UDHNA COLLEGE

SYBCOM SEM-III

Advanced Accounting and Auditing-II(Accountancy & Taxation)

UNIT 3 DIRECT TAX (Capital Gain)

3) Computation of Income under the head "Capital Gains"

Any gain arising from the transfer of a capital asset during a previous year is chargeable to tax under the head "**Capital gains**" in the immediately following assessment year, if it is not eligible for exemption under sections 54, 54B, 54D, 54EC, 54F, 54G, 54GA and 54GB. In other words, capital gain's tax liability arises only when the following conditions are satisfied:

Condition 1	There must be a capital asset.
Condition 2	The capital asset must have been transferred by the assessee.
Condition 3	Such transfer takes place during the previous year.
Condition 4	There must be profit or gains on such transfer.
Condition 5	Such profit or gains is not exempt from tax under sections 54, 54B, 54D, 54EC, 54EE, 54F, 54G, 54GA and 54GB.

If the aforesaid conditions are satisfied, then capital gain is taxable in the assessment year relevant to the previous year in which the capital asset is transferred.

What is included in and excluded from capital asset?

"Capital asset" is defined by section 2(*14*).

"Capital asset" means property of any kind, whether fixed or circulating, movable or immovable, tangible or intangible. Besides, it includes the following –

- Any rights in or in relation to an Indian company, including rights of management or control or any other rights whatsoever.
- Property of any kind held by an assessee (whether or not connected with his business or profession).
- Any securities held by a Foreign Institutional Investor which has invested in such securities in accordance with the regulations made under the SEBI Act.
- Any unit-linked insurance plan (ULIP policy) issued on or after February 1, 2021 to which exemption under section 10(*10D*) does not apply (*i.e.*, if insurance premium payable in any previous year during the term of such policy exceeds Rs. 2.50 lakh).

The following assets are excluded from the definition of "capital assets" –

- Stock-in-trade (other than securities referred to in point 3 above).

- Personal effects (movable assets).

(e.g. wearing apparel, furniture, vehicle, mobile, laptop) however the following assets shall not be treated as personal effect though these assets are movable and may be held for personal use.

1. Jewellery
2. Archaeological collection
3. Drawings
4. Paintings
5. Sculpture or
6. Any work of art.

- Agricultural land in a rural area in India.

- Gold Deposit Bonds issued under the Gold Deposit Scheme, 1999 or deposit certificates issued under the Gold Monetisation Scheme, 2015.

Types of Capital Assets:

1. **Short term capital assets**
2. **Long term capital assets**

"Short-term capital asset" means a capital asset held by an assessee for not more than 24 months, immediately preceding the date of its transfer. In other words, if a capital asset is held by an assessee for more than 24 months, then it is known as "long-term capital asset".

- **When such period is taken as 12 months –** If a capital asset is transferred after 24 months, it is known as long-term capital asset. However, in the following cases a capital asset becomes long-term capital asset if it is transferred after 12 months –

1. a securities including shares listed in a recognized stock exchange in India.

2. Units of an equity-oriented fund.

3. Zero coupon bonds.

Note: Hence gains arising from short term capital assets shall be short term capital gain and gains arising from long term capital assets shall be long term capital gain.

- **Computation of Capital Gain:**

Particulars	Amount	Amount
Computation of Short-term Capital Gain:		
Full Value Consideration	*****	
Less: Expenditure on transfer	**	
Net Consideration		*****
Less: Cost of acquisition	**	
Less: Cost of improvement	***	
Gross Short Term Capital Gain		******
Less: Exemption under section 54B/54D/54G/54GA		**
Taxable Short Term Capital Gain		*******
Computation of long-term capital gain:		
Full Value Consideration	*****	
Less: Expenditure on transfer	**	
Net Consideration		*****
Less: Cost of acquisition	**	
Less: Cost of improvement	***	
Gross-Long Term Capital Gain		******
Less: Exemption under section 54/54B/54D/54EC/54EE/54F/54G/54GA/54GB		**
Taxable Long Term Capital Gain		*****

What is the full value of consideration? [Sec. 48]

Full value of consideration is the consideration received or receivable by the transferor in lieu of assets, which he has transferred. Such consideration may be received in cash or in kind. If it is received in kind, then fair market value of such assets is taken as full value of consideration.

Expenditure on transfer

Expenditure incurred directly or indirectly for the purpose of transfer of capital asset is deductible from full value of consideration.

Examples of such expenses are: brokerage or commission paid for securing a purchaser, cost of stamp, registration fees borne by the vendor, travelling expenses incurred in connection with transfer, litigation expenditure for claiming enhancement of compensation awarded in the case of compulsory acquisition of assets.

What is cost of acquisition?

Cost of acquisition of an asset is the value for which it was acquired by the assessee. Expenses of capital nature for completing or acquiring the title to the property are includible in the cost of acquisition. Interest on money borrowed to purchase asset is part of actual cost of asset.

What is cost of improvement?

Cost of improvement is capital expenditure incurred by an assessee in making any additions/improvement to the capital asset. It also includes any expenditure incurred to protect or complete the title to the capital assets or to cure such title.

Note: In case of asset purchased before 1/4/2001, the assessee has an option to take either the actual cost or the fair market value of asset as on 1/4/2001 to be the cost of acquisition for computation of capital gain.

- **Capital gain on transfer of depreciable assets [Section 50]**

In certain cases, there can be capital gain on the transfer of depreciable assets, which form part of a block of assets. If the full value of the consideration as a result of transfer of any part or entire block of assets exceeds the cost of acquisition of that block of depreciable assets, there will be a capital gain, which will always be short-term capital gain.

For the purpose of computing the capital gains, the following are normally deducted:

(a) Expenses on transfer.

(b) cost of acquisition and cost of improvement thereto.

In case of depreciable assets, cost of acquisition and cost of improvement is taken as the aggregate of the following

(a) WDV of the block of assets at the beginning of the year; and

(b) actual cost of any asset falling within that block, acquired during the year.

The capital gain is calculated under the following two cases:

(1) Where entire block of depreciable assets is transferred i.e. the block ceases to exist: If the value of the consideration exceeds the aggregate of cost of acquisition and the expenses of transfer, there will be short-term

capital gain. On the other hand, if the value of the consideration of entire block transferred is less than the aggregate of cost of acquisition and expenses of transfer, there will be short-term capital loss;

(II) Where part of the block of depreciable assets is transferred i.e. the block does not cease to exist. If the value of consideration exceeds the aggregate of cost of acquisition and expenses of transfer, there will be short-term capital gain. On the other hand, if the value of the consideration of the part transferred is less than the cost of acquisition, then the balance left is the WDV of the block at the end of the year on which depreciation will be charged as per section 32.

- **Capital gain on sale of land and building to be computed separately in case of building constructed by the assessee:**
  Where the assessee acquires land and constructs the building on the same in any subsequent previous year then, for the purpose of computation of capital gain, the period of holding of the land and period of holding of the building shall be separately determined. The period of holding of land shall be from the date of purchase of land till the date of sale of the house property. On the other hand, the period of holding of the building shall be from the date of completion of building till the date of sale of the house property. Thus, for computing capital gain, the indexation of cost, if required, will be computed separately for the land and for the building.
  Important Note:
  Benefit of indexation was available for all capital assets which were transferred before 23.7.2024, but if any capital asset (other than land or building or both) is transferred on or after 23.7.2024, the benefit of indexation has been withdrawn by the Finance (No. 2) Act, 2024. However, in case of an individual or HUF who is a resident in the previous year, for computing tax on long-term capital gain on transfer of land or building or both which was acquired before 23.7.2024, but transferred on or after 23.7.2024, such assessee may avail the benefit of indexation if the tax payable on long-term capital gain computed after indexation is less than the tax payable on such long-term capital gain without indexation.

  Indexation of cost of acquisition and cost of improvement to be allowed in case of long-term capital gain (indexation applicable up to 22.7.2024)
  Although indexation was applicable up to 22.7.2024, but as discussed in the important note above, for computing tax in case of individual or HUF who is resident in India, long-term capital gain on the transfer of land or building or both, indexation benefit can be availed if the tax payable after indexation is less than the tax payable without indexation.
  The cost of acquisition and cost of improvement are indexed on the basis of certain percentage of the consumer price index, which is determined keeping in view the rise in prices due to inflation.

Capital Gain Exemptions :

Section	Asset sold	Applicability	
54	Profit on sale of property used for residence	Assessee	Individual / HUF
		Type of asset transferred	Residential House Property
		Type of transfer	LTCG
		New asset purchased	One Residential House From AY 2021-22, If CG is less than or equal to 2 crores - Two residential houses can be purchased.
		Time Limit for investment in new asset	Purchase - Within 1 year before or 2 years after transfer. Construction - Within 3 years from transfer
		Exemption Amount	Long-Term Capital Gain OR Cost of a new asset, whichever lesser (Maximum exemption is limited to Rs. 10 Crores)
		CGAS* available	Yes - deposit by return filing due date
		Additional Conditions	1. If a new asset is sold within 3 years, the amount earlier exempted under this section will be reduced from its COA to calculate capital gains thereon 2. If the amount in CGAS is not utilised within the prescribed time limit, such unutilized amount will be taxable as capital gains

54B	Capital gain on transfer of land used for agricultural purposes	Assessee	Individual / HUF
		Type of asset transferred	Land used for agricultural purposes by the individual / his parent / HUF, as the case may be for 2 years prior to transfer
		Type of transfer	LTCG / STCG
		New asset purchased	Agricultural land
		Time Limit for investment in new asset	Within 2 years from the date of transfer
		Exemption Amount	Long-Term Capital Gain OR Cost of the new asset (land), whichever lesser
		CGAS* available	Yes - deposit by return filing due date
		Additional Conditions	1. If a new asset is sold within 3 years, the amount earlier exempted under this section will be reduced from its COA to calculate capital gains thereon 2. If the amount in CGAS is not utilized within the prescribed time limit, such unutilized amount will be taxable as capital gains
54D	Compulsory acquisition of land and buildings used in an industrial undertaking	Assessee	Any assessee being an industrial undertaking
		Type of asset transferred	Land or building forming part of an industrial undertaking used for the same in the past 2 years prior to the transfer
		Type of transfer	LTCG

		New asset purchased	Land or building for shifting or re-establishing the industrial undertaking
		Time Limit for investment in new asset	Within 3 years from the date of transfer
		Exemption Amount	Long Term Capital Gain OR Cost of the new asset (land/building) whichever lesser
		CGAS* available	Yes - deposit by return filing due date
		Additional Conditions	1. If a new asset is sold within 3 years, the amount earlier exempted under this section will be reduced from its COA to calculate capital gains thereon 2. If the amount in CGAS is not utilized within the prescribed time limit, such unutilized amount will be taxable as capital gains
54EC	Investment in certain bonds	Assessee	Any assessee
		Type of asset transferred	Land or building or both
		Type of transfer	LTCG
		New asset purchased	NHAI bonds or RECL bonds, redeemable after 5 years, which are issued on or after 1.4.2018
		Time Limit for investment in new asset	Within 6 months from the date of the transfer

		Exemption Amount	Actual amount invested subject to max.Rs.50 lakhs
		CGAS* available	No
54EE	Investment in units of a specified fund	Assessee	Any assessee
		Type of asset transferred	Long-term capital asset
		Type of transfer	LTCG
		New asset purchased	Units notified by the Central Government
		Time Limit for investment in new asset	Within 6 months from the transfer
		Exemption Amount	Cost of new asset x Capital Gain / Net consideration (maximum up to capital gain)
		CGAS* available	No
		Additional Conditions	1. If a new asset is sold within 3 years, the amount earlier exempted under this section will be reduced from its COA to calculate capital gains thereon 2. If a loan is taken on the security of the new specified asset within 3 years, the same will be treated as capital gains

			3. Investment in specified units should not exceed Rs.50 lakh during the current and succeeding fiscal year
54F	Investment in residential house	Assessee	Individual / HUF
		Type of asset transferred	Any long-term capital asset other than a residential house
		Type of transfer	LTCG
		New asset purchased	Residential house property
		Time Limit for investment in new asset	Purchase - Within 1 year before or 2 years after transfer Construction - Within 3 years from transfer
		Exemption Amount	If the cost of new residential house is not less than the net consideration than the whole of capital gain otherwise, Cost of new asset x Capital Gain / Net consideration (Maximum exemption is limited to Rs. 10 Crores)
		CGAS* available	Yes - deposit by return filing due date
		Additional Conditions	1. If a new asset is sold within 3 years, the amount earlier exempted under this section will be reduced from its COA to calculate capital gains thereon 2. If the amount in CGAS is not utilised within the prescribed time limit, such unutilised amount will be taxable as capital gains 3. The Individual/HUF cannot own more than 2 house properties (i.e., existing House property and new house property). If another house property is purchased, the amount

			of exemption allowed earlier will be chargeable as capital gains
54G, & 54GA	54G: Shifting of industrial undertaking from an urban area to a rural area.	Assessee	Any assessee being an industrial undertaking
	54GA: Shifting of industrial undertaking from an urban area to SEZ	Type of asset transferred	Capital assets are plant, machinery, land, buildings or rights in land or buildings that are used in an industrial undertaking situated in an urban area
		Type of transfer	STCG / LTCG
		New asset purchased	Shifting of industrial undertaking to an area other than an urban area to rural or SEZ area involving: 1. Purchase of new plant/machinery 2. Acquisition of land or construction of a building 3. Shifted old asset and transferred undertaking to a new area 4. Incurred specified expenses
		Time Limit for investment in new asset	1 year before and 3 years after the date of transfer
		Exemption Amount	Long-Term Capital Gain OR Cost of new asset, whichever lesser
		CGAS* available	Yes - deposit by return filing due date
		Additional Conditions	1. If a new asset is sold within 3 years, the amount earlier exempted under this section will be reduced from its COA to calculate capital gains thereon

			2. If the amount in CGAS is not utilised within the prescribed time limit, such unutilised amount will be taxable as capital gains

***CGAS stands for Capital Gains Accounts Scheme i.e., a type of account opened with a bank or specified institution that essentially acts as a means to park the capital gains until it can be used for its prescribed purpose.**

Note:

HUF – Hindu Undivided Family
LTCG – Long-term capital gain
COA – Cost of Acquisition
NHAI – National Highway Authority of India

RECL – Rural Electrification Corporation Limited
STCG – Short-term capital gain
SEZ – Special Economic Zone

- **Cost Inflation Index Table from FY 2001-02 to FY 2025-26**

Financial Year	Cost Inflation Index (CII)
2001-02 (Base year)	100
2002-03	105
2003-04	109
2004-05	113
2005-06	117
2006-07	122
2007-08	129

2008-09	137
2009-10	148
2010-11	167
2011-12	184
2012-13	200
2013-14	220
2014-15	240
2015-16	254
2016-17	264
2017-18	272
2018-19	280
2019-20	289
2020-21	301
2021-22	317
2022-23	331
2023-24	348
2024-25	363
2025-26	376