



Chapter 7

Capital Gains

Q 1

PTP Dec 22

Raghuram (age 44) inherited a vacant land from his father in April, 1998. The land was acquired by his father in January, 1990 for `5 lakhs. The fair market value of the land as on 01.04.2001 was `25 lakhs. Raghuram entered into an agreement for sale of land in January, 20XX and received `5 lakh as advance. This amount was forfeited since the party did not complete the transaction.

Again Raghuram looked for a buyer and found one Sathish interested in the property. The sale consideration was fixed at `200 lakh vide agreement made in December 20XX. It was sold and the document was registered in March, 20XY. Brokerage @1 % of the sale consideration was paid. The stamp duty value of the land on th date of sale was `215 lakhs. Raghuram acquired a residential building at Chennai for `180 lakhs in May 20XY.

Compute the taxable capital gain in the hands of Raghuram for the assessment year 20XY-XZ.

Answer

Particulars	₹
Full Value of Consideration	200,00,000
Less: Brokerage @ 1%	2,00,000
Net Sale Consideration	198,00,000
Less: Indexed Cost of Acquisition [25 lakhs * 348/100]	87,00,000
Gross LTCG	1,11,00,000
Less: Exemption u/s 54F [1,11,00,000 * 180 lakhs/198 lakhs]	1,00,90,909
Net Taxable LTCG	10,09,091

Q 2

MTP June 23

From the following particulars of Shri Khote for the year ending 31st March, 2024, find out his Mr. Shankar purchased 100 equity shares of M/s Goldi Co. Ltd. on 01-04-2006 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 01.12.20XW. He has also received dividend of ₹10 per share on 01.05.20XX.

He has sold all the shares on 01.10.20XX 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% to celebrate his 70th birthday.

Compute his total income and tax liability for Assessment Year 20XY-XZ, assuming that he is having



no income other than given above. Fair market value of shares of M/s. Goldi Co. Ltd. on 31.1.2018 is ₹2,000.

Answer

Computation of total income and tax liability of Mr. Shankar for A.Y. 20XY-XZ

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 2)	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
Short term capital gains	3,96,000
Income from other sources	
Dividend received from M/s Goldi Co. Ltd. is taxable in the hands of shareholders [200 shares x `10 per share]	2,000
Total Income	5,94,000

Tax Liability	₹
Tax on dividend	Nil
15% of (₹3,96,000 - ₹2,98,000, being unexhausted basic exemption limit)	14,700
10% of (₹1,96,000 - ₹1,00,000)	9,600
	24,300
Add: Health and education cess @4%	972
Tax payable	25,272
Tax payable (rounded off)	25,270

Note -

1. Long-term capital gains exceeding ₹1 lakh on sale of original shares through a recognized stock exchange (STT paid at the time of acquisition and sale) is taxable under section 112A at a concessional rate of 10%, without indexation benefit.
2. 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

7.2 |Practice Questions



i.e., ₹4,000 per share.

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

3. Since bonus shares are held for less than 12 months before sale, the gain arising there from is a short-term capital gain chargeable to tax @15% as per section 111A after adjusting the unexhausted basic exemption limit (₹3,00,000 less ₹2,000, being the amount of dividend). Since Mr. Shankar is over 60 years of age, he is entitled for a higher basic exemption limit of ₹3,00,000 for A.Y. 2024-25.
4. Brokerage paid is allowable since it is an expenditure incurred wholly and exclusively in connection with the transfer. Hence, it qualifies for deduction under section 48(i).
5. Cost of bonus shares will be Nil as such shares are allotted after 1.04.2001.
6. Securities transaction tax is not allowable as deduction.

Q 3

RTP Nov 23

Determine the capital gains/loss and tax liability in the following scenarios for the A.Y. 20XX-XZ assuming the assessee does not have any other source of income:

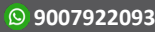
- (i) On 12th December, 20XX, 1,200 shares of X Ltd., a listed company are sold by Mr. Vishal, a non-resident, @ ₹1,550 per share and STT was paid at the time of sale of shares. These shares were acquired by him on 25th May, 2017 @ ₹425 per share by paying STT at the time of purchase. The price at which these shares were traded in National Stock Exchange on 31st January, 2018 is as follows –

Particulars	Amount in ₹
Highest Trading Price	680
Average Trading Price	610
Lowest Trading Price	540

- (ii) Mr. Kabir, a resident aged 45 years, is the owner of residential house which was purchased on 1st August, 2020 for ₹19,00,000. He sold the said house on 25th September, 20XX for ₹24,50,000. Valuation as per stamp valuation authorities was ₹25,50,000 as on the date of sale.

Answer

	Particulars	₹
(i)	Long-term capital gain on transfer of 1,200 shares of X Ltd. [Taxable u/s 112A @10% on amount exceeding ₹1,00,000]	
	Full value of consideration [1,200 x ₹1,550]	18,60,000
	Less: Cost of acquisition	8,16,000
	Higher of	
	(ii) Cost of acquisition [1,200 x ₹425]	5,10,000



(ii)	Lower of fair market value of such shares as on 31.1.2018 and sale consideration [1,200 x 680] Fair market value of listed equity shares as on 31.1.2018 [Highest price quoted on the recognized stock exchange i.e., ₹680 per share sale consideration ₹1,550 per share	8,16,000	
	Long term capital gain taxable u/s 112A/ Total Income		10,44,000
	Tax on long-term capital gain exceeding ₹1 lakh i.e., ₹9,44,000 @10%		94,400
	Add: Health and Education Cess@4%		3,776
	Tax liability		98,176
	Tax liability (Rounded off)		98,180
	Since Mr. Vishal is a non-resident, benefit of unexhausted basic exemption limit would not be available to him.		
(ii)	Sale of residential house [Long-term capital asset, since held for more than 24 months]		
	Full value of consideration [Actual consideration, since stamp duty value does not exceeds 110% of actual sale consideration]		24,50,000
	Less: Indexed cost of acquisition [₹19,00,000 x 348/301]		21,96,678
	Long term capital gain/ Total Income		2,53,322
	Total Income (Rounded off)		2,53,320
	Long-term capital gain taxable u/s 112 @20% on ₹1,10,630 [₹2,53,320 – ₹2,50,000, being unexhausted basic exemption limit]		664
	Less: Rebate under section 87A [Since the total income does not exceed ₹5 lakhs]		664
	Add: Health and Education Cess@4%		Nil
	Tax liability		Nil
	Tax liability (Rounded off)		Nil

Q 4

PTP Dec 23

Mr. Rajasekar purchased a House Properly on 14th April 1999 for `2,30,000. He entered into an agreement with Mr. Bharath for sale of the house on 21st September, 2005 and received an advance of `25,000. However, since Mr. Bharath did not remit the balance amount, Mr. Rajasekar forfeited the advance. Later on, he gifted the House Property to his friend Mr. Anantharaman on 15th June 2004.

Following renovations were carried out by Mr. Rajasekar and Mr. .Anantharaman to the House Property-

Particulars	₹
By Mr. Rajasekar during FY 1999-2000	1,00,000
By Mr. Anantharaman during FY 2009-2010	1,00,000
By Mr. Anantharaman during FY 2011-2012	2,50,000

The Fair Market Value of the Property as on 01.04.2001 is ₹2,25,000.

7.4 |Practice Questions



Mr. Anantharaman entered into an agreement with Mr. Chandrasekhar for sale of the House on 1st June 2019 and received an advance of ₹1,00,000. The said amount was forfeited by Mr. Anantharaman since Mr. Chandrasekhar could not fulfil the terms of the agreement. Finally, the House was sold by Mr. Anantharaman to Mr. Swaminathan on 2nd January 20XY for a consideration of ₹17,85,000. Compute the Capital Gains chargeable to tax in the hands of Mr. Anantharaman for the AY 20XY-20XZ

Answer

Particulars	₹
Full Value of Consideration	17,85,000
Less: Indexed Cost of Acquisition $[(2,30,000 * 348/100)]$	8,00,400
Less: Indexed Cost of Improvement	
By Rajasekar in FY 1999-2000	Nil
By Anant in FY 2009-10 $(1,00,000 * 348/148)$	2,35,135
By Anant in FY 2011-12 $(2,50,000 * 348/184)$	4,72,826
Gross LTCG	2,76,639

Q5

MTP Dec 23

Sunil owns a commercial building in Kolkata which is acquired for `4 lakhs during 1996-97. Its fair market value on 1st April 2001 is `16 lakhs. He sold it for `320 lakhs on 31st December 20XX when the stamp duty value was `360 lakhs. He paid 3% of the sale consideration as brokerage. He acquired a residential building in Delhi for `120 lakhs on 1st April 20XY.

Compute capital gain for the Assessment Year 20XY-XZ.

Answer

Computation of Capital Gain for the Assessment Year 20XY-XZ

Particulars	₹
Full value of sale consideration	3,60,00,000
(-) Transfer expenses	9,60,000
Net sale consideration	3,50,40,000
(-) Indexed cost of acquisition $[16,0,000 \times \frac{348}{100}]$	55,68,000
Long Term Capital Gain	2,94,72,000
(-) Amount of exemption u/s 54F $[120,00,000 \times \frac{29472000}{35040000}]$	1,00,93,151
Taxable Long Term Capital Gain	1,93,78,844



6

MTP Dec 23

Lucky has a house property acquired on 18/08/2009 for ₹ 6,00,000. He used the house for his own residential purpose. On 18/08/2012 he incurred capital expenditure on re-construction of house ₹ 3,00,000. On 15/05/20XX, he brought office goods (inflammable) worth ₹ 1,00,000 at home to be delivered to a party staying near to his home. At the night of that day accidental fire took place and damaged the whole house property, furniture worth ₹ 5,00,000 and business stock.

Insurance claim received on 18/08/20XX –

- (i) for the house ₹ 1,00,000 in cash & a new house allotted to him (fair market value of which is ₹ 44,00,000 on 18/08/20XX);
- (ii) for house-hold furniture ₹ 2,00,000; and
- (iii) for stock ₹ 80,000.

Analyse –

- Tax-treatment under the head Capital gains.
- How shall your answer differ if such compensation is received by the assessee on 15/04/20XY.

Answer

As the damage occurred due to accidental fire, such case is governed by the provision of sec. 45(1A).

Computation of capital gain in the hands of Lucky for the A.Y. 20XY-XZ

Particulars	Workings	Details (₹)	Amount (₹)
Sale consideration of house	₹ 1,00,000 + ₹ 44,00,000		45,00,000
Less: Expenses on transfer			Nil
Less:		14,10,811	
(i) Indexed cost of acquisition	₹ 6,00,000 × 348/148		
(ii) Indexed cost of improvement	₹ 3,00,000 × 348/200	5,22,000	19,32,811
Long Term Capital Gain			25,67,189
For Furniture: No capital gain liability arises as furniture is a personal asset of the assessee and hence not a capital asset. Compensation received on loss of furniture shall be treated as capital receipt and hence not liable to tax.			
For Stock: Compensation received on loss of stock shall be liable to tax u/s 28. In the given case, loss of ₹ 20,000 (₹ 1,00,000 – ₹ 80,000) shall be allowed under the head “Profits & gains of business or profession”.			

In case such compensation is received on 15/04/20XY then the capital gain of ₹ 26,61,608 as computed above shall be taxable in the next Assessment year.

7.6 |Practice Questions



Q 7

MTP Dec 23

Mr. Manoj is a resident individual who retired from employment in March, 20XX.

He sold a residential building for ₹60 lakh to Zeet Ltd., Delhi on 3rd February, 20XY. Mr. Manoj paid 2% commission on sale price to Mr. Pritham for fetching the buyer. The building was inherited by him as per the 'will' of his mother on 5th April, 2000. She had acquired the said building on 18th October, 1990 for ₹1 lakh. The Fair Market Value (FMV) of the building as on 1st April, 2001 was ₹5 lakh. The Stamp duty value of the building on the date of sale was ₹70 lakh.

Earlier, Mr. Manoj had entered into an agreement with Mr. Ram in August, 20XX for sale of the same building and forfeited advance money of ₹2 lakh. He purchased a residential apartment in Madurai for ₹30 lakh on 28th March, 20XY and subscribed to REC capital Gain bonds for ₹20 lakh in November, 20XY.

Compute the income under the head 'Capital Gain' for Mr. Manoj for the assessment year 20XY-XZ

Mr. Manoj does not opt to be taxed under section 115 BAC of the Income Tax Act, 1961.

Answer

Particulars	₹
Full Value of Consideration	70,00,000
Less: Brokerage @ 2% of Rs. 60 lakhs	1,20,000
Net Sale Consideration	68,80,000
Less: Indexed Cost of Acquisition	
[5 lakhs * 348/100]	17,40,000
Gross LTCG	51,40,000
Less: Exemption u/s 54F	30,00,000
Less: Exemption u/s 54EC (not purchased within 6 months from date of transfer)	Nil
Net Taxable LTCG	21,40,000

Q 8

MTP June 24

During the previous year 2023-24, Mr. Madhusudhan sold the following capital assets:

Asset	Sale Proceeds (₹)	Cost of Acquisition (₹)	Date of Acquisition (₹)	Fair Market value as on 01.04.2001
Debentures	6,48,000	1,85,000	30.06.2005	1,68,000
Gold	18,22,000	8,42,400	25.08.2005	8,10,000
Building	25,11,900	9,00,000	10.05.2008	9,86,400

Assuming that his business income is ₹ 3,47,500, determine his income for the A.Y. 2024-25.



Cost Inflation Index: F.Y. 2001-02:100, F.Y. 2005-06: 117, F.Y. 2008-09: 137, F.Y. 2023-24: 348

Answer

Computation of total income of Mr. Madhusudhan for the A.Y. 2024-25

Particulars	₹
Profits and Gains of Business or Profession	3,47,500
Capital Gains (Working)	5,169
Total Income	3,52,669

Working: Computation of Capital Gains of Mr. Madhusudhan for the A.Y.2023-24

Particulars	Debenture (₹)	Gold (₹)	Building (₹)
Sale Proceeds	6,48,000	18,22,000	25,11,900
Less: Expenses on transfer	Nil	Nil	Nil
Net sale consideration	6,48,000	18,22,000	25,11,900
Less: Cost of acquisition (Index benefit is not available)	1,85,000		
Less: Indexed Cost of acquisition [(₹8,42,400 * 348)/117]		25,05,600	
Less: Indexed Cost of acquisition [(₹9,00,000 * 348)/137]			22,86,131
Long Term Capital Gain	4,63,000	(6,83,600)	2,25,769

Q9

PTP June 24

Ms. Kavita, an individual, sold an agricultural land for ₹40 lakh on 10.03.2024. The land is located at 3.6 kms (aerial distance) from the local limits of municipality whose population was 600000 according to the last preceding census. It was acquired by her on 30.06.2014 for ₹18 lakh.

She also sold a vacant land located in urban area for ₹75 lakh in June, 2023 and the value of land for stamp duty purposes was ₹80 lakh. This vacant land was obtained as gift from her father in May 2013 which was originally acquired by her father in October, 2001 for ₹12 lakh. The Fair Market Value (FMV) of the vacant land in May 2013 was ₹40 lakh.

Kavita deposited ₹30 lakh in section 54EC bonds on 25.03.2024.

Cost inflation index: F.Y. 2001-02 = 100; F.Y.2013-14 = 220; F.Y.2014-15 = 240, F.Y.2023-24 = 348.

Under the Income Tax Act, 1961 compute income from capital gains in the hands of Kavita for the assessment year 2024-25.

She does not opt to be taxed under section 115BAC of the Income Tax Act, 1961.

7.8 |Practice Questions



Answer

Capital gain in the hands of Kavita for the Asst. Year 2024-25		
	₹	₹
Sale of urban vacant land:		
Sale consideration	75,00,000	
Value of land for stamp duty purposes	80,00,000	
Since the difference between the sale consideration and value for stamp duty purposes is less than 10%, Actual sale consideration to be adopted as deemed sale consideration.	75,00,000	
Less: Indexed cost of acquisition	41,76,000	
		33,24,000
Sale of agricultural land:		
Since the land is located within 6 kms from the local limits of municipality and the population as per the preceding census is more than 1 lakh but less than 10 lakhs, it is a capital asset liable for capital gain (loss) upon transfer.		
Sale consideration	40,00,000	
Less: Indexed cost of acquisition	26,10,000	
		13,90,000
		47,14,000
Less: Deduction under section 54 EC		
As the investment was made on 25.03.2024 which is more than 6 months from the date of transfer in respect of urban vacant land, no deduction would be considered against such long-term capital gain.		
However, the agricultural land sold in March, 2024 is eligible for the exemption limited to the capital gain. Thus, the deposit of Rs.30 lakhs would however entitle the taxpayer to claim only Rs.13.90 lakhs as deduction.		13,90,000
Long-term capital gain		33,24,000

Q 10

MTP Dec 24

Sunil has a house property acquired on 7/07/1995 for ₹ 3,00,000. He incurred improvement expenditure on such property ₹ 70,000 on 16/08/2000 and ₹ 50,000 on 17/07/2010. Market value of such property as on 1/04/2001 is ₹ 4,50,000. On 16/08/2013, such property is compulsorily acquired by the Government and compensation decided at ₹ 11,50,000. 20% of the compensation received on 31/03/2024 and balance on 2/06/2024. On further appeal, on 16/08/2024 enhanced compensation is declared by the Government ₹2,00,000. Expenditure incurred to get enhanced compensation is ₹ 11,000. Such compensation received on 18/08/2025.

Compute income under the head Capital Gains of Sunil for the assessment year 2024-25, 2025-26 and 2026-27.



Answer

Computation of capital gains of Sunil for the A.Y. 2024-25:

Particulars	Working	Details (₹)	Amount (₹)
Sale consideration			11,50,000 ¹
Less: Expenses on transfer			Nil
Net sale consideration			11,50,000
Less: i) Indexed cost of acquisition	₹ 4,50,000 ² * 220 ⁴ /100	9,90,000	
ii) Indexed cost of improvement ³	₹ 50,000 * 220 ⁴ /167	65,868	10,55,868
Long Term Capital Gain			94,132

1. The initial compensation (i.e. ₹ 11,50,000) decided by the Government shall be treated as sale consideration.
 2. Cost of acquisition is the original cost of acquisition (i.e. ₹ 3,00,000) or Fair market value as on 1/04/2001 (i.e. ₹ 4,50,000) whichever is higher.
 3. Cost of improvement incurred before 1/04/2001 is to be completely ignored.
 4. Though the property was compulsorily acquired by the Government in the P.Y 2013-14 but the compensation was received in the P.Y.2023-24, therefore the amount shall be taxable in the P.Y. 2023-24, however indexation benefit shall be available till the previous year 2013-14.

Computation of capital gains of Mr. Sunil for the A.Y. 2025-26: As the assessee has not received enhanced compensation during the P.Y.2024-25, hence nothing is taxable in the A.Y. 2025-26.

Computation of capital gains of Mr. Sunil for the A.Y. 2026-27:

Particulars	Working	Details (₹)	Amount (₹)
Sale consideration	Enhanced compensation		2,00,000
Less: Expenses on transfer			11,000
Net sale consideration			1,89,000
Less: i) Indexed cost of acquisition		Nil	
ii) Indexed cost of improvement		Nil	Nil
Long Term Capital Gain			1,89,000

In case of enhanced compensation, the cost of acquisition shall be taken as nil and the nature of capital gain shall be same as that of initial compensation.

Q11

MTP Dec 24

Shiv has jewellery acquired on 17/07/2010 for ₹ 5,00,000. On 18/08/2013 Shiv incurred improvement expenditure on such jewellery by adding diamond to it worth ₹ 3,00,000. On 18/08/2021, he transferred such jewellery to his friend Mona for ₹ 40,00,000. Shiv already has a self-occupied house property in Lucknow; however on 17/03/2022 he purchased another residential house property for ₹ 30,00,000 for the purpose of letting out. As on 5/04/2023, his friend offered him house worth ₹ 25,00,000 (Value for Stamp duty purpose is only ₹ 14,00,000/-) for ₹ 15,00,000 only & Shiv purchased the same. On

7.10 | Practice Questions



7/04/2024, Shiv sold the new house acquired from his friend for ₹ 19, 00,000. Value determined for the purpose of stamp duty purposes ₹ 22, 00,000 and market value as on the date of transfer is ₹ 26, 00,000. Calculate capital gain in hands of Shiv for several years.

Answer

Computation of capital gain of Shiv for the A.Y. 2023-24:

Particulars	Working	Details (₹)	Amount (₹)
Sale consideration for jewellery			40,00,000
Less: Expenditure on transfer			Nil
Net Sale consideration			40,00,000
Less: Indexed cost of acquisition	₹ 5,00,000 × 317 / 167	9,49,102	
Less: Indexed cost of improvement	₹ 3,00,000 × 317 / 220	4,32,273	13,81,375
Long term capital gain			
Less: Exemption u/s 54F [₹30,00,000 / ₹40,00,000 × ₹ 26,18,625]			19,63,969
Taxable Long term capital gain			6,54,656

Computation of capital gain of Shiv for the A.Y. 2024-25: Since the assessee acquired another house property therefore the earlier exemption availed u/s 54F shall be revoked and shall be liable to long term capital gain. Hence taxable long-term capital gain for the A.Y.2024-25 is ₹ 19, 63,969.

Computation of capital gain of Shiv for the A.Y. 2025-26

Particulars	₹	₹
Sale consideration	Value determined for Stamp duty [Sec. 50C]	22,00,000
Less: Expenditure on transfer		Nil
Net sale consideration		22,00,000
Less: Cost of acquisition	15,00,000	
Less: Cost of improvement	Nil	15,00,000
Short term capital gain		7,00,000

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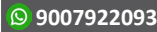
PTP Dec 24

Mrs. Parul sold her commercial plot (land) on 1st January, 2024 for ₹86,00,000. Value determined for the purpose of stamp duty is ₹80,00,000.

Such plot is acquired on 1st April, 2006 for ₹1,05,000. Brokerage paid on purchase and transfer of said land are ₹5,000 and ₹86,000 respectively.

On 1st March, 2024, Mrs. Parul purchased Power Finance Corporation (PFC) Limited bonds of ₹60,00,000.

You are required to compute income taxable under the head 'Capital Gains' for Assessment Year



2024-25 in the hands of Mrs. Parul. Assuming Mrs. Parul exercise the option of shifting out of the default tax regime provided under section 115BAC of the Income Tax Act, 1961.

Cost inflation index for the various financial years are as under:

2005-2006	:	117
2006-2007	:	122
2007-2008	:	129
2023-2024	•	348

Indicate clearly the reasons for treatment of each item.

Answer

Computation of capital gain in the hands of Mrs Parul for the Assessment Year 2024-25

Particulars	₹	₹
Actual sale consideration	86,00,000	
Value adopted for stamp duty	86,00,000	
Value adopted for stamp duty		86,00,000
Less: - Brokerage paid on transfer		86,000
Net sale consideration		85,14,000
Less: - Indexed cost of acquisition		3,13,000
Long term capital gain		82,00,000
Less: - Exemption under section 54EC (But restricted to ₹ 50,00,000)		50,00,000
Taxable Long term capital gain		32,00,230