

: INCOME FROM CAPITAL GAIN :

Capital gain shall be arise only when 2 conditions are fulfilled / satisfied:

1. There must be a Capital Asset
2. There must be a Transfer

Capital gain shall be arising in the year transfer of Capital Asset.

Capital Gain shall rise in hands of the transferor i.e. seller in case of sales.

What is capital asset?

Capital Asset means any kind of asset whether it is movable, immovable, tangible, intangible but does not includes:

MRS. GS

M = movable personal asset (except jewellery)

R = Rural Agricultural Land in India

S = Stock in Trade

G = Gold Bonds

S = Special Bearer Bonds

What is Transfer?

The term Transfer includes

- Sale
- Exchange
- Relinquishment
- Extinguishment
- Conversion
- Compulsory Acquisition

Types of Capital Asset.

There are mainly 2 types of Capital Assets

1. Short term Capital Asset (Less than OR equal to 3 years)
2. Long term Capital Asset (more than 3 years)

2 types of capital gain

- ⇒ Short-term capital gain
- ⇒ Long-term capital gain

NOTE:

- a. A Capital Asset shall be regarded as a Short term Capital Asset if its period of holding is up to 3 years.
A Capital Asset shall be regarded as a Long term Capital Asset if its period of holding is greater than 3 years.

- b. Period of holding means the total period, starting from the date of purchase & ending on the date of Transfer of Capital Assets.
- c. Capital Gain is arise on sale or transfer on STCA shall be treated as Short term Capital Gain
- d. Capital Gain is arise on sale or transfer on LTCA shall be treated as Long term Capital Gain

Short-term Capital Asset

STCA if held for 12 months	Security listed in a recognised stock exchange
	Unit of equity oriented fund / units of UTI
	Zero Coupon Bonds
STCA if held for 24 months	Unlisted Shares
	Land or Building or Both
STCA if held for 36 months	Unit of Debt Oriented Funds
	Other Capital Asset

Format of Short term Capital Gain:

Sale of _____
 Date of Purchase _____
 Date of Transfer _____

Calculation of Short term Capital Gain

Particulars	Amount
Full value of consideration (selling price)	XXX
Less: transfer expenses	(XX)
Net Consideration	XXX
Less: Cost of Acquisition (purchase price)	(XX)
Less: Cost of Improvement	(XX)
Income from Short term Capital Gain	XXX

Format of Long term Capital Gain:

Sale of _____

Date of Purchase _____

Date of Transfer _____

Calculation of Long term Capital Gain

Particulars	Amount
Full value of consideration (selling price)	XXX
Less: transfer expenses	(XX)
Net Consideration	XXX
Less: Indexed Cost of Acquisition (purchase price)	
$\left(\frac{\text{Cost of Acquisition} \times \text{CII for the year of Transfer}}{\text{CII for the year of Acquisition}} \right)$	(XX)
Less: Indexed Cost of Improvement	
$\left(\frac{\text{Cost of Improvement} \times \text{CII for the year of Transfer}}{\text{CII for the year of Improvement}} \right)$	(XX)
Income from Long term Capital Gain	XXX

Cost Inflation Index (CII):

Financial Year	Cost Inflation Index	Financial Year	Cost Inflation Index
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	2020-21	

Illustration : 1

M owns two machines A and B eligible for depreciation @ 25%. The WDV of machines on 01-04-2019 was Rs. 25,000 and Rs. 40,000 respectively. Find out the Capital Gain, if any, in the following alternative cases:

1. Another machine C costing Rs. 1, 30,000 was added during the year 2019-20. Machine A was sold for Rs. 4,75,000
2. In case 1, assume that machine A was sold for Rs. 1, 90,000.
3. There were NO additions during the year, both the machines A and B were sold for Rs. 75,000
4. In case 3. Assume that both the machinery sold for Rs. 60,000

Solution:

1. Another machine C costing Rs. 1, 30,000 was added during the year 2019-20. Machine A was sold for Rs.

4,75,000

Calculation of Short term Capital Gain

Particulars	Amount
Full value of consideration	4,75,000
Less: transfer expenses	-
Net Consideration	4,75,000
Less: Cost of Acquisition (25,000 + 40,000)	(65,000)
Less: Cost of Improvement	-
Less: addition during the year	(1,30,000)
Income from Short term Capital Gain	2,80,000

Note: the block continues to exist, but at Nil value for the purpose of calculating depreciation

2. In case 1, assume that machine A was sold for Rs. 1, 90,000.

Calculation of Short term Capital Gain

Particulars	Amount
Full value of consideration	1,90,000
Less: transfer expenses	-
Net Consideration	1,90,000
Less: Cost of Acquisition (25,000 + 40,000)	(65,000)
Less: Cost of Improvement	-
Less: addition during the year	(1,30,000)
Income from Short term Capital Gain	Nil

Note: no capital gain or loss arises because 1. Block continuous to exist and 2. Consideration is less than the cost of block. Depreciation will be charged on WDV of Rs. 5,000 (1,95,000 – 1,90,000)

3. There were NO additions during the year, both the machines A and B were sold for Rs. 75,000

Calculation of Short term Capital Gain

Particulars	Amount
Full value of consideration	75,000
Less: transfer expenses	-
Net Consideration	75,000
Less: Cost of Acquisition (25,000 + 40,000)	(65,000)
Less: Cost of Improvement	-
Income from Short term Capital Gain	10,000

4. In case 3. Assume that both the machinery sold for Rs. 60,000

Calculation of Short term Capital Gain

Particulars	Amount
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Full value of consideration	60,000
Less: transfer expenses	-
Net Consideration	60,000
Less: Cost of Acquisition (25,000 + 40,000)	(65,000)
Less: Cost of Improvement	-
Income from Short term Capital Loss	(5,000)

Explanatory Note:

- Short-term Capital Gain arise when consideration exceeds cost of block, whether part or entire block is sold
- Short-term Capital Loss arises only when consideration is lesser than the cost of blocks, and the entire block is sold
- No short-term capital loss arises even when consideration is less than the cost of block, if only part of block is sold

Illustration : 2

Mr. Parag purchase a Residential flat on 2nd may 2017 for Rs. 10,00,000. He paid on the same day the stamp duty and registration charges of Rs. 48,750 on purchase of flat. He sold the said flat on 17th march 2020 for Rs. 12,00,000. The CII for F.Y. 2017-18 is 272 and F.Y. 2019-20 is 289. Compute his capital gain chargeable to tax for A.Y. 2020-21.

Solution:

Sale of : Residential flat

Date of Purchase : 2nd may 2017

Date of Transfer : 17th march 2020

Calculation of Short term Capital Gain

Particulars	Amount
Full value of consideration (selling price)	12,00,000
Less: transfer expenses	Nil
Net Consideration	12,00,000
Less: Cost of Acquisition (purchase price) (10,00,000 + 48,750)	(10,48,750)
Less: Cost of Improvement	Nil
Income from Short term Capital Gain	1,51,250

Illustration : 3

Mr. A purchased a house property on 10-12-2001 for Rs. 5,00,000. He sold the above house property on 10-6-2019 for Rs. 52,00,000. Brokerage paid Rs. 2,00,000. He had construction an additional room in 2005-06 for Rs. 5,00,000. Calculate capital gain of Mr. A for AY 2020-21.

Solution:

Sale of : house property

Date of Purchase : 10th December 2001 (2001-02)

Date of Transfer : 10th June 2019 (2019-20)

Calculation of Long term Capital Gain

Particulars	Amount
Full value of consideration (selling price)	52,00,000
Less: transfer expenses (Brokerage)	(2,00,000)
Net Consideration	50,00,000
Less: Indexed Cost of Acquisition (purchase price)	
$\left(\frac{\text{Cost of Acquisition} \times \text{CII for the year of Transfer}}{\text{CII for the year of Acquisition}} \right)$	
$\left(\frac{5,00,000 \times 289}{100} \right)$	(14,45,000)
Less: Indexed Cost of Improvement	
$\left(\frac{\text{Cost of Improvement} \times \text{CII for the year of Transfer}}{\text{CII for the year of Improvement}} \right)$	
$\left(\frac{5,00,000 \times 289}{117} \right)$	(12,35,043)
Income from Long term Capital Gain	23,19,957

NOTE:

In case if capital asset is acquire before 1st April 2001 than the assessee shall have an option to select cost of acquisition as:

Actual Cost }
Fair Market Value } whichever is higher

1st April 1998 5,00,000
31st march 2020 65,00,000

Fair value (2001-02) 7,00,000

Any cost of improvement incurred on capital asset before 1st April 2001, shall not be allowed & must always be ignored.

Illustration : 4

B purchase a property on 1st January 1978 for Rs. 50,000. This was sold by him on 2nd September 2019 for Rs. 68,00,000. The market value of property on 1st April 2001 was 12,00,000. The expense on transfer were 2% of the sale price compute the capital gain for AY 2020-21.

Solution:

Sale of : house property

Date of Purchase : 1st January 1978

Date of Transfer : 2nd September 2019

Calculation of Long term Capital Gain

Particulars	Amount
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Full value of consideration (selling price)	68,00,000
Less: transfer expenses	(1,36,000)
Net Consideration	66,64,000
Less: Indexed Cost of Acquisition (purchase price)	
$\left(\frac{\text{Cost of Acquisition} \times \text{CII for the year of Transfer}}{\text{CII for the year of Acquisition}} \right)$ $\left(\frac{12,00,000 \times 289}{100} \right)$	(34,68,000)
Income from Long term Capital Gain	31,96,000

Illustration : 5

X purchase a H.P. on 1st September 1991 for Rs. 12,16,000. The fair market value of the property on 1st April 2001 is Rs. 11,70,000. He incurred the following expenses:

1. ~~Construction of a room on the ground floor during the 1993-94 for Rs. 4,00,000~~
2. Renewals / reconstruction in 2004-05 for Rs. 10,92,000

The property is transferred on 31st March 2020 for Rs. 85,00,000. Find out amount of long term capital gain for AY 2020-21.

Solution:

Sale of : house property

Date of Purchase : 1st September 1991

Date of Transfer : 31st March 2020

Calculation of Long term Capital Gain

Particulars	Amount
Full value of consideration (selling price)	85,00,000
Less: transfer expenses	Nil
Net Consideration	85,00,000
Less: Indexed Cost of Acquisition (purchase price)	
$\left(\frac{\text{Cost of Acquisition} \times \text{CII for the year of Transfer}}{\text{CII for the year of Acquisition}} \right)$ $\left(\frac{12,16,000 \times 289}{100} \right)$	(35,14,240)
Less: Indexed Cost of Improvement	
$\left(\frac{\text{Cost of Improvement} \times \text{CII for the year of Transfer}}{\text{CII for the year of Improvement}} \right)$ $\left(\frac{10,92,000 \times 289}{113} \right)$	(27,92,814)
Income from Long term Capital Gain	21,92,946

Exemption U/S 54 & 54EC

A. Purchase of NEW Residential House Property

- It is allowed to Individual and HUF
- Period of holding of old capital asset if more than 3 years
- Old capital asset (which is sold) must be a house property
- New capital asset is purchase or construction of 1 NEW RHP in India
- Exempt amount is amount invested
- Time limit = Purchase : 1 year before within 2 years after of date of transfer
Construction : within 3 years of date of transfer

B. Investment in BONDS

- It is allowed to all assessee
- There should be long term capital asset
- The capital gain arising from such transfer should be invested in long term specified asset within 6 months from date of transfer
- Long term specified asset means specified Bonds, redeemable after 5 years, issued by the National Highway Authority of India (NHAI) or the Rural Electrification Corporation Limited (RECL), or any other notified Bonds.
- Maximum limit Rs. 50,00,000

Illustration : 6

Mr. A purchase a house property for Rs. 56,000 on 30th June 1978.

Fair market value of the property on 1st April 2001 is Rs. 4,50,000. The house property was sold by him on 15th June 2019 for Rs. 99,10,000 (expenses incurred on transfer Rs. 10,000) he purchase a new residential property on 15th December 2019 for Rs. 22,20,000. Calculate his capital gain.

Solution:

Sale of : house property

Date of Purchase : 30th June 1978.

Date of Transfer : 15th June 2019

Calculation of Long term Capital Gain

Particulars	Amount
Full value of consideration (selling price)	99,10,000
Less: transfer expenses	(10,000)
Net Consideration	99,00,000
Less: Indexed Cost of Acquisition (purchase price)	
$\left(\frac{\text{Cost of Acquisition} \times \text{CII for the year of Transfer}}{\text{CII for the year of Acquisition}} \right)$	
$\left(\frac{4,50,000 \times 289}{100} \right)$	13,00,500
Gross Income from Long term Capital Gain	85,99,500
Less : exempt U/S 54 & 54EC	
New purchase of house property within 2 years	(22,20,000)

Net Taxable Income from Long term Capital Gain

63,79,500

Illustration : 7

Mr. X purchase a house property on 1st September 1999. For Rs. 3,00,000. Fair market value of the property on 1st April 2001 is Rs. 1,70,000. He incurred the following expenses:

1. ~~Construction of a room during 2000 – 2001 Rs. 50,000~~
2. Renewal / reconstruction during 2009-10 Rs. 2,00,000

The property is transferred on 31st March 2020 for Rs. 50,00,000. He purchase a piece of land to construction of house on 10th August 2020. For Rs. 10,00,000 and deposited Rs. 2,00,000 in Capital Gain Deposits Account Scheme (CGDAS) on 1st September 2020. Calculate his capital gain for AY 2020-21.

Solution:

Sale of : house property

Date of Purchase : 1st September 1999

Date of Transfer : 31st March 2020

Calculation of Long term Capital Gain

Particulars	Amount
Full value of consideration (selling price)	50,00,000
Less: transfer expenses	Nil
Net Consideration	50,00,000
Less: Indexed Cost of Acquisition (purchase price)	
$\left(\frac{\text{Cost of Acquisition} \times \text{CII for the year of Transfer}}{\text{CII for the year of Acquisition}} \right)$	
$\left(\frac{3,00,000 \times 289}{100} \right)$	(8,67,000)
Less: Indexed Cost of Improvement	
$\left(\frac{\text{Cost of Improvement} \times \text{CII for the year of Transfer}}{\text{CII for the year of Improvement}} \right)$	
$\left(\frac{2,00,000 \times 289}{148} \right)$	(3,90,541)
Gross Income from Long term Capital Gain	37,42,459
Less : exempt U/S 54 & 54EC	
1. New purchase of land for house property within 3 years	(10,00,000)
2. Deposits in CGDAS within 6 months	(2,00,000)
Net Taxable Income from Long term Capital Gain	25,42,459

Illustration : 8

Mr. Ankit acquire residential property on 01-04-1991 for Rs. 3,00,000. Additional information pertaining to property was as follow:

1. Fair market value as on 01-04-2001 was Rs. 5,00,000
2. Cost of improvement made by him

Financial year	Rs.
1994-95	70,000
2006-07	2,20,000
2011-12	5,00,000
2017-18	5,60,000

3. He sold residential property on 25-01-2020 for Rs. 2,00,00,000
4. He acquire new house property for Rs. 58,00,000 on 19-03-2020
5. He also invested Rs. 15,00,000 in RECL bond on 20-03-2020
6. Expense on transfer Rs. 75,000

Compute the long term capital gain for AY 2020-21.

Solution:

Sale of : house property

Date of Purchase : 01-04-1991

Date of Transfer : 25-01-2020

Calculation of Long term Capital Gain

Particulars	Amount
Full value of consideration (selling price)	2,00,00,000
Less: transfer expenses	(75,000)
Net Consideration	1,99,25,000
Less: Indexed Cost of Acquisition (purchase price)	
$\left(\frac{\text{Cost of Acquisition} \times \text{CII for the year of Transfer}}{\text{CII for the year of Acquisition}} \right)$	
$\left(\frac{5,00,000 \times 289}{100} \right)$	(14,45,000)
Less: Indexed Cost of Improvement	
$\left(\frac{\text{Cost of Improvement} \times \text{CII for the year of Transfer}}{\text{CII for the year of Improvement}} \right)$	
(2006-07) $\left(\frac{2,20,000 \times 289}{122} \right)$	(5,21,148)
(2011-12) $\left(\frac{5,00,000 \times 289}{184} \right)$	(7,85,326)
(2017-18) $\left(\frac{5,60,000 \times 289}{272} \right)$	(5,95,000)
Gross Income from Long term Capital Gain	1,65,78,526
Less : exempt U/S 54 & 54EC	
1. New purchase of land for house property within 2 years	(58,00,000)
2. Deposits in RECL bond within 6 months	(15,00,000)
Net Taxable Income from Long term Capital Gain	92,78,526

Illustration : 9

A purchases a house property for Rs.40,000 on June 30,1978. Fair market value of the property on April 1,2001 Rs.5,50,000. The house property is sold by X on June 15, 2019 for Rs 1 Crore (expenses incurred on transfer Rs.10,000). He Constructed a new Residential property On Dec 12, 2019 for Rs.3,00,000 and invested Rs. 2,00,000 in Bonds of NHA1 on the same date. Calculate Capital Gains.

Solution:

Sale of : house property

Date of Purchase : 30 June 1978

Date of Transfer : 15 June 2019

Calculation of Long term Capital Gain

Particulars	Amount
Full value of consideration (selling price)	1,00,00,000
Less: transfer expenses	(10,000)
Net Consideration	99,90,000
Less: Indexed Cost of Acquisition (purchase price)	
$\left(\frac{\text{Cost of Acquisition} \times \text{CII for the year of Transfer}}{\text{CII for the year of Acquisition}} \right)$	
$\left(\frac{5,50,000 \times 289}{100} \right)$	(15,89,500)
Gross Income from Long term Capital Gain	84,00,500
Less : exempt U/S 54 & 54EC	
1. New construction of house property within 3 years	(3,00,000)
2. Deposits in RECL bond within 6 months	(2,00,000)
Net Taxable Income from Long term Capital Gain	79,00,500

Illustration : 10

Mr.Adnan purchased a property on 10 August, 2001 for Rs. 1,00,000. This property was compulsorily acquired by the government in PY 07-08. Mr. Adnan received a compensation of Rs.5,00,000 on 20.9.2019. He also received an additional compensation of Rs. 2,00,000 in PY 19-20, for which he incurred Rs. 3,000 as legal expenses. Compute the income under the head "Capital gains".

Solution:

Sale of : house property

Date of Purchase : 10-08-2001

Year of Transfer : 2007-08

Calculation of Long term Capital Gain

Particulars	Amount
Full value of consideration (selling price)	7,00,000
Less: transfer expenses	(3,000)

Net Consideration	6,97,000
Less: Indexed Cost of Acquisition (purchase price)	
$\left(\frac{\text{Cost of Acquisition} \times \text{CII for the year of Transfer}}{\text{CII for the year of Acquisition}} \right)$	
$\left(\frac{1,00,000 \times 129}{100} \right)$	(1,29,000)
Income from Long term Capital Gain	5,68,000

Illustration : 11

X acquires a capital asset on April 1, 2007 for Rs. 40,000. He converts the capital asset into stock-in-trade on April 1, 2012 (fair market value on the day of conversion: Rs. 1,62,000). The stock-in-trade is sold by X on March 10, 2020 for Rs.5,86,000. Determine the amount of capital gains.

Solution:

Sale of : stock-in-trade

Date of Purchase : 01-04-2007

Date of conversion : 01-04-2012

Date of Transfer : 10-03-2020

Calculation of Long term Capital Gain

Particulars	Amount
Full value of consideration (selling price)	5,86,000
Less: transfer expenses	Nil
Net Consideration	5,86,000
Less: Indexed Cost of Acquisition (purchase price)	
$\left(\frac{\text{Cost of Acquisition} \times \text{CII for the year of Transfer}}{\text{CII for the year of Acquisition}} \right)$	
$\left(\frac{1,62,000 \times 289}{200} \right)$	(2,34,090)
Income from Long term Capital Gain	3,51,910