after 1st April, 2018 will be taxed at 10% (where transfer is made before 23.7.2024) or 12.5% (where transfer is made on or after 23.7.2024) , as the case may be. However, there will be no tax on gains accrued upto 31st January, 2018.

Q8. What is the date from which the holding period will be counted?

Ans 8. The holding period will be counted from the date of acquisition.

Q9. Whether tax will be deducted at source in case of gains by resident tax payer?

Ans 9. No. There will be no deduction of tax at source from the payment of long-term capital gains to a resident tax payer.

Q10. What will be the cost of acquisition in the case of bonus shares acquired before 1st February 2018?

Ans 10. The cost of acquisition of bonus shares acquired before 31st January, 2018 will be determined as per section 55(2)(ac). Therefore, the fair market value of the bonus shares as on 31st January, 2018 will be taken as cost of acquisition (except in some typical situations explained in Ans 5), and hence, the gains accrued upto 31st January, 2018 will continue to be exempt¹¹.

Q11. What will be the cost of acquisition in the case of right share acquired before 1st February 2018?

Ans 11. The cost of acquisition of right share acquired before 31st January, 2018 will be determined as per section 55(2)(ac). Therefore, the fair market value

¹¹Subject to the notification issued by the Central Government to specify the nature of acquisition of equity share in a company on which the condition of payment of STT on acquisition would not be applicable. This notification will be discussed at Final level.

of right share as on 31st January, 2018 will be taken as cost of acquisition (except in some typical situations explained in Ans 5), and hence, the gains accrued upto 31st January, 2018 will continue to be exempt¹³.

Q12. What will be the treatment of long-term capital loss arising from transfer made on or after 1st April, 2018?

Ans 12. Long-term capital loss arising from transfer made on or after 1st April, 2018 will be allowed to be set-off and carried forward in accordance with existing provisions of the Act. Therefore, it can be set-off against any other long-term capital gains and unabsorbed loss can be carried forward to subsequent eight years for set-off against long-term capital gains.

ILLUSTRATION 13

Calculate the income-tax liability for the assessment year 2025-26 in the following cases:

	Mr. A (age 45)	Mrs. B (age 62)	Mr. C (age 81)	Mr. D (age 82)
Status	Non-resident	Non-resident	Resident	Non-resident
<i>Total income other than long-term capital gain</i>	2,40,000	3,10,000	5,90,000	4,80,000
<i>Long-term capital gain [Assume transfer took place before 23.7.2024]</i>	85,000 <i>from sale of vacant site</i>	10,000 <i>from sale of listed equity shares (STT paid on sale and purchase of shares)</i>	60,000 <i>from sale of agricultural land in rural area</i>	Nil

- (i) *If Mr. A, Mrs. B, Mr. C and Mr. D pay tax under default tax regime u/s 115BAC.*
- (ii) *If Mr. A, Mrs. B, Mr. C and Mr. D exercise the option to shift out of the default tax regime and pay tax under the optional tax regime as per the normal provisions of the Act.*

SOLUTION

- (i) If Mr. A, Mrs. B, Mr. C and Mr. D pay tax under default tax regime u/s 115BAC.

Computation of income-tax liability for the A.Y.2025-26

Particulars	Mr. A (age 45)	Mrs. B (age 62)	Mr. C (age 81)	Mr. D (age 82)
Residential Status	Non-resident	Non-resident	Resident	Non-resident
Applicable basic exemption limit	₹ 3,00,000	₹ 3,00,000	₹ 3,00,000	₹ 3,00,000
Asset sold	Vacant site	Listed equity shares (STT paid on both sale and purchase of shares)	Rural agricultural land	-
Long-term capital gain (on sale of above asset)	₹ 85,000 [Taxable @20% u/s 112]	₹ 10,000 [exempt u/s 112A since it is less than ₹ 1,25,000]	₹ 60,000 (Exempt – not a capital asset)	-
Other income	₹ 2,40,000	₹ 3,10,000	₹ 5,90,000	₹ 4,80,000
Tax liability				
On LTCG	₹ 17,000	-	-	-
On Other income	Nil	₹ 500	₹ 14,500	₹ 9,000
	₹ 17,000	₹ 500	₹ 14,500	₹ 9,000
Less: Rebate u/s 87A	-	-	₹ 14,500	-
	₹ 17,000	₹ 500	Nil	₹ 9,000
Add: Health & education cess (HEC) @4%	₹ 680	₹ 20	Nil	₹ 360
Total tax liability	₹ 17,680	₹ 520	Nil	₹ 9,360

Note: Since Mr. C is a resident whose total income does not exceed ₹ 7 lakhs, he is eligible for rebate of ₹ 25,000 or the actual tax payable, whichever is lower, under section 87A.

- (ii) If Mr. A, Mrs. B, Mr. C and Mr. D exercise the option to shift out of the default tax regime and pay tax under the optional tax regime as per the normal provisions of the Act

Computation of income-tax liability for the A.Y.2025-26

Particulars	Mr. A (age 45)	Mrs. B (age 62)	Mr. C (age 81)	Mr. D (age 82)
Residential Status	Non-resident	Non-resident	Resident	Non-resident
Applicable basic exemption limit	₹ 2,50,000	₹ 2,50,000	₹ 5,00,000	₹ 2,50,000
Asset sold	Vacant site	Listed equity shares (STT paid on both sale and purchase of shares)	Rural agricultural land	-
Long-term capital gain (on sale of above asset)	₹ 85,000 [Taxable @20% u/s 112]	₹ 10,000 [exempt u/s 112A since it is less than ₹ 1,25,000]	₹ 60,000 (Exempt – not a capital asset)	-
Other income	₹ 2,40,000	₹ 3,10,000	₹ 5,90,000	₹ 4,80,000
Tax liability				
On LTCG	₹ 17,000	-	-	-
On Other income	Nil	₹ 3,000	₹ 18,000	₹ 11,500
	₹ 17,000	₹ 3,000	₹ 18,000	₹ 11,500
Less: Rebate u/s 87A	-	-	-	-
	₹ 17,000	₹ 3,000	₹ 18,000	₹ 11,500
Add: Health & education cess (HEC) @4%	₹ 680	₹ 120	₹ 720	₹ 460
Total tax liability	₹ 17,680	₹ 3,120	₹ 18,720	₹ 11,960

Notes:

Since Mrs. B and Mr. D are non-residents, they cannot avail the higher basic exemption limit of ₹ 3,00,000 and ₹ 5,00,000 for persons over the age of 60 years and 80 years, respectively. Also, they along with Mr. A, being non-residents are not eligible for rebate under section 87A even though their total income does not exceed ₹ 5 lakh.



LET US RECAPITULATE

Scope and year of chargeability [Section 45]

Any profits or gains arising from the transfer of a capital asset effected in the previous year will be chargeable to tax under the head 'Capital Gains', and shall be deemed to be the income of the previous year in which the transfer took place [Section 45(1)]

Section	Profits and gains arising from the following transactions chargeable as income	P.Y. in which income is chargeable to tax	Deemed Full Value of consideration for computation of capital gains under section 48
45(1A)	Money or other asset received under an insurance from an insurer on account of damage/destruction of any capital asset, as a result of, flood, hurricane, cyclone, earthquake or other convulsion of nature, riot or civil disturbance, accidental fire or explosion, action by an enemy or action taken in combating an enemy	The previous year in which such money or other asset is received.	The value of money or the fair market value of other asset received.
45(2)	Transfer by way of conversion by the owner of a capital asset into stock-in-trade of a business carried on by him.	The previous year in which such stock-in-trade is sold or otherwise transferred by him	The fair market value of the capital asset on the date of such conversion

45(5)	Transfer by way of compulsory acquisition under any law, or a transfer, the consideration for which was determined or approved by the Central Government or RBI	The previous year in which the consideration or part thereof is first received.	Compensation or consideration determined or approved in the first instance by the Central Government or RBI
	If the compensation or consideration is further enhanced by any court, Tribunal or other authority, the enhanced amount will be deemed to be the income. However, any amount of compensation received in pursuance of an interim order of a court, Tribunal or other authority shall be deemed to be income chargeable under the head "Capital Gains" of the previous year in which the final order of such court, Tribunal or other authority is made.	The previous year in which the amount was received by the assessee.	Amount by which the compensation or consideration is enhanced or further enhanced. For this purpose cost of acquisition and cost of improvement shall be taken as 'Nil'.

Definitions [Section 2]														
Section	Term	Definition												
2(14)	Capital Asset	Capital Asset means – (a) property of any kind held by an assessee, whether or not connected with his business or profession; (b) any securities held by a Foreign Institutional Investor which has invested in such securities in accordance with the regulations made under the SEBI Act, 1992. Exclusions from the definition of Capital Asset: ➤ Stock in trade [other than securities referred to in (b) above], raw materials or consumables held for the purposes of business or profession; ➤ Personal effects except jewellery, archeological collections, drawings, paintings, sculptures or any work of art; ➤ Rural agricultural land in India i.e. agricultural land not situated within specified urban limits. The agricultural land described in (a) and (b) below, being land situated within the specified urban limits, would fall within the definition of “capital asset”, and transfer of such land would attract capital gains tax – (a) agricultural land situated in any area within the jurisdiction of a municipality or cantonment board having population of not less than ten thousand, or (b) agricultural land situated in any area within such distance, <u>measured aerially</u>, in relation to the range of population as shown hereunder – <table border="1"> <thead> <tr> <th></th><th>Shortest aerial distance from the local limits of a municipality or cantonment board referred to in item (a)</th><th>Population according to the last preceding census of which the relevant figures have been published before the first day of the previous year.</th></tr> </thead> <tbody> <tr> <td>(i)</td><td>≤ 2 kms</td><td>> 10,000</td></tr> <tr> <td>(ii)</td><td>> 2 kms but ≤ 6 kms</td><td>> 1,00,000</td></tr> <tr> <td>(iii)</td><td>> 6 kms but ≤ 8 kms</td><td>> 10,00,000</td></tr> </tbody> </table> ➤ Gold Deposits Bonds issued under the Gold Deposit Scheme, 1999 or deposit certificates		Shortest aerial distance from the local limits of a municipality or cantonment board referred to in item (a)	Population according to the last preceding census of which the relevant figures have been published before the first day of the previous year.	(i)	≤ 2 kms	> 10,000	(ii)	> 2 kms but ≤ 6 kms	> 1,00,000	(iii)	> 6 kms but ≤ 8 kms	> 10,00,000
	Shortest aerial distance from the local limits of a municipality or cantonment board referred to in item (a)	Population according to the last preceding census of which the relevant figures have been published before the first day of the previous year.												
(i)	≤ 2 kms	> 10,000												
(ii)	> 2 kms but ≤ 6 kms	> 1,00,000												
(iii)	> 6 kms but ≤ 8 kms	> 10,00,000												

		issued under the Gold Monetisation Scheme, 2015 and Gold Monetisation Scheme, 2018 notified by the Central Government; ➤ 6½% Gold Bonds, 1977 or 7% Gold Bonds, 1980 or National Defence Gold Bonds, 1980, issued by the Central Government; ➤ Special Bearer Bonds, 1991 issued by the Central Government. Note: 'Property' includes and shall be deemed to have always included any rights in or in relation to an Indian company, including rights of management or control or any other rights whatsoever.		
2(42A)/2 (29A)	Short-term capital asset/ long-term capital asset	Capital Asset	STCG, if held for	LTCG, if held for
		In case transfer takes place before 23.7.2024		
		• Security (other than unit) listed in a recognized stock exchange • Unit of equity oriented fund/unit of UTI • Zero Coupon bond	≤ 12 months immediately preceding the date of its transfer	> 12 months immediately preceding the date of its transfer
		• Unlisted shares • Land or building or both	≤ 24 months immediately preceding the date of its transfer	> 24 months immediately preceding the date of its transfer
		• Unlisted securities other than shares • Other capital assets	≤ 36 months immediately preceding the date of its transfer	> 36 months immediately preceding the date of its transfer
		In case transfer takes place on or after 23.7.2024		
		• Security listed in a recognized stock exchange	≤ 12 months immediately preceding the date of	> 12 months immediately preceding

		- Unit of equity-oriented fund/unit of UTI - Zero Coupon bond	its transfer	the date of its transfer
		Other capital assets	≤ 24 months immediately preceding the date of its transfer	> 24 months immediately preceding the date of its transfer
	Note – As per section 50AA, capital gains arising from transfer of the following assets would always be short-term capital irrespective of the period of holding of such assets: - units of a specified mutual fund acquired on or after 1.4.2023, - market linked debentures, - unlisted bond and unlisted debenture which is transferred or redeemed or matures on or after 23.7.2024.			

Transactions not regarded as transfer [Section 47]: Some Examples

- Any distribution of capital assets on the **total or partial partition of a HUF**
- Any transfer of capital asset by an individual or HUF under a **gift or will or an irrevocable trust (by any person upto A.Y. 2024-25)**
- Any transfer of capital asset by a **holding company to its 100% subsidiary Indian company or by a subsidiary company to its 100% holding Indian company**
- Any transfer or **issue of shares by the resulting company, in a scheme of demerger** to the shareholders of the demerged company
- Any transfer **by a shareholder in a scheme of amalgamation** of shares held by him in the amalgamating company
- Any transfer by an individual of **sovereign gold bonds issued by RBI by way of redemption**
- Any transfer of a capital asset, being **conversion of gold into Electronic Gold Receipt issued by a Vault Manager, or conversion of Electronic Gold Receipt into gold.**
- Any transfer by way of **conversion of bonds, debentures, debenture stock, deposit certificates of a company, into shares or debentures of that company.**

- Any transfer by way of **conversion of preference shares of a company into equity shares** of that company
- Any transfer of a capital asset in a **transaction of reverse mortgage** under a scheme made and notified by the Central Government

Mode of computation of Capital Gains [Section 48]

Computation of long-term capital gains

Where transfer takes place before 23.7.2024

Full value of consideration received or accruing as a result of transfer	xx
Less: Expenditure incurred wholly and exclusively in connection with such transfer (e.g. brokerage on sale)	xx
Net Sale Consideration	xx
Less: Indexed cost of acquisition and indexed cost of improvement However, the cost of acquisition of the asset or the cost of improvement thereto would not include the deductions claimed in respect of interest u/s 24(b) or under the provisions of Chapter VI-A [i.e., under sections 80EE/ 80EEA]	xx
Less: Exemption under sections 54/54B/54D/54EC/54F	xx
Long-term capital gains	xx

Where transfer takes place on or after 23.7.2024

Full value of consideration received or accruing as a result of transfer	xx
Less: Expenditure incurred wholly and exclusively in connection with such transfer (e.g. brokerage on sale)	xx
Net Sale Consideration	xx
Less: Cost of acquisition and Cost of improvement However, the cost of acquisition of the asset or the cost of improvement thereto would not include the deductions claimed in respect of interest u/s 24(b) or under the provisions of Chapter VI-A [i.e., under sections 80EE/ 80EEA]	xx
Less: Exemption under sections 54/54B/54D/54EC/54F	xx
Long-term capital gains	xx

Notes:

- (i) Deduction on account of securities transaction tax paid will not be allowed.

(ii) Indexed Cost of Acquisition =

$$\text{Cost of acquisition} \times \frac{\text{CII for the year in which the asset is transferred}}{\text{CII for the year in which the asset was first held by the assessee or 2001-02, whichever is later}}$$

(iii) Indexed Cost of Improvement =

$$\text{Cost of improvement} \times \frac{\text{CII for the year in which the asset is transferred}}{\text{CII for the year in which the improvement took place}}$$

(iv) As per section 48, benefit of indexation is available only on transfers of long-term capital assets which takes place before 23.7.2024 other than

- on bonds or debentures (excluding capital indexed bonds issued by the Government and sovereign gold bonds issued by RBI) or
- on shares or debentures of an Indian Co. acquired by a non-resident in foreign currency.

However, a resident individual or a HUF is given an option to take the benefit of indexation in respect of land or building acquired before 23.7.2024 and transferred on or after the said date, for the purposes of computation of tax liability under section 112.

[Where land or building or both, being a long-term capital asset, acquired before 23.7.2024, is transferred on or after 23.7.2024, the long-term capital gain forming part of gross total income/total income has to be computed without indexation benefit i.e., only cost of acquisition/cost of improvement will be reduced from net consideration and not indexed cost of acquisition/indexed cost of improvement. The benefit of indexation would be given only while computing tax liability u/s 112, if tax @20% on LTCG computed with indexation benefit is more beneficial to the resident individual/HUF than tax @12.5% on LTCG computed without indexation benefit.

Computation of short-term capital gains

Full value of consideration received or accruing as a result of transfer	xxx
Less: Expenditure incurred wholly and exclusively in connection with such transfer (e.g. brokerage on sale)	<u>xxx</u>
<i>(Note: Deduction on account of STT paid will not be allowed)</i>	
Net Sale Consideration	xxx
Less: Cost of acquisition and cost of improvement	xxx

However, the cost of acquisition of the asset or the cost of improvement thereto would not include the deductions claimed on account of interest u/s 24(b) or under the provisions of Chapter VI-A [i.e., under the provisions of sections 80EE/80EEA]

Less: Exemption under sections 54B/54D

Short-term capital gains

XXX

XXX

Capital Gains: Special Provisions

Section	Particulars
50	Any income from transfer of depreciable assets is deemed to be capital gains arising from transfer of short-term capital assets , irrespective of the period of holding (i.e., indexation benefit would not be available even if the period of holding of such assets is more than 36 months).
50AA	Any income from transfer of unit of a Specified Mutual Fund acquired on or after 1.4.2023 or Market Linked Debenture or unlisted bond and unlisted debenture which is transferred or redeemed or matures on or after 23.7.2024 is deemed to be capital gains arising from transfer of short-term capital assets.
50B	Capital Gains on Slump Sale Any profits and gains arising from slump sale effected in the previous year shall be chargeable to income-tax as capital gains arising from the transfer of capital assets and shall be deemed to be the income of the previous year in which the transfer took place. Where the undertaking being transferred under slump sale is held for more than 36 months, the resultant gain is long-term; However, no indexation benefit would be available. If the undertaking is held for less than 36 months, the resultant gain is short-term. Net worth is deemed to be the cost of acquisition and the cost of improvement - 'Net worth' shall be aggregate value of total assets <i>minus</i> value of liabilities of such undertaking as per books of account. Fair market value is deemed to be the full value of consideration - Fair market value of the capital asset as on the date of transfer, calculated in the prescribed manner, shall be deemed to be the full value of the consideration received or accruing as a result of the transfer of such capital asset.

	Accordingly, the CBDT has prescribed that, for the purpose of section 50B(2)(ii), the fair market value (FMV) of capital assets would be the higher of – (i) FMV 1, being the fair market value of capital assets transferred by way of slump sale (determined on the date of slump sale); and (ii) FMV 2, being the fair market value of the consideration (monetary and non-monetary) received or accruing as a result of transfer by way of slump sale Capital gains = Fair market value – Net Worth Aggregate value of total assets would be the aggregate of the following : i) Written Down Value of depreciable assets; ii) Nil, in case of self generated goodwill iii) Nil, in case of capital assets in respect of which the whole of the expenditure has been allowed or is allowable as deduction under section 35AD; and iv) Book value for other assets. Revaluation of assets shall be ignored for computing Net Worth.		
50C	Computation of capital gains on sale of land or building or both		
	Sl. No.	Condition	Deemed Sale Consideration
	1.	Stamp Duty Value > Actual Consideration If Stamp Duty Value > 110% of actual consideration If Stamp Duty Value ≤ 110% of actual sale consideration	Stamp Duty Value Actual sale consideration
	2.	Actual Consideration > Stamp Duty Value	Actual Sale Consideration
	3.	Value ascertained by Valuation Officer > Stamp Duty Value	Stamp Duty Value
	4.	Value ascertained by Valuation Officer < Stamp Duty Value	Value ascertained by Valuation Officer

	Note – If the date of agreement is different from the date of transfer, stamp duty value on the date of agreement can be considered, if whole or part of the consideration is received by way of account payee cheque/bank draft or ECS or prescribed electronic modes (IMPS, UPI, RTGS, NEFT, Net banking, debit card, credit card or BHIM Aadhar Pay) on or before the date of agreement. Otherwise, stamp duty value on the date of transfer has to be considered.	
50CA	Fair Market Value deemed to be full value of consideration in case of transfer of unlisted shares in certain cases	
	If consideration received or accruing as a result of transfer of unquoted share < FMV of such share determined in the prescribed manner The provisions of this section would not, however, be applicable to any consideration received or accruing as a result of transfer by such class of persons and subject to such conditions as may be prescribed.	FMV of such share determined in the prescribed manner would be deemed as the full value of consideration
50D	Fair Market Value deemed to be full value of consideration in certain cases	
	Where the consideration received or accruing as a result of the transfer of a capital asset by an assessee is not ascertainable or cannot be determined	FMV of the said asset on the date of transfer would be deemed as the full value of consideration
51	Advance money received and forfeited upto 31.3.2014 Where the assessee has received advance money on an earlier occasion for transfer of capital asset, but the transfer could not be effected due to failure of negotiations, then, the advance money forfeited by the assessee has to be reduced from the cost of acquisition (and indexation would be calculated on the cost so reduced) while computing capital gains, when the capital asset is transferred or sold.	

	Advance money received and forfeited on or after 1.4.2014 Such advance money received on or after 1.4.2014 would be taxable under section 56(2) under the head "Income from other sources". Therefore, advance money received and forfeited on or after 1.4.2014 should not be deducted from the cost for determining the indexed cost of acquisition while computing capital gains arising on transfer of the asset.	
111A	Tax on short-term capital gains on transfer of equity shares and units of equity oriented fund on which STT is chargeable ➤ Any short-term capital gains on transfer of equity shares or units of an equity oriented fund on which securities transaction tax has been paid on such sale shall be liable to tax @15% if transfer takes place before 23.7.2024 and @ 20% if transfer takes place on or after 23.7.2024. ➤ In case of resident individuals and HUF, the short-term capital gain shall be reduced by the unexhausted basic exemption limit and the balance shall be taxed at 15%/20%, as the case may be, depending on the date of transfer. ➤ No deduction under Chapter VI-A can be claimed in respect of such short-term capital gain. ➤ Short-term capital gains arising from transaction undertaken in foreign currency on a recognized stock exchange located in an International Financial Services Centre (IFSC) would be taxable at a concessional rate of 15%/20%, as the case may be, even when STT is not paid in respect of such transaction.	
112	Long-term capital asset (LTCA)	Rate of tax
	In case of transfer took place before 23.7.2024	
	Unlisted securities, or shares of a closely held company	Non-corporate non-resident/foreign company - 10% without the benefit of indexation and currency fluctuation Other Assesseees – 20% with indexation benefit ¹²

¹² In case of transfer of bonds and debentures, whether listed or unlisted, indexation benefit would not be available.

	Listed securities (other than a unit) or a zero-coupon bond	- 10% without indexation or - 20% with indexation benefit whichever is more beneficial to the assessee
	Other Assets	- 20% with indexation benefit
In case of transfer took place on or after 23.7.2024		
	Land or building or both if acquired before 23.7.2024	Individual or HUF , – 12.5% without indexation or 20% with indexation benefit, whichever is more beneficial to the assessee Other Assesseees – 12.5% without indexation
	- Land or building or both if acquired on or after 23.7.2024 or - Other Assets	12.5% without indexation
	➤ For Individuals or HUF (Residents): If their total income (excluding long-term capital gains) is below the basic exemption limit, the unadjusted basic exemption limit can be reduced from the long-term capital gains. The remaining amount of long-term capital gains will be taxed at 20% (with indexation) or 12.5% (without indexation), depending on the date of transfer. ➤ Debentures or Bonds: In respect of debentures or bonds (whether listed or unlisted) transferred or redeemed or matured before 23.7.2024, the resultant capital gains will be considered either long-term or short-term, based on the holding period, and taxed accordingly. If unlisted debentures or bonds are transferred or redeemed or matured on or after 23.7.2024, the resulting capital gains will always be treated as short-term, regardless of the holding period. Indexation benefit is in any case not available for bonds/debentures, even if transferred before 23.07.2024. ➤ Non-Residents and Foreign Companies: Long-term capital gains from the transfer of listed shares or debentures of an Indian company (acquired in foreign currency) will be taxed as follows:	

	- 20% (without indexation, but with foreign currency fluctuation adjustments) if the transfer occurs before 23.7.2024. - 12.5% (without indexation, but with foreign currency fluctuation adjustments) if the transfer occurs on or after 23.7.2024. ➤ No Chapter VI-A deduction against LTCG: The provisions of section 112 make it clear that the deductions under Chapter VIA cannot be availed in respect of the long-term capital gains included in the total income of the assessee.
112A	Tax on long-term capital gains on certain assets ➤ Any long-term capital gains exceeding ₹ 1,25,000 on transfer of equity shares or units of an equity oriented fund shall be liable to tax @10% on such capital gain where the transfer takes place before 23.7.2024 and @12.5% on capital gains where transfer takes place on or after 23.7.2024, if securities transaction tax has been paid on acquisition and such sale in case of equity share, and on such sale in case of units of an equity oriented mutual fund. ➤ In case of resident individuals and HUF, the long-term capital gain shall be reduced by the unexhausted basic exemption limit and the balance shall be taxed at 10% or 12.5%, as the case may be. ➤ No deduction under Chapter VI-A or rebate under section 87A can be claimed in respect of such long-term capital gain. Long-term capital gains (in excess of ₹ 1,25,000) arising from transaction undertaken on a recognized stock exchange located in an International Financial Services Centre (IFSC) would be taxable at a concessional rate of 10% or 12.5%, as the case may be, where the consideration for transfer is received or receivable in foreign currency, even when STT is not paid in respect of such transaction.

Cost of Acquisition [Section 55]		
Sl. No.	Nature of asset	Cost of acquisition
1	Goodwill of business or profession, trademark, brand name or any other intangible asset etc., - Self generated - Acquired from previous owner However, in case of capital asset, being goodwill of a business or profession, in respect of which depreciation u/s 32(1) has been obtained by the assessee in any P.Y. (upto P.Y.2019-20) - became the property of the assessee by way of distribution of assets on total or partial partition of HUF, under a gift or will by an individual or HUF (by any person upto 31.3.2024, by succession, inheritance, distribution of assets on liquidation of a company, etc. and previous owner has acquired it by purchase However, in case of capital asset, being goodwill of a business or profession which was acquired by the previous owner by purchase and in respect of which depreciation u/s 32(1) has been obtained by the assessee in any P.Y. (upto P.Y.2019-20) The cost of improvement of such assets would be Nil.	Nil Purchase price Purchase price as reduced by the total amount of depreciation obtained by the assessee under section 32(1). Purchase price for such previous owner Purchase price as reduced by the total amount of depreciation obtained by the assessee under section 32(1).
2.	Bonus shares If bonus shares are allotted before 1.4.2001 If bonus shares are allotted on or after 1.4.2001	FMV on 1.4.2001 Nil

	Bonus shares allotted before 1.2.2018, on which STT has been paid at the time of transfer	The higher of – (i) Actual cost of acquisition (i.e., Nil, in case of bonus shares allotted on or after 1.4.2001; and FMV on 1.4.2001, in case of bonus shares allotted before 1.4.2001) (ii) Lower of – (a) FMV as on 31.1.2018; and (b) Actual sale consideration
3.	Rights Shares Original shares (which forms the basis of entitlement of rights shares) Rights shares subscribed for by the assessee Rights entitlement (which is renounced by the assessee in favour of a person) Rights shares which are purchased by the person in whose favour the assessee has renounced the rights entitlement	Amount actually paid for acquiring the original shares Amount actually paid for acquiring the rights shares Nil Purchase price paid to the renouncer of rights entitlement as well as the amount paid to the Co. which has allotted the rights shares.
4.	Long term capital assets being, - equity shares in a company on which STT is paid both at the time of purchase and transfer or - unit of equity oriented fund on which STT is paid at the time of transfer. acquired before 1st February, 2018	Cost of acquisition shall be the higher of - (i) cost of acquisition of such asset; and (ii) lower of - the FMV of such asset on 31.1.2018; and - the full value of consideration recd or accruing as a result of the transfer of the capital asset.

5.	Any other capital asset Where such capital asset became the property of the assessee before 1.4.2001	Cost of the asset to the assessee, or FMV as on 1.4.2001, at the option of the assessee. However, in case of capital asset being land or building, FMV as on 1.4.2001 shall not exceed stamp duty value as on 1.4.2001.
	Where capital assets became the property of the assessee by way of distribution of assets on total or partial partition of HUF, under a gift or will, by succession, inheritance by an individual or HUF (by any person upto 31.3.2024), distribution of assets on liquidation of a company, etc. and the capital asset became the property of the previous owner before 1.4.2001.	Cost to the previous owner or FMV as on 1.4.2001, at the option of the assessee. However, in case of capital asset being land or building, FMV as on 1.4.2001 shall not exceed stamp duty value as on 1.4.2001.
	<i>The provisions contained in (5) above shall also apply to the assets mentioned in (3) and (4) above.</i>	
	Cost of the property in the hands of previous owner cannot be ascertained	The FMV on the date on which the capital asset become the property of the previous owner would be considered as cost of acquisition.

Cost of improvement of certain assets [Section 55]

Sl. No.	Nature of asset	Cost of improvement
1	Goodwill or any other intangible asset of a business, right to manufacture, produce or process any article or thing, right to carry on any business or profession or any other right.	Nil
2	Where the capital asset became the property of the previous owner or the	All expenditure of a capital nature incurred in making any addition or alteration to the capital asset on or

	assessee before 1-4-2001	after 1.4.2001 by the previous owner or the assessee.
3	In relation to any other capital asset	All capital expenditure incurred in making additions or alterations to the capital asset on or after 1.4.2001 – - by the assessee after it became his property; and - by the previous owner [in a case where the assessee acquired the property by modes specified in section 49(1)].

Capital Gains: Exemptions under section 10

Section	Particulars
10(37)	Where any individual or HUF owns urban agricultural land which has been used for agricultural purposes for a period of two years immediately preceding the date of transfer by such individual or a parent of his or by such HUF and the same is compulsorily acquired under any law or the consideration for such transfer is determined or approved by the Central Government or the RBI, resultant capital gain will be exempt provided the compensation or consideration for such transfer is received on or after 1.4.2004.
10(43)	The amount received by the senior citizen as a loan, either in lump sum or in installments, in a transaction of reverse mortgage would be exempt from income-tax.

Exemption of Capital Gains [Sections 54 to 54F]						
S. No.	Particulars	Section 54	Section 54B	Section 54D	Section 54EC	Section 54F
1	Eligible Assessee	Individual/ HUF	Individual/ HUF	Any assessee	Any assessee	Individual/ HUF
2	Asset transferred	Residential House (LTCA)	Urban Agricultural Land	Land & building forming part of an industrial undertaking	Land or building or both (LTCA)	Any LTCA other than Residential House.
3	Other Conditions	Income from such house should be chargeable under the head "Income from house property"	Land should be used for agricultural purposes by assessee or his parents or HUF for 2 years immediately preceding the date of transfer	Land & building have been used for business of undertaking for at least 2 years immediately preceding the date of transfer. The transfer should be by way of compulsory acquisition of the industrial undertaking	-	Assessee should not own more than one residential house on the date of transfer. He should not purchase within 2 years or construct within 3 years after the date of transfer, another residential house.
4	Qualifying asset i.e.,	One Residential House situated in	Land for being used for	Land or Building or	Bonds of NHAI or RECL or any other	One Residential House situated in

	asset in which capital gains has to be invested	India/Two residential houses in India, at the option of the assessee, where capital gains does not exceed ₹ 2 crore	agricultural purpose (Urban/ Rural)	right in land or building	bond notified by C.G. (Redeemable after 5 years)	India
5	Time limit for purchase/construction	Purchase within 1 year before or 2 years after the date of transfer (or) construct within 3 years after the date of transfer	Purchase within a period of 2 years after the date of transfer	Purchase/construct within 3 years after the date of transfer, for shifting or re-establishing the existing undertaking or setting up a new industrial undertaking.	Purchase within a period of 6 months after the date of transfer	Purchase within 1 year before or 2 years after the date of transfer (or) Construct within 3 years after the date of transfer
6	Amount of Exemption	Cost of new Residential House or two houses, as the case may be or Capital Gain, whichever is lower, is exempt.	Cost of new Agricultural Land or Capital Gain, whichever is lower, is exempt	Cost of new asset or Capital Gain, whichever is lower.	Capital Gain or amount invested in specified bonds, whichever is lower. Maximum permissible investment out of capital gains arising	Cost of new Residential House $\geq$ Net sale of consideration of original asset, entire Capital gain is exempt.

			However, if the cost of new residential house exceeds ₹ 10 crore, the amount exceeding ₹ 10 crore would not be taken into account for exemption. The maximum exemption that can be claimed by the assessee is ₹ 10 crore.				in any financial year is ₹ 50 lakhs, whether such investment is made in the current FY or subsequent FY or both.	Cost of new Residential House < Net sale consideration of original asset, proportionate capital gain is exempt. However, if the cost of new residential house exceeds ₹ 10 crore, the amount exceeding ₹ 10 crore would not be taken into account for exemption.
--	--	--	---	--	--	--	--	--



TEST YOUR KNOWLEDGE

1. Mr. Mithun purchased 100 equity shares of M/s Goodmoney Co. Ltd. on 01-04-2007 at rate of ₹ 1,000 per share in public issue of the company by paying securities transaction tax.

Company allotted bonus shares in the ratio of 1:1 on 01.12.2023. He has also received dividend of ₹ 10 per share on 01.05.2024.

He has sold all the shares on 01.10.2024 at the rate of ₹ 4,000 per share through a recognized stock exchange and paid brokerage of 1% and securities transaction tax of 0.02%.

Compute his total income and tax liability for A.Y. 2025-26 if Mr. Mithun pays tax under default tax regime, assuming that he is having other income of ₹ 8,00,000. Fair market value of shares of M/s Goodmoney Co. Ltd. on 31.1.2018 is ₹ 2,000.

2. Aarav converts his plot of land purchased in July, 2004 for ₹ 80,000 into stock-in-trade on 31st March, 2024. The fair market value as on 31.3.2024 was ₹ 3,00,000. The stock-in-trade was sold for ₹ 3,25,000 in the month of January, 2025.

Find out the taxable income, if any, and if so under which head of income and for which Assessment Year?

Cost Inflation Index: F.Y. 2004-05:113; F.Y. 2023-24: 348; F.Y. 2024-25: 363.

3. Mrs. Harshita purchased a land at a cost of ₹ 35 lakhs in the F.Y. 2004-05 and held the same as her capital asset till 20th March, 2024.

She started her real estate business on 21st March, 2024 and converted the said land into stock-in-trade of her business on the said date, when the fair market value of the land was ₹ 210 lakhs.

She constructed 15 flats of equal size, quality and dimension. Cost of construction of each flat is ₹ 10 lakhs. Construction was completed in February, 2025. She sold 10 flats at ₹ 30 lakhs per flat in March, 2025. The remaining 5 flats were held in stock as on 31st March, 2025.

She invested ₹ 50 lakhs in bonds issued by National Highways Authority of India on 31st March, 2025 and another ₹ 50 lakhs in bonds of Rural Electrification Corporation Ltd. in April, 2025.

Compute the amount of chargeable capital gain and business income in the hands of Mrs. Harshita arising from the above transactions for A.Y. 2025-26 indicating clearly the reasons for treatment for each item.

[Cost Inflation Index: F.Y. 2004-05: 113; F.Y. 2023-24: 348; F.Y. 2024-25: 363].

4. Mr. A is an individual carrying on business. His stock and machinery were damaged and destroyed in a fire accident which occurred in December 2024.

The value of stock lost (total damaged) was ₹ 6,50,000. Certain portion of the machinery could be salvaged. The opening balance of the block as on 1.4.2024 (i.e., WDV as on 31.3.2024 after providing depreciation for P.Y. 2023-24) was ₹ 10,80,000.

During the process of safeguarding machinery and in the fire fighting operations, Mr. A lost his gold chain and a diamond ring, which he had purchased in April, 2005 for ₹ 1,20,000. The market value of these two items as on the date of fire accident was ₹ 1,80,000.

Mr. A received the following amounts from the insurance company:

- | | |
|---|------------|
| (i) Towards loss of stock | ₹ 4,80,000 |
| (ii) Towards damage of machinery | ₹ 6,00,000 |
| (iii) Towards gold chain and diamond ring | ₹ 1,80,000 |

You are requested to briefly comment on the tax treatment of the above three items under the provisions of the Income-tax Act, 1961.

5. Mr. Sarthak entered into an agreement with Mr. Jaikumar to sell his residential house located at Kanpur on 16.08.2024 for ₹ 1,50,00,000.

The sale proceeds were to be paid in the following manner:

- (i) 20% through account payee bank draft on the date of agreement.
- (ii) 60% on the date of the possession of the property.
- (iii) Balance after the completion of the registration of the title to the property.

Mr. Jaikumar was handed over the possession of the property on 15.12.2024 and the registration process was completed on 14.01.2025. He paid the sale proceeds as per the sale agreement.

The value determined by the Stamp Duty Authority-

- (a) on 16.08.2024 was ₹ 1,70,00,000;*
- (b) on 15.12.2024 was ₹ 1,71,00,000; and*
- (c) on 14.01.2025 was ₹ 1,71,50,000.*

Mr. Sarthak had acquired the residential house at Kanpur on 01.04.2001 for ₹ 30,00,000. After recovering the sale proceeds from Jaikumar, he purchased two residential house properties, one in Kanpur for ₹ 20,00,000 on 24.3.2025 and another in Delhi for ₹ 35,00,000 on 28.5.2025.

Compute the income chargeable under the head "Capital Gains" of Mr. Sarthak for the Assessment Year 2025-26.

Cost Inflation Index for Financial Year(s): 2001-02 - 100; 2024-25 - 363

6. *Mrs. Yuvika bought a vacant land for ₹ 80 lakhs in May 2005. Registration and other expenses were 10% of the cost of land. She constructed a residential building on the said land for ₹ 100 lakhs during the financial year 2007-08.*

She entered into an agreement for sale of the above said residential house with Mr. Johar (not a relative) in April 2015. The sale consideration was fixed at ₹ 700 lakhs and on 23-4-2015, Mrs. Yuvika received ₹ 20 lakhs as advance in cash by executing an agreement. However, due to failure on part of Mr. Johar, the said negotiation could not materialise and hence, the said amount of advance was forfeited by Mrs. Yuvika.

Mrs. Yuvika, again entered into an agreement on 01.05.2024 for sale of this house at ₹ 810 lakhs. She received ₹ 80 lakhs as advance by RTGS. The stamp duty value on the date of agreement was ₹ 890 lakhs. The sale deed was executed and registered on 14-07-2024 for the agreed consideration. However, the State stamp valuation authority had revised the values, hence, the value of property for stamp duty purposes was ₹ 900 lakhs. Mrs. Yuvika paid 1% as brokerage on sale consideration received.

Subsequent to sale, Mrs. Yuvika made following acquisition/investments:

- (i) Acquired two residential houses at Delhi and Chandigarh for ₹ 130 lakhs and ₹ 50 lakhs, respectively, on 31.1.2025 and 15.5.2025
- (ii) Acquired a residential house at UK for ₹ 180 lakhs on 23.3.2025.
- (iii) Subscribed to NHAI capital gains bond (approved under section 54EC) for ₹ 50 lakhs on 30-11-2024 and for ₹ 40 lakhs on 9-1-2025.

Compute the income chargeable under the head 'Capital Gains' of Mrs. Yuvika for A.Y.2025-26. The choice of exemption must be in the manner most beneficial to the assessee.

Cost Inflation Index: F.Y. 2005-06 – 117; F.Y. 2007-08 – 129; F.Y. 2024-25 - 363.

7. Mr. Shiva purchased a house property on February 15, 1979 for ₹ 3,24,000. In addition, he has also paid stamp duty @10% on the stamp duty value of ₹ 3,50,000.

In April, 2008, Mr. Shiva entered into an agreement with Mr. Mohan for sale of such property for ₹ 14,35,000 and received an amount of ₹ 1,11,000 as advance. However, the sale consideration did not materialize and Mr. Shiva forfeited the advance. In May 2015, he again entered into an agreement for sale of said house for ₹ 20,25,000 to Ms. Deepshikha and received ₹ 1,51,000 as advance. However, as Ms. Deepshikha did not pay the balance amount, Mr. Shiva forfeited the advance. In August, 2015, Mr. Shiva constructed the first floor by incurring a cost of ₹ 3,90,000.

On November 15, 2024, Mr. Shiva entered into an agreement with Mr. Manish for sale of such house for ₹ 30,50,000 and received an amount of ₹ 1,50,000 as advance through an account payee cheque. Mr. Manish paid the balance entire sum and Mr. Shiva transferred the house to Mr. Manish on February 20, 2025. Mr. Shiva has paid the brokerage @1% of sale consideration to the broker.

On April 1, 2001, fair market value of the house property was ₹ 11,85,000 and Stamp duty value was ₹ 10,70,000. Further, the Valuation as per Stamp duty Authority of such house on 15th November, 2024 was ₹ 39,00,000 and on 20th February, 2025 was ₹ 41,00,000.

Compute the capital gains in the hands of Mr. Shiva for A.Y.2025-26. Also, compute the tax liability under section 112, assuming that the basic exemption limit has been fully exhausted against other income.

CII for F.Y. 2001-02: 100; F.Y. 2008-09: 137; F.Y. 2015-16: 254; F.Y. 2024-25: 363

ANSWERS

1. Computation of total income & tax liability of Mr. Mithun for A.Y. 2025-26

Particulars	₹
Long term capital gains on sale of original shares	
Gross sale consideration (100 x ₹ 4,000)	4,00,000
Less: Brokerage@1%	4,000
Net sale consideration	3,96,000
Less: Cost of acquisition (100 x ₹ 2,000) (Refer Note 1)	2,00,000
Long term capital gains	1,96,000
Short term capital gains on sale of bonus shares	
Gross sale consideration (100 x ₹ 4,000)	4,00,000
Less: Brokerage@1%	4,000
Net sale consideration	3,96,000
Less: Cost of acquisition of bonus shares [Nil as such shares are allotted after 1.04.2001]	NIL
Short term capital gains [Since bonus shares are held for less than 12 months before sale]	3,96,000
Income from other sources	
Dividend received from M/s Goodmoney Co. Ltd. is taxable in the hands of shareholders [200 shares x 10 per share]	2,000
Other income	8,00,000
Total Income	13,94,000
Tax Liability	
Tax on STCG u/s 11A	
20% of ₹ 3,96,000	79,200
Tax on LTCG u/s 112A	
12.5% of (₹ 1,96,000 - ₹ 1,25,000) since it is transferred on or after 23.7.2024	8,875
Tax on other income of ₹ 8,02,000	
₹ 3,00,000 to ₹ 7,00,000@5%	20,000
₹ 7,00,000 to ₹ 8,02,000 @10%	10,200
	30,200
	1,18,275

Add: Health and education cess @4%	4,731
Tax liability	1,23,006
Tax liability (rounded off)	1,23,010

Notes:

(1) Cost of acquisition of such equity shares acquired before 1.2.2018 is higher of

- Cost of acquisition i.e., ₹ 1,000 per share and
- lower of

Fair market value of such asset i.e., ₹ 2,000 per share and

Full value of consideration i.e., ₹ 4,000 per share.

Therefore, the cost of acquisition of original share is ₹ 2,000 per share.

(2) Securities transaction tax is not allowable as deduction.

2. Conversion of a capital asset into stock-in-trade is a transfer within the meaning of section 2(47) in the previous year in which the asset is so converted. However, the capital gains will be charged to tax only in the year in which the stock-in-trade is sold.

The cost inflation index of the financial year in which the conversion took place should be considered for computing indexed cost of acquisition. Further, the fair market value on the date of conversion would be deemed to be the full value of consideration for transfer of the asset as per section 45(2). The sale price less the fair market value on the date of conversion would be treated as the business income of the year in which the stock-in-trade is sold.

Therefore, in this problem, both capital gains and business income would be charged to tax in the A.Y. 2025-26.

Particulars	₹	
Profits & Gains of Business or Profession		
Sale price of stock-in-trade	3,25,000	
Less: Fair market value on the date of conversion	3,00,000	
Capital Gains		25,000

Full value of consideration (Fair market value on the date of conversion)	3,00,000	
Less: Indexed cost of acquisition ($\text{₹ } 80,000 \times 348/113$)	2,46,372	
Long-term capital gain		53,628
Taxable Income		78,628

3. **Computation of capital gains and business income of Harshita for A.Y. 2025-26**

Particulars	₹
Business Income	
Sale price of flats $[10 \times \text{₹ } 30 \text{ lakhs}]$	3,00,00,000
Less: Cost of flats	
Fair market value of land on the date of conversion $[\text{₹ } 210 \text{ lacs} \times 2/3]$	1,40,00,000
Cost of construction of flats $[10 \times \text{₹ } 10 \text{ lakhs}]$	1,00,00,000
Business income chargeable to tax for A.Y.2025-26	60,00,000
Capital Gains	
Fair market value of land on the date of conversion deemed as the full value of consideration for the purposes of section 45(2)	2,10,00,000
Less: Indexed cost of acquisition $[\text{₹ } 35,00,000 \times 348/113]$	1,07,78,761
	1,02,21,239
Proportionate capital gains arising during A.Y. 2025-26 $[\text{₹ } 1,02,21,239 \times 2/3]$	68,14,159
Less: Exemption under section 54EC	50,00,000
Capital gains chargeable to tax for A.Y.2025-26	18,14,159

Notes:

- (1) The conversion of a capital asset into stock-in-trade is treated as a transfer under section 2(47). It would be treated as a transfer in the year in which the capital asset is converted into stock-in-trade (i.e., P.Y.2023-24, in this case).
- (2) As per section 45(2), the capital gains arising from the transfer by way of conversion of capital assets into stock-in-trade will be chargeable to tax only in the year in which the stock-in-trade is sold.

- (3) The indexation benefit for computing indexed cost of acquisition would, however, be available only up to the year of conversion of capital asset into stock-in-trade (i.e., P.Y.2023-24) and not up to the year of sale of stock-in-trade (i.e., P.Y.2024-25).
- (4) For the purpose of computing capital gains in such cases, the fair market value of the capital asset on the date on which it was converted into stock-in-trade shall be deemed to be the full value of consideration received or accruing as a result of the transfer of the capital asset.

In this case, since only 2/3rd of the stock-in-trade (10 flats out of 15 flats) is sold in the P.Y.2024-25, only proportionate capital gains (i.e., 2/3rd) would be chargeable to tax in the A.Y.2025-26.

- (5) On sale of such stock-in-trade, business income would arise. The business income chargeable to tax would be the difference between the price at which the stock-in-trade is sold and the fair market value on the date of conversion of the capital asset into stock-in-trade.
- (6) In case of conversion of capital asset into stock-in-trade and subsequent sale of stock-in-trade, the period of 6 months is to be reckoned from the date of sale of stock-in-trade for the purpose of exemption under section 54EC [*CBDT Circular No.791 dated 2.6.2000*]. In this case, since the investment in bonds of NHAI has been made within 6 months of sale of flats, the same qualifies for exemption under section 54EC. With respect to long-term capital gains arising on land or building or both in any financial year, the maximum deduction under section 54EC would be ₹ 50 lakhs, whether the investment in bonds of NHAI or RECL are made in the same financial year or next financial year or partly in the same financial year and partly in the next financial year.

Therefore, even though investment of ₹ 50 lakhs has been made in bonds of NHAI during the P.Y. 2024-25 and investment of ₹ 50 lakhs has been made in bonds of RECL during the P.Y. 2025-26, both within the stipulated six month period, the maximum deduction allowable for A.Y. 2025-26, in respect of long-term capital gain arising on sale of long-term capital asset(s) during the P.Y. 2024-25, is only ₹ 50 lakhs.

4. (i) **Compensation towards loss of stock:** Any compensation received from the insurance company towards loss/damage to stock in trade is

to be construed as a trading receipt. Hence, ₹ 4,80,000 received as insurance claim for loss of stock has to be assessed under the head "Profit and gains of business or profession".

Note - The assessee can claim the value of stock destroyed by fire as revenue loss, eligible for deduction while computing income under the head "Profits and gains of business or profession".

- (ii) **Compensation towards damage to machinery:** The question does not mention whether the salvaged machinery is taken over by the Insurance company or whether there was any replacement of machinery during the year. Assuming that the salvaged machinery is taken over by the Insurance company, and there was no fresh addition of machinery during the year, the block of machinery will cease to exist. Therefore, ₹ 4,80,000 being the excess of written down value (i.e. ₹ 10,80,000) over the insurance compensation (i.e. ₹ 6,00,000) will be assessable as a short-term capital loss.

Note – If new machinery is purchased in the next year, it will constitute the new block of machinery, on which depreciation can be claimed for that year.

- (iii) **Compensation towards loss of gold chain and diamond ring:** Gold chain and diamond ring are capital assets as envisaged by section 2(14). They are not "personal effects", which alone are to be excluded. If any profit or gain arises in a previous year owing to receipt of insurance claim, the same shall be chargeable to tax as capital gains. The capital gains has to be computed by reducing the cost of acquisition of jewellery from the insurance compensation of ₹ 1,80,000.

5. **Computation of income chargeable under the head "Capital Gains" of Mr. Sarthak for A.Y. 2025-26**

Particulars	₹
Capital Gains on sale of residential house	
Actual sale consideration	₹ 1,50,00,000
Value adopted by Stamp Valuation Authority on the date of agreement	₹ 1,70,00,000

[As per section 50C, where the actual sale consideration is less than the value adopted by the Stamp Valuation Authority for the purpose of charging stamp duty, and such stamp duty value exceeds 110% of the actual sale consideration, then, the value adopted by the Stamp Valuation Authority shall be taken to be the full value of consideration.	
In a case where the date of agreement is different from the date of registration, stamp duty value on the date of agreement can be considered provided the whole or part of the consideration is paid by way of account payee cheque/bank draft or by way of ECS through bank account or through such other electronic mode as may be prescribed, on or before the date of agreement.	
In this case, since 20% of ₹ 150 lakhs is paid through account payee bank draft on the date of agreement, stamp duty value on the date of agreement would be considered for determining the full value of consideration]	
Full value of sale consideration [Stamp duty value on the date of agreement, since it exceeds 110% of the actual sale consideration]	1,70,00,000
Less: Cost of acquisition of residential house	30,00,000
Long-term capital gains [Since the residential house property was held by Mr. Sarthak for more than 24 months immediately preceding the date of its transfer]	1,40,00,000
Less: Exemption u/s 54	55,00,000
Since, long-term capital gains does not exceed ₹ 2 crore, he would be eligible for exemption in respect of both the residential house properties purchased in India. The capital gain arising on transfer of a long-term residential property shall not be chargeable to tax to the extent such capital gain is invested in the purchase of these residential house properties in India within one year before or two years after the date of transfer of original asset. Thus, he would be eligible for exemption of ₹ 55,00,000 being ₹ 20,00,000 and ₹ 35,00,000 invested on acquisition of residential house property in Kanpur and Delhi, respectively.	
Long term capital gains chargeable to tax	85,00,000

Note: It may be noted that since Sarthak has transferred residential house property on or after 23.7.2024 which was acquired before the said date, he can opt to pay tax @20% on LTCG (computed with indexation) or 12.5% on LTCG (computed without indexation) whichever is beneficial to him.

6. Computation of income chargeable under the head “Capital Gains” of Mrs. Yuvika for A.Y.2025-26

Particulars	₹ (in lakhs)	₹ (in lakhs)
Capital Gains on sale of residential building Actual sale consideration ₹ 810 lakhs Value adopted by Stamp Valuation Authority ₹ 890 lakhs [Where the actual sale consideration is less than the value adopted by the Stamp Valuation Authority for the purpose of charging stamp duty, and such stamp duty value exceeds 110% of the actual sale consideration, then, the value adopted by the Stamp Valuation Authority shall be taken to be the full value of consideration as per section 50C. However, where the date of agreement is different from the date of registration, stamp duty value on the date of agreement can be considered provided the whole or part of the consideration is received by way of account payee cheque/bank draft or by way of ECS through bank account or through prescribed electronic modes on or before the date of agreement. In this case, since advance of ₹ 80 lakh is received by RTGS, i.e., one of the prescribed modes, stamp duty value on the date of agreement can be adopted as the full value of consideration. However, in the present case since stamp duty value on the date of agreement does not exceed 110% of the actual consideration, actual sale consideration would be taken as the full value of consideration]		

Gross Sale consideration (Actual consideration, since stamp duty value on the date of agreement does not exceed 110% of the actual consideration)		810.00
Less: Brokerage @1% of sale consideration (1% of ₹ 810 lakhs)		8.10
Net Sale consideration		801.90
Less: Indexed cost of acquisition		
- Cost of vacant land, ₹ 80 lakhs, <i>plus</i> registration and other expenses i.e., ₹ 8 lakhs, being 10% of cost of land [₹ 88 lakhs × 363/117]	273.03	
- Construction cost of residential building (₹ 100 lakhs × 363/129)	281.40	554.43
Long-term capital gains		247.47
Since the residential house property was held by Mrs. Yuvika for more than 24 months immediately preceding the date of its transfer, the resultant gain is a long-term capital gain]		
Less: Exemption under section 54		130.00
Where long-term capital gains exceed ₹ 2 crore, the capital gain arising on transfer of a long-term residential property shall not be chargeable to tax to the extent such capital gain is invested in the purchase of one residential house property in India, one year before or two years after the date of transfer of original asset. Therefore, in the present case, the exemption would be available only in respect of the one residential house acquired in India and not in respect of the residential house in UK. It would be more beneficial for her to claim the cost of acquisition of residential house at Delhi, i.e., ₹ 130 lakhs as exemption.		

Less: Exemption under section 54EC		50.00
Amount invested in capital gains bonds of NHAI within six months after the date of transfer (i.e., on or before 13.1.2025), of long-term capital asset, being land or building or both, would qualify for exemption, to the maximum extent of ₹ 50 lakhs, whether such investment is made in the current financial year or subsequent financial year. Therefore, in the present case, exemption can be availed only to the extent of ₹ 50 lakh out of ₹ 90 lakhs, even if the both the investments are made on or before 13.1.2025 (i.e., within six months after the date of transfer).		
Long term capital gains chargeable to tax		67.47

Note: Advance of ₹ 20 lakhs received from Mr. Johar, would have been chargeable to tax under the head "Income from other sources", in the A.Y. 2016-17, as per section 56(2)(ix), since the same was forfeited on or after 01.4.2014 as a result of failure of negotiation. Hence, the same should not be deducted while computing indexed cost of acquisition.

7. Computation of Capital gains in the hands of Mr. Shiva for A.Y. 2025-26

Particulars	Amount (₹)	Amount (₹)
Actual sale consideration	30,50,000	
Valuation as per Stamp duty Authority on the date of agreement	39,00,000	
(Where the actual sale consideration is less than the value adopted by the Stamp Valuation Authority for the purpose of charging stamp duty, and such stamp duty value exceeds 110% of the actual sale consideration then, the value adopted by the Stamp Valuation Authority shall be taken to be the full value of consideration as per section 50C.		

However, where the date of agreement is different from the date of registration, stamp duty value on the date of agreement can be considered, provided the whole or part of the consideration is received by way of account payee cheque/bank draft or by way of ECS through bank account or such other electronic mode as may be prescribed on or before the date of agreement. In the present case, since part of the payment is made by account payee cheque on the date of agreement, the stamp duty value on the date of agreement would be considered as full value of consideration) Deemed Full value of consideration [Since stamp duty value on the date of agreement exceeds 110% of the actual consideration, stamp duty value would be deemed as Full Value of Consideration] Less: Expenses on transfer (Brokerage @1% of ₹ 30,50,000) Net sale consideration Less: Cost of acquisition (Note 1) Less: Cost of improvement Long term capital gain		39,00,000 30,500 38,69,500 9,59,000 3,90,000 25,20,500
---	--	---

Computation of tax liability u/s 112

Particulars	Amount (₹)
On LTCG of ₹ 25,20,500 x 12.5%	3,15,063
Add: Health and Education cess @4%	<u>12,603</u>
	<u>3,27,666</u>
On LTCG with indexation benefit	
Net Sale consideration	38,69,500
Less: Indexed cost of acquisition (₹ 9,59,000 x 363/100)	34,81,170

Less: Indexed cost of Improvement	5,57,362	
[₹ 3,90,000 x 363/254]		
Long-term capital loss	(1,69,032)	
Since the computation results in a long term capital loss, if indexation benefit is given, the tax u/s 112 would be Nil. However, this computation is only for determining tax liability, the said loss can neither be set-off nor carried forward.		

Notes:**(1) Computation of cost of acquisition**

Particulars	Amount (₹)	Amount (₹)
Cost of acquisition, Being the higher of		10,70,000
(i) lower of Fair market value i.e., ₹ 11,85,000 and Stamp duty value i.e., ₹ 10,70,000, on April 1, 2001	10,70,000	
(ii) Actual cost of acquisition (₹ 3,24,000 + ₹ 35,000, being stamp duty @10% of ₹ 3,50,000)	3,59,000	
Less: Advance money taken from Mr. Mohan and forfeited		1,11,000
Cost of acquisition		9,59,000

- (2) Where advance money has been received by the assessee, and retained by him, as a result of failure of the negotiations, section 51 will apply. The advance retained by the assessee will go to reduce the cost of acquisition. Accordingly, cost of acquisition after reducing the advance money forfeited would be ₹ 9,59,000 [i.e. ₹ 10,70,000 – ₹ 1,11,000 (being the advance money forfeited during the P.Y. 2008-09)]. However, where the advance money is forfeited during the previous year 2014-15 or thereafter, the amount forfeited would be taxable under the head "Income from Other Sources" and such amount will not be deducted from the cost of acquisition of such asset while calculating capital gains. Hence, ₹ 1,51,000, being the advance received from Ms. Deepshikha and retained by him, would have been taxable under the head "Income from other sources" in the hands of Mr. Shiva in A.Y.2016-17.