Lec 14

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Sec 45 (2) : Conversion of capital asset into Stock in Trade

- Normal year of tax = year of Transfer

But in case of conversion of capital asset into SIT transfer took place in the year of conversion but tax is paid in the year in which the SIT is sold.

- In this case, income is divided in two part

	Computation of Capital Gain	₹	PGBP	₹
	FVOC (FMV on date of conv)	xxx	Sale value of stock	xxx
(−)	Transfer tax	(xx)	(−) FMV of capital asset on date on conversion	(xxx)
	NC	xxx		
	(−) COA / ICOA	(xx)	income of PGBP.	xxx
	(−) COI / ICOI	(xx)		
	STCG / LTCG	xxx		

Q4)

→

10/6/2024

60000

MR. X (PY-24-25, AY 25-26)

Computation of capital Gain. ₹

FVOC (FMV on conversion)		550,000
− (ICOA)	$60000 \times \frac{348\ (23\text{-}24)}{113\ (04\text{-}5)}$	184778
	LTCG	365222

PGBP Income. (PY-24-25, AY 25-26)

PGBP	₹
SP of estate.	600,000
(−) FMV of Capital Asset on conversion	(550000)
PGBP	50000.

(IMP)

Note :

If stock in trade is sold in part then capital Gain also taxable in part

Q5) Preeti

Transfer year →		per flat cost = 800,000
CA: plot of land →	convert into SIT →	→ 5 flats CS
cost:- 10 Lakh	1/4/10	PY - 24-25
year:- 1982-83	FMV = 150,00,000	15 flats sold @ 20 Lakh each
FVM:- 930000 / 10,00,000	PY - 10-11	

* computation of capital Gain.

FVOC (FMV on conversion)	15000000
(-) Transfer exp	-
	1500,0000
- ICOA	
i) cost 10,00,000 ↑ 1000000 × 167/1000	(1670000)
ii) FMV 930000	
Gross LTCG	13330000

∴ Capital Gain taxable in P.Y 24-25

$$13330000 \times \frac{15 \text{ flats}}{20 \text{ flats}} = 9997500.$$

PGBP PY 24-25 AY 25-26

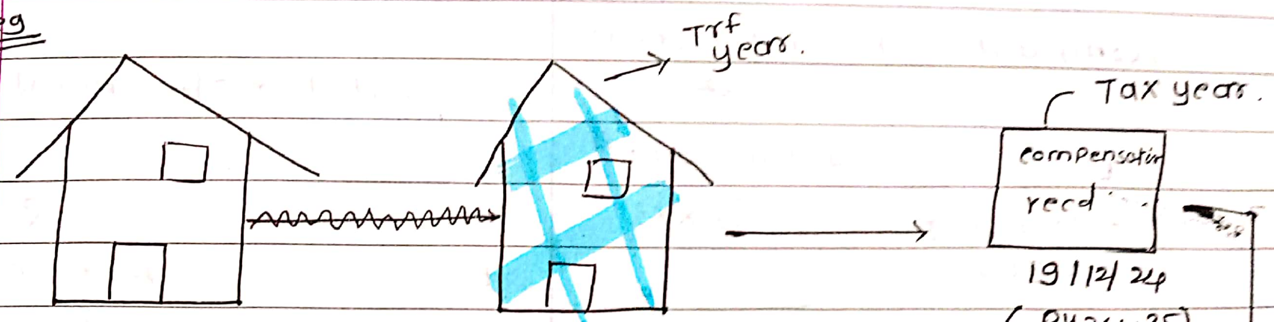
Selling price of stock	300 00,000
(–) FMV of plot on the date of conversion	(11250000)
(150 lakh x 15F / 20F)	
(–) cost of construction	(12000000)
(15 Flat X 800,000)	
	6750000.

Note : As per section 45(2). in case of conversion of capital asset into SIT. Transfer is took place in the year of conversion, but the capital gain is taxable in the year in which SIT is sold. In the present que Preeti sold 15 flats in (PY 24-25) so, proportionate capital gain is taxable in (PY 24-25)

Note2:- If any asset acquired before 1/4/2001 then cost of acquistion shall be actual cost or FMV on 1/4/2001 is whichever is higher. In the present question actual cost is ₹ 10,00,000 that is higher than FMV as 1/4/2001 that is 930000 So, we have to consider ₹ 10,00,000.

Sec 45(5) Compulsory acq. of capital Asset

eg



py 12·13
cost 500000.

Compulsory Acq.
16/7/2022
(PY-22-23)

19/12/24
(PY 24-25)
70,00,000

Computation of capital Gain

FVOC	7000,000
(-) Transfer exp	-
NC	7000,000
(-) ICOA	
$500000 \times \frac{331}{200}$ (2022-23)	827500
LTCG	6172500

Add Compn recd (PY 27-28)
Recd 600000

FVOC	600,000
(-) legal charges	(40000)
LTCG	560000.

- Normally year of ~~transfer~~ Tax = year of Transfer.

But in case of compulsory Aqc. of capital Asset transfer is took place in the year which the asset is compulsory acquired but capital Gain is taxable in the year in which compensation is recd

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PART A	PART B: For Additional / Enhance
For initial Compensation	Compensation
Computation of Capital Gain	
₹	Computation of Capital Gain

FVOC	Initial comp^n.
− Transfer charges	(xxx)
NC	xxx
− COA / ICOA	(xxx)
− COI / ICOI	(xxx)
ST/LTCG	xx

	₹
~~FOV~~ FVOC	Additional compensation
(−) legal charges	(xxx)
ST / LTCG	xx

Compensation received in installment

Intial compensation :-

If it is received in installment then total initial compensation taxable in the year in which first installment is received

Enhance

Additional Compensation:-

If it is received in installment then it is taxable as and when received (जब मिलेगा तब taxable होगा)

Note :- If Intrest is received in late Compensation then such intrest is taxable under Income from other source in the year in which it is received

Taxable amount = Int received X 50%

(50% is standard deduction u/s 57)

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MR Naim. PY. 24-25, AY 25-26.

Computation of capital Gain.

		₹
FVOC (Initial Compensation)		14,00,000.
- (Transfer exp)		-
	Net considration.	1400,000
- ICOA $200000 \times \frac{148\ (09\text{-}10)}{100\ (01\text{-}02)}$		(296000)
		1104000

(PY 26-27 AY 27-28)

* Computation of Capital Gain on Enhanced Compensation.

FVOC (Add^n Compensation)		250000
(-) legal charges		(6000)
	LTCG	244,000

Note 1: If initial compensation received in the instalments then total initial compn is taxable in the year in which first instalments received. In the present question. 1st instalment of ₹10,000 is received in 24-25 so, total compensation of 14,00,000 taxable in the year year PY-24-25.

Note 2: Nature of capital gain on additional compensation depends upon natere of original compensation. If capital gain on original compensation is long term then capital gain on enhonced compensation is also long term.

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MR. Shivam PY 24-25 AY 25-26.

com

FVOC (initial compensation)		20,00,000
(-) Transfer exp		30000
		1970000
– ICOA		
$1200{,}000 \times \frac{317\ (2021\text{-}22)}{113\ (2004\text{-}2005)}$		(3366372)
	LTCL	(1396372) loss

(PY 25-26 AY 26-27)

Computation of Capital Gain on Additional Compensation

FVOC		18,00,000
– (legal charges)		(100,000)
	LTCG	1700,000
less:	LTCL (of PY 24-25)	1396372
	Net LTCG	303628

~~Note~~ :