

COST INFLATION INDEX

F.Y	CII	F.Y	CII	F.Y	CII
01-02	100	07-08	129	13-14	220
02-03	105	08-09	137	14-15	240
03-04	109	09-10	148	15-16	254
04-05	113	10-11	167	16-17	264
05-06	117	11-12	184	17-18	272
06-07	122	12-13	200	18-19	280
				19-20	289

→ Third Proviso to Section 48

20-21 301  
21-22 317

First and second proviso not applicable for computation of LTCG in case of Equity shares, Equity oriented units, units of business trust referred under Section 112A.

→ Fourth Proviso to Section 48: No indexation in case of Debentures and Bond.

Index benefit is **not allowed** in case of bonds/ debentures **except** capital Indexation Bonds and sovereign Gold bonds issued by RBI.

→ Fifth Proviso to Section 48: Foreign Exchange Fluctuation gain on RDB

In case of **NR assessee:**

Any gain arising on rupee appreciation against foreign currency at the time of **redemption of**

RDB of Indian company, shall be ignored for for the purpose, of computation of full value of consideration.

→ Sixth proviso to Section 48

We will discuss with section -47

→ Seventh proviso to Section 48 : Security Transactions Tax (STT) not allowed

STT paid on sale/purchase of share/unit shall not be allowed under capital gain.

→ If it is paid at the time of sale

Not treated as transfer expense.

→ If it is paid at the time of purchase

Not added to the cost of acquisition.

→ EXCEPTIONS TO TAXABLE IN YEAR OF TRANSFER  
(Exception to Section 45(1))

As per section 45(1), capital gain is chargeable to tax in the year of transfer but in the following 4 cases capital gain is not taxable in the year of transfer.

→ Section 45(2) Capital Gain on conversion of capital into stock in trade

Capital Gain shall arise when an assessee converts or treats the capital asset into stock in trade of his business. Capital gain shall be taxable in the

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year in which such stock in trade is sold. FMV on date of conversion shall be deemed as sales consideration. The amount recorded in books of account is not relevant.

→ Computation of Capital Gain and PGBP.

Capital Gain		PGBP	
FVOC (FMV on date of conversion)	xxxx	Sale Price of stock-in-trade	xxxx
(-) Cost of acquisition	(xxx)	(-) FMV of asset on date of conversion	(xxx)
<b>STCG / LTCG</b>	xxx	<b>PGBP</b>	xxx

→ Amount recorded in books of accounts

Not Relevant

→ FMV as on date of conversion

Relevant

NOTE :

1. If any part of stock in trade is sold then only part capital gain shall arise in the year in which part stock-in-trade is sold.
2. In case of conversion of capital asset into stock and subsequent sale of stock, the period of 6 months shall calculate from date of sale of stock in trade for the purpose of exemption u/s 54EC (CBDT circular).

→ Conversion of Stock-in-trade into Capital Assets

→ Section 28 (via) : PGBP

The FMV of inventory as on the date on which it is converted into, or treated as, a capital asset shall be taxable under PGBP.

→ Section 2(24)(xiiia) : Income

The FMV of inventory referred to in clause (via) of section 28.

→ Section 49(9) : Cost of Acquisition

For the purpose of computing Capital Gain COA of such asset shall be FMV referred in Sec. 28(via)

→ Section 2(42A) : Period of Holding

POH shall be reckoned from the date of conversion or treatment into capital Assets.

Example :-

Rahul trading company acquired 10,000 shares BB Ltd. @ 30 each on 10/05/2017 as stock in trade. SIT not sold upto 31/03/2018 and NRV on 31/03/2018 is 32 per share. Inventory of 10,000 shares converted into capital asset on 10/07/2018 and FMV on such date is 36 per share. Assessee transfer 2000 shares on 19/03/2019 @ 45 each and balance 8000 shares on 14/08/2019 @ 36 per share. Compute PGBP and Capital Gain.

- Computation of PGBP

Particular	PY 17-18
	AY 18-19
Opening stock	
Add: Purchase of stock	300000
Less: Sale	
Closing stock (10,000 x 30) (cost - 20 or NRV - 22, Lower)	300000
<b>PGBP</b>	<b>Nil</b>
	300000

- Computation of PGBP

Particular	PY 18-19
	AY 19-20
Opening stock	300000
Add: Purchase of stock	
Less: FMV of stock on the date of conversion into as per section 28(via)	360000
Closing Stock	-
<b>PGBP</b>	<b>60,000</b>
	360000

- Computation of Capital Gain

(Assume shares are unlisted)	PY 18-19	PY 19-20
	AY 19-20	AY 20-21
Period of Holding (10/7/18 - 18/3/19)	(10/7/18 - 18/3/19)	(10/7/18 - 13/8/19)
Full value of consideration	90,000	288,000
Less: COA (FMV on the date of conversion into C.A)	(72,000)	(288,000)
<b>STCG</b>	<b>18,000</b>	<b>Nil</b>

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NOTE :

In this case the PGBP taxable in the year of conversion of SIT into capital asset and capital gain taxable in the year in which capital asset transferred but in section 45(2) conversion of capital asset into stock in trade, C.G and PGBP both taxable in the year in which stock sold.

- Sec. 45(1A) Capital Gain on insurance for damage or destruction of Capital Asset.

When insurance claim is received on damage or destruction of capital asset, then any money or FMV of other asset received from insurance company shall be deemed to be sales consideration for computing capital gain. It shall be taxable in the year of receipt of insurance claim.

**NOTE** If no claim is received, no capital gain shall arise and it shall be a capital loss.

- Sec. 45(5) Capital gain on transfer by way of compulsory acquisition of an asset.

Transfer of capital asset by way of compulsory acquisition of an asset under any law and the consideration is determined or approved by C.G, **RB1** then capital gain shall be taxable as under :

1. **Original** : taxable in the year in which **received** by assessee (even a part thereof).

2. **Enhanced** : taxable in year in which it is **received by the assessee**. Nature of capital gain is same as that of original compensation.  
 However, if enhanced compensation is **received** in pursuance of **interim order** of court, Tribunal or other authority, the amount shall be **taxable** in the previous year in which the **final order** of such court, Tribunal or other authority is **made**.

3. Period of holding **till** the date the asset is compulsorily acquired.

④ CPA = Nil

(in case of E.C)

4. **Interest** on compensation is taxable under head "Other sources" after allowing **deduction** of **50%** under sec. 57

⑤ **Litigation Exp** is deductible while **Computing C.G** on E.C

- Section 45(5A) Special Provision in case of joint development agreement.

- **Applicability** Sec. 45(5A) applies where **an individual, HUF** owning land / building / both enters into a registered agreement with a developer, allowing the developer to develop a real estate project on such land / building both.

- **Year of taxability of Capital Gain** C.G shall be **computed** in the hands of individual / HUF in the year in which the **possession** of immovable property is **handed over** to the developer for

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development of a project.

• C.G. so computed shall be considered as income of the previous year in which the certificate of completion for the whole or part of the project is issued by the competent authority.

Full Value of Consideration

SDV of land/building/both in the project handed over by the developer to individual/HUF as his share on the date of issue of the aforementioned completion certificate.

+

Cash received by the individual/HUF from the developer, if any.

CRUX: Section 45(2), 45(5), 45(1A), 45(5A)

जिस Year में transfer, normally उस Year में ही tax  
except following 4 cases :-

	Conversion of CA into SIT Sec 45(2)	Compulsory acquisition of Asset Sec 45(5)	Destruction of CA. Sec 45(1A)	Immovable property transfer in JDA-Sec 45(5A)
YOT/IF	Year of conversion of CA into stock in-trade	Year of in which compuls-orily acquired	Year of destruction	Year in which possession transfers

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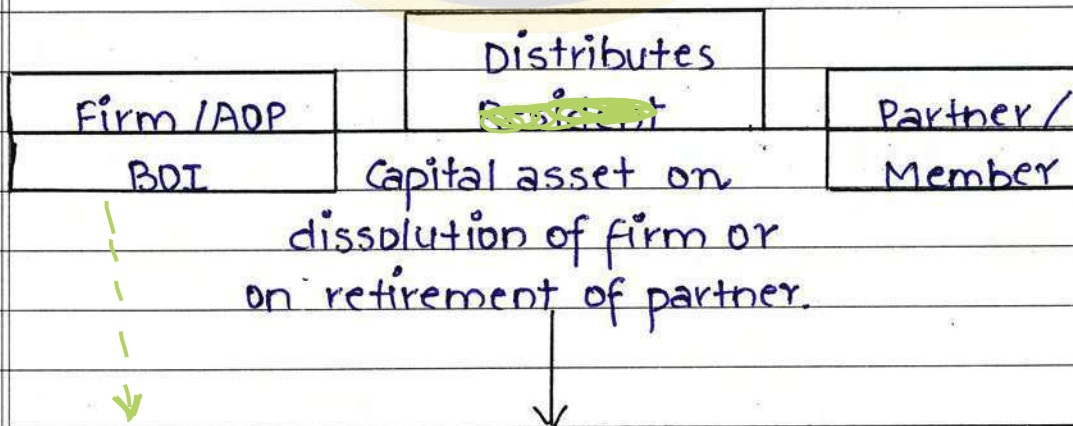
Yo/Tax	Year in which stock is sold.	Year in which compensation received	Year in which claim received	Year in which Cc of project issued.
Indexation upto	Year of transfer	Year of transfer	Year of transfer	Year of transfer

- > Section 45(3) Capital Gain on transfer of Capital asset by Partner / Member to Firm / AOP / BOI.



Amount recorded in books is sales consideration

- > Section 45(4) Capital Gain on transfer of Capital asset by way of distribution or dissolution of Firm / AOP / BOI or otherwise.



Fair Market Value of Capital asset on date of distribution is sales consideration.

- Section 50C: Stamp Duty value shall be treated as FVOC (Amended by FA 20~~10~~)

In case of **land or building or both** (immovable property) held as **capital asset**, if **sales consideration** less than SDV (assessed / assessable by stamp valuation authority) then such **SDV** shall be **deemed** to be full value of consideration (**FVOC**). However, where the SDV does not more than ~~100%~~ <sup>110%</sup> of consideration, then **Sale consideration** shall be treated as FVOC.

- Section 50D Consideration not determinable

Where **consideration** received **cannot be determined** then **\* FMV** of the said asset shall be **deemed** as **consideration** received for the purpose of computation of capital assets. \* (on the date of TF)

- Section 50CA: Full value of consideration in case of Unquoted Shares.

- Section 50CA has been made applicable with effect from PY 2017-18 in case of transfer of unquoted share. (i.e. unlisted shares). Section 50CA is not applicable in case of transfer of listed shares.
- Section 50CA provides that where the **consideration** received for transfer of unlisted share is **less than** Fair Market Value (**FMV**) the FMV of such unlisted shares shall be **deemed** as the **full value of**