



CAPITAL GAINS

CHARGING SECTION (Sec. 45)

- ❖ Any profits or gains arising from “Transfer” of a “Capital Asset” effected in the previous year will be chargeable to Income tax under the head “Capital Gains”
- ❖ In simple words, this head will be applicable when we earn Profit on sale of Assets

CAPITAL ASSETS

- ❖ Capital Asset is **“property”** held by the assessee
- ❖ A capital asset could be connected to the assessee’s business or otherwise
- ❖ Such property can be **tangible** or **intangible**
- ❖ Examples – Land, Building, Goodwill, Trademarks, Vehicles, etc.

EXCEPTIONS FROM CAPITAL ASSETS

- ❖ Stock – in – Trade
- ❖ Personal Effects held for personal use (Excludes – Jewellery, Drawings, Paintings, etc.)
- ❖ Gold bonds issued by Central Government
- ❖ Special Bearer bonds, 1991
- ❖ Gold Deposit Bonds and Deposit certificates of Gold Monetisation scheme, 2015
- ❖ Agricultural land not situated in Urban Area

TRANSFER

- ❖ Sale / Exchange / Relinquishment
- ❖ Extinguishment (Termination)
- ❖ Compulsory Acquisition
- ❖ Conversion into stock
- ❖ Flats in Co-operative societies
- ❖ Maturity of Zero Coupon Bonds

TYPES OF CAPITAL GAINS

- ❖ There are 2 types of Capital gains –
 1. Long Term Capital Gain (LTCG)
 2. Short Term Capital Gain (STCG)
- ❖ The type of Capital Gain applicable depends on the period of holding the asset.
- ❖ Thus, it depends on the period for which the assessee had held the asset before selling

SHORT TERM CAPITAL ASSET (12 Months)

- ❖ Following Assets will be termed as STCA if held for up to **12 months** –
1. Security listed in a recognised stock exchange
 2. Unit of an equity oriented fund / Unit of UTI
 3. Zero Coupon Bonds

SHORT TERM CAPITAL ASSET (24 Months)

❖ Following Assets will be termed as STCA if held for up to **24 months** –

1. Unlisted Shares
2. Land or Building or both

SHORT TERM CAPITAL ASSET (36 Months)

- ❖ Following Assets will be termed as STCA if held for up to **36 months** –
 1. Unit of a Debt oriented mutual fund
 2. Any other Capital Asset (Residual Category)

LONG TERM CAPITAL ASSET

- ❖ Asset which is not a Short Term Asset will be termed as a “Long Term Capital Asset”
- ❖ Thus, a Listed security transferred after 12 months would be LTCA.
- ❖ Land or Building transferred after 24 months would be LTCA.
- ❖ Similarly, a debt oriented fund sold after 36 months would be LTCA

LONG TERM CAPITAL ASSET

- ❖ Asset which is not a Short Term Asset will be termed as a “Long Term Capital Asset”
- ❖ Thus, a Listed security transferred after 12 months would be LTCA.
- ❖ Land or Building transferred after 24 months would be LTCA.
- ❖ Similarly, a debt oriented fund sold after 36 months would be LTCA

CONCEPT OF “INDEXATION”

- ❖ **“Indexation”** refers to a method that helps us to reduce our tax liability
- ❖ Indexation helps us to adjust the asset costs considering **Inflation**
- ❖ This is only applicable to **Long Term Capital Assets**
- ❖ This concept gives us a **realistic amount of profit** earned from the transfer

COST INFLATION INDEX TABLE

<u>FINANCIAL YEAR</u>	<u>COST INFLATION INDEX</u>	<u>FINANCIAL YEAR</u>	<u>COST INFLATION INDEX</u>
2001 - 02	100	2011 - 12	184
2002 - 03	105	2012 - 13	200
2003 - 04	109	2013 - 14	220
2004 - 05	113	2014 - 15	240
2005 - 06	117	2015 - 16	254
2006 - 07	122	2016 - 17	264
2007 - 08	129	2017 - 18	272
2008 - 09	137	2018 - 19	280
2009 - 10	148	2019 - 20	289
2010 - 11	167		

INDEXED COST OF ACQUISITION / IMPROVEMENT

1. Asset directly acquired by the Assessee after 2001

Indexed Cost of Acquisition / Improvement

$$\begin{array}{l} \text{= Cost of Acquisition / Improvement} \times \frac{\text{CII of year of transfer (289)}}{\text{CII of year of Acquisition / Improvement}} \end{array}$$

INDEXED COST OF ACQUISITION / IMPROVEMENT

2. Asset directly acquired by the Assessee before 2001

Indexed Cost of Acquisition

$$\begin{array}{ccc} \text{Higher of Cost of Acquisition} & & \text{CII of year of transfer (289)} \\ \text{OR} & \times & \hline \text{FMV on } \underline{01/04/2001} & & \text{CII of Base Year (100)} \end{array}$$

The equation is enclosed in a large orange-bordered box. On the left side of the box, there are two horizontal orange bars representing an equals sign.

INDEXED COST OF ACQUISITION / IMPROVEMENT

3. Asset directly acquired by the Assessee before 2001 under Sec. 49 (1)

Indexed Cost of Acquisition

$$\begin{array}{ccc} \text{Higher of Cost of Acquisition to} & & \text{CII of year of transfer (289)} \\ \text{previous owner} & \times & \hline \text{OR} & & \text{CII of Base Year (100)} \\ \text{FMV on } \underline{01/04/2001} & & \end{array}$$

INDEXED COST OF ACQUISITION / IMPROVEMENT

4. Asset directly acquired by the Assessee after 2001 under Sec. 49 (1)

Indexed Cost of Acquisition

$$\begin{array}{l} \text{=} \\ \text{=} \end{array} \text{Cost of Acquisition / Improvement} \times \frac{\text{CII of year of transfer (289)}}{\text{CII of year of acquisition by assessee}} \\ \text{previous owner}$$

KEY POINTS RELATING TO “INDEXATION”

- ❖ The Base Year is **2001 – 02** where the CII is equal to **100**
- ❖ The Previous Year is **2019 – 20** where the CII is equal to **289**
- ❖ The Cost of Improvement done before 2001 is to be **IGNORED**

EXEMPTIONS u/s 54

- ❖ An Individual selling a residential property can claim this deduction
- ❖ The Asset which is being sold (transferred) should be Long term asset
- ❖ To claim this exemption the assessee needs to –
 1. Purchase a residential house either 1 year before OR 2 years after the date of transfer
 2. Construct a residential house within 3 years from the date of transfer
 3. Such residential house needs to be located in India

EXEMPTIONS u/s 54EC

- ❖ A Person selling a Long term can claim this deduction
- ❖ The Asset which is being sold (transferred) can be Land, Building or Both
- ❖ To claim this exemption the assessee needs to –
 1. Invest an amount in “Long term specified Assets”
 2. Such investment needs to be done within 6 months from the date of transfer
 3. Specified Assets are – NHAI Bonds & RECL Bonds

COMPUTATION OF CAPITAL GAINS

<u>PARTICULARS</u>	<u>Rs.</u>	<u>Rs.</u>
Full Value of Consideration (FVOC)		XXX
Less – Transfer Expenses	XX	
Less – Cost of Acquisition / Indexed Cost of Acquisition	XX	
Less – Cost of Improvement / Indexed Cost of Improvement	XX	(XXX)
<u>Short term / long term capital gains (gross)</u>		XXX
Less – Exemptions u/s 54 & 54 EC		(XXX)
<u>SHORT TERM / LONG TERM CAPITAL GAINS (NET)</u>		<u>XXXX</u>