

CAPITAL GAINS

As per Sec. 45(1) profit or gains arising of a rising of a transfer of a capital asset shall be chargeable under the heads Capital Gain.

Capital Asset [Sec. 2(14)]: It means any kind of property held by an assessee but does not includes stock in trade, personal effect other than jewellery, agricultural land in rural area, gold bonds, special bearer bond and gold deposit bonds.

Capital Asset may be:

- i. Short Term Capital Asset
- ii. Long Term Capital Asset

Short Term Capital Asset [Sec. 2(42A)]: It means a capital assets held by an assessee not more than 36 months immediately before the date of transfer. However, in the following cases assets will be termed as a Short Term Capital Asset if it is held not more than 12 months immediately before the date of transfer: -

- a. Equity or preference shares in a company whether coated or not,
- b. Any security, i.e. debenture, government securities, etc. listed in a recognised stock exchange in India,
- c. Zero Coupon Bond,
- d. Units of UTI whether coated or not,
- e. Units of mutual fund approved u/s 10(23D) of the act.

Long Term Capital Asset [Sec. 2(29A)]: A capital asset which is not a Short Term Capital Asset is a Long Term Capital Asset in other words an asset held by the assessee for more than 36 months or 12 months (as the case may be) is treated as a Long Term Capital Asset.

Illustration 1:

- 1) Jewellery purchased on 1st July, 2005 and sold on 7th March, 2010.
- 2) Shares in X ltd. purchased on 07/07/05 and sold on 15/09/09.
- 3) Personal car purchased on 18/08/90 and sold on 17/08/09.
- 4) Residential house used for own occupation constructed on 17/07/80 and sold on 15/04/09.
- 5) Units of UTI purchased on 15/05/09 and sold on 01/01/10.
- 6) Zero Coupon Bonds purchased on 06/06/08 and sold on 11/11/09.

Solution:

ITEMS	HOLDING PERIOD	EXPLANATION	NATURE OF ASSET
Jewellery	01/07/05 to 07/03/10	More than 36 months	Long Term Capital Asset
Shares	07/07/05 to 15/09/09	More than 12 months	Long Term Capital Asset
Personal Car	18/08/90 to 17/08/09	Personal effect	Not a Capital Asset

Units of UTI	15/05/09 to 01/01/10	Less than 12 months	Short Term Capital Asset
Residential House	17/07/80 to 15/04/09	More than 36 months	Long Term Capital Asset
Zero Coupon Bond	06/06/08 to 11/11/09	More than 12 months	Long Term Capital Asset

Computation of Short Term Capital Gain [STCG]: -

DETAILS	Rs.	Rs.
Sale Consideration	***	
Less: Expense on transfer	(***)	
Net Sale Consideration		****
Less: Cost of Acquisition	(***)	
Less: Cost of Improvement	(***)	(***)
STCG		****
Less: Exemption u/s 54B, 54D, 54G & 54GA		(***)
Taxable STCG		****

Illustration 2:

Mr. Ram had purchased a golden ring as on 17/08/08 for Rs.20000. On 01/05/09 he has sewn a diamond on it costing Rs.25000. On 01/08/09 is sold such ring for Rs.80000 and incurred brokerage for arranging customer Rs.5000. Compute taxable Capital Gain.

Solution:

Computation of Capital Gain of Mr. Ram for the AY 10-11 relating to the PY 09-10:

DETAILS	Rs.	Rs.
Sale Consideration -	80000	
Less: Expense on transfer -	(5000)	
Net Sale Consideration -		75000
Less: Cost of Acquisition -	(20000)	
Less: Cost of Improvement -	(25000)	(45000)
STCG -		30000
Less: Exemption u/s 54B, 54D, 54G & 54GA -		NIL
Taxable STCG -		30000

Computation of Long Term Capital Gain [LTCG]: -

DETAILS	Rs.	Rs.
Sale Consideration -	***	
Less: Expense on transfer -	(***)	
Net Sale Consideration -		****
Less: Index Cost of Acquisition (note1) -	(***)	
Less: Index Cost of Improvement (note2) -	(***)	(***)
LTCG -		****
Less: Exemption u/s 54, 54B, 54D, 54 EC, 54F, 54G & 54GA-		(***)
Taxable LTCG -		****

Note 1:

Index Cost of Acquisition = Cost of Acquisition x (Index of the year of transfer / Index of the year of acquisition)

Note 2:

Index Cost of Improvement = Cost of Improvement x (Index of the year of transfer / Index of the year of improvement)

Illustration 3:

Mr. Prasanta purchased a house property as on 17/08/91 for Rs.2 lakhs. On 01/05/94 he constructed a new floor on the same house at a cost of Rs.250000. On 01/10/09 he sold such house for Rs.8 lakhs & incurred brokerage @ 2% for arranging customer. Compute Capital Gain.

Index: Year 1991 – 199; Year 1994 – 259; Year 2009 – 632.

Solution:

Computation of Capital Gain of Mr. Prasanta for the AY 10-11 relating to the PY 09-10:

DETAILS	Rs.	Rs.
Sale Consideration -	800000	
Less: Expense on transfer (@2%) -	(16000)	
Net Sale Consideration -		784000
Less: Index Cost of Acquisition [200000 x (632/199)] -	(635176)	
Less: Index Cost of Improvement [250000 x (632/259)] -	(610039)	(1245215)
Long Term Capital Loss [LTCL] -		(461215)

Illustration 4:

Mrs. Radhika acquired land on 01/04/77 for Rs.10000. The fair market value as on 01/04/81 was Rs.12500. As on 01/04/09 she sold such land for Rs.140000. Brokerage @ 1% on sale value was paid by her. Compute Capital Gain in hands of Mrs. Radhika for the AY 10-11.

Index: Year 2009 – 632; Year 1981 – 100.

Solution:

Computation of Capital Gain of Mrs. Radhika for the AY 10-11 relating to the PY 09-10:

DETAILS	Rs.	Rs.
Sale Consideration -	140000	
Less: Expense on transfer (@2%) -	(1400)	
Net Sale Consideration -		138600
Less: Index Cost of Acquisition [12500 x (632/100)] -		(79000)
Long Term Capital Gain [LTCG] -		59600

Illustration 5:

Miss Pari has acquired an urban land on 01/04/79 for Rs.5 lakhs. She incurred improvement expenditure as on 01/07/79 Rs.1 lakh & 01/08/89 Rs.2 lakhs.

As on 01/09/09 Miss Pari sold such property for Rs.25 lakhs. Brokerage @ 2% of sales value was paid by her. The fair market value of such property as on 01/04/81 is Rs.550000. Compute Capital Gain in the hands of Miss Pari for the AY 10-11.

Index: Year 2009 – 632; Year 1981 – 100; Year 1989 – 172.

Solution:

Computation of Capital Gain of Miss Pari for the AY 10-11 relating to the PY 09-10:

DETAILS	Rs.	Rs.
Sale Consideration -	2500000	
Less: Expense on transfer (@2%) -	(50000)	
Net Sale Consideration -		2450000
Less: Index Cost of Acquisition [600000 x (632/100)] -	(3792000)	
Less: Index Cost of Improvement [200000 x (632/172)] -	(734884)	(4526884)
Long Term Capital Loss [LTCL] -		(2076884)

Note:

- i. Cost of improvement incurred before 01/04/81 is not be considered.
- ii. Cost of acquisition is taken as actual cost of acquisition (i.e. Rs.500000) or Fair Market Value as on 01/04/81 (i.e. Rs.550000) whichever is higher.

Illustration 6:

Miss Isha has 1000, 10% debentures of X Ltd. acquired on 17/04/87 for Rs.120 each. As on 01/02/09 she sold such assets for Rs.145000. Brokerage @ 0.5% of sales value was paid by her. Compute Capital Gain in hands of Miss Isha for the AY 10-11.

Solution:

Computation of Capital Gain of Miss Isha for the AY 10-11 relating to the PY 09-10:

DETAILS	Rs.	Rs.
Sale Consideration -	145000	
Less: Expense on transfer (@0.5%) -	(725)	
Net Sale Consideration -		144275
Less: Cost of Acquisition [1000 x 120] -		(120000)
Long Term Capital Gain [LTCG] -		24275

Note:

Though the assets sold is Long Term Capital Asset still indexation shall not be applicable as indexation benefit is not available on transfer of debentures u/s 48.

COST INFLATION INDEX:

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

Self Learning Video Link:

<https://youtu.be/6bh9QvRZyFA>

<https://youtu.be/eehcDKO6IiY>

https://www.youtube.com/playlist?list=PLU2YP04_LRDvNJg5-zoh1LT13jPJmXk4g