# CHAPTER 8
# CAPITAL GAINS

## 1. ICAI STUDY MATERIAL QUESTIONS

### Concept Problem 1

How will you calculate the period of holding in case of the following assets?

i) Shares held in a company in liquidation

ii) Bonus shares

iii) Flat in a co-operative society.

### Solution

i) **Shares held in a company in liquidation -** The period after the date on which the company goes into liquidation shall be excluded while calculating the period of holding. Therefore, the period of holding shall commence from the date of acquisition and end with the date on which the company goes into liquidation.

ii) **Bonus shares -** The period of holding shall be reckoned from the date of allotment of bonus shares and will end with the date of transfer.

iii) **Flat in a co-operative society -** The period of holding shall be reckoned from the date of allotment of shares in the society and will end with the date of transfer.

**Note –** Any transaction whether by way of becoming a member of, or acquiring shares in, a co-operative society or by way of any agreement or any arrangement or in any other manner whatsoever which has the effect of transferring, or enabling enjoyment of, any immovable property is a transfer as per section 2(47).

Hence, it is possible to take a view that any date from which such right is obtained may be taken as the date of acquisition.

### Concept problem 2

A is the owner of a car. On 01.04.2021, he starts a business of purchase and sale of motor cars. He treats the above car as part of the stock-in-trade of his new business. He sells the same on 31.03.2022 and gets a profit of INR 1 lakh. Discuss the tax implication in his hands under the head “Capital gains”.

### Solution

Since car is a personal asset, conversion or treatment of the same as the stock-in-trade of his business will not be covered by the provisions of section 45(2). Hence, A is not liable to capital gains tax.

### Concept problem 3

X converts his capital asset (acquired on June 10, 2003 for INR 60,000) into stock-in- trade on March 10, 2021. The fair market value on the date of the above conversion was INR 5,50,000. He subsequently sells the stock-in-trade so converted for INR 6,00,000 on June 10, 2021. Discuss the year of chargeability of capital gain.

### Solution

Since the capital asset is converted into stock-in-trade during the previous year 2020-21 relevant to the A.Y. 2021-22, it will be a transfer under section 2(47) during the P.Y. 2020-21. However, the profits or gains arising from the above conversion will be chargeable to tax during the A.Y. 2022-23, since the stock-in- trade has been sold only on June 10, 2021.

For this purpose, the fair market value on the date of such conversion (i.e. 10th March, 2021) will be the full value of consideration for computation of capital gains. The business income of ₹ 50,000 (i.e., ₹ 6,00,000 (-) ₹ 5,50,000, being the fair market value on the date of conversion) would also be taxable in the A.Y.2022-23. Thus, both capital gains and business income would be chargeable to tax in the A.Y.2022-23.

## Concept Problem 4

M held 2000 shares in a company ABC Ltd. This company amalgamated with another company during the previous year ending 31-3-2022. Under the scheme of amalgamation, M was allotted 1000 shares in the new company. The market value of shares allotted is higher by INR 50,000 than the value of holding in ABC Ltd. The Assessing Officer proposes to treat the transaction as an exchange and to tax INR 50,000 as capital gain. Is he justified?

### Solution

In the above example, assuming that the amalgamated company is an Indian company, the transaction is squarely covered by the exemption explained above and the proposal of the Assessing Officer to treat the transaction as a transfer is not justified.

## Concept Problem 5

In which of the following situations capital gains tax liability does not arise?

a) Mr. A purchased gold in 1970 for INR 25,000. In the P.Y.2021-22, he gifted it to his son at the time of marriage. Fair market value (FMV) of the gold on the day the gift was made was INR 1,00,000.

b) A house property is purchased by a HUF in 1945 for INR 20,000. It is given to one of the family members in the P.Y. 2021-22 at the time of partition of the family. FMV on the day of partition was INR 12,00,000.

c) Mr. B purchased 50 convertible debentures for INR 40,000 in 1995 which are converted in to 500 shares worth INR 85,000 in November 2021 by the company.

### Solution

Capital gains arise only when we transfer a capital asset. The liability of capital gains tax in the situations given above is discussed as follows:

a) As per the provisions of section 47(iii), transfer of a capital asset under a gift is not regarded as transfer for the purpose of capital gains. Therefore, capital gains tax liability does not arise in the given situation.

b) As per the provisions of section 47(i), transfer of a capital asset (being in kind) on the total or partial partition of Hindu Undivided Family is not regarded as transfer for the purpose of capital gains. Therefore, capital gains tax liability does not arise in the given situation.

c) As per the provisions of section 47(x), transfer by way of conversion of bonds or debentures, debenture stock or deposit certificates in any form of a company into shares or debentures of that company is not regarded as transfer for the purpose of capital gains. Therefore, capital gains tax liability does not arise in the given situation.

## Concept Problem 6

Mr. Abhishek a senior citizen, mortgaged his residential house with a bank, under a notified reverse mortgage scheme. He was getting loan from bank in monthly installments. Mr. Abhishek did not repay the loan on maturity and hence gave possession of the house to the bank, to discharge his loan. How will the treatment of long-term capital gain be on such reverse mortgage transaction?

### Solution

Section 47(xvi) provides that any transfer of a capital asset in a transaction of reverse mortgage under a scheme made and notified by the Central Government shall not be considered as a transfer for the purpose of capital gain.

Accordingly, the mortgaging of residential house with bank by Mr. Abhishek will not be regarded as a transfer. Therefore, no capital gain will be charged on such transaction.

Further, section 10(43) provides that the amount received by the senior citizen as a loan, either in lump sum or in installment, in a transaction of reverse mortgage would be exempt from income-tax. Therefore, the monthly installment amounts received by Mr. Abhishek would not be taxable.

## Concept Problem 7

State whether the following statements are True or False.

i) Alienation of a residential house in a transaction of reverse mortgage under a scheme made and notified by the Central Government is treated as "transfer" for the purpose of capital gains.

ii) Zero coupon bonds of eligible corporation, held for 14 months, will be long-term capital assets.

iii) Zero Coupon Bond means a bond on which no payment and benefits are received or receivable before maturity or redemption.

iv) Where an urban agricultural land owned by an individual, continuously used by him for agricultural purposes for a period of two years prior to the date of transfer, is compulsorily acquired under law and the compensation is fixed by the State Government, resultant capital gain is exempt.

v) In the case of a dealer in shares, income by way of dividend is taxable under the head "Profits and gains of business or profession".

vi) Sale of a work of art held by an Assessee is not chargeable to capital gains tax.

vii) As per section 49(2A), read with section 47(xa) of the Income-tax Act, 1961, no capital gains would arise on conversion of foreign currency exchangeable bonds into shares or debentures, for facilitating the issue of FCEBs by companies.

viii) Capital gain of INR 75 lakh arising from transfer of long-term capital assets on 1.5.2021 will be exempt from tax if such capital gain is invested in the bonds redeemable after five years, issued by NHAI under section 54EC. Examine with reasons whether the given statement is true or false having regard to the provisions of the Income-tax Act,1961.

## Solution

**i) False:**

Aspersection47(xvi), such alienation in a transaction of reverse mortgage under a scheme made and notified by the Central Government is not regarded as "transfer" for the purpose of capital gains.

**ii) True**

Section 2(42A) defines the term 'short-term capital asset'. Under the proviso to section 2(42A), zero coupon bond held for not more than 12 months will be treated as a short-term capital asset. Consequently, such bond held for more than 12 months will be a long-term capital asset.

**iii) True:**

As per section 2(48), 'Zero Coupon Bond' means a bond issued by any infrastructure capital company or infrastructure capital fund or a public-sector company, or Scheduled Bank on or after 1st June 2005, in respect of which no payment and benefit is received or receivable before maturity or redemption from such issuing entity and which the Central Government may notify in this behalf.

**iv) False:**

As per section 10(37), where an individual owns urban agricultural land which has been used for agricultural purposes for a period of two years immediately preceding the date of transfer, and the same is compulsorily acquired under any law and the compensation is determined or approved by the Central Government or the Reserve Bank of India, resultant capital gain will be exempt.

In this case, the compensation has been fixed by State Government and hence, the exemption will not be available.

**v) False**

In view of the provisions of section 56(2)(i), dividend income is taxable under the head "Income from other sources" in the case of all assesses.

**vi) False**

As per section 2(14)(ii), the term "personal effects" excludes any work of art. As a result, any work of art will be considered as a capital asset and sale of the same will attract capital gains tax.

**vii) True**

As per section 47(xa), any transfer by way of conversion of bonds referred to in section 115AC into shares and debentures of any company is not regarded as transfer. Therefore, there will be no capital gains on conversion of foreign currency exchangeable bonds into shares or debentures.

**viii) False:**

The exemption under section 54EC has been restricted, by limiting the maximum investment in long term specified assets (i.e., bonds of NHAI or RECL or any other bond notified by Central Government in this behalf, redeemable after 5 years) to INR 50,00,0000, whether such investment is made during the relevant previous year or the subsequent previous year, or both.

Therefore, in this case, the exemption under section 54EC can be availed only to the extent of INR 50 lakh, provided the investment is made before 1.11.2020 (i.e., within six months from the date of transfer).

## Concept Problem 8

Mr. A converts his capital asset acquired for an amount of INR 50,000 in June, 2003 into stock-in-trade in the month of November, 2019. The fair market value of the asset on the date of conversion is INR 4,50,000. The stock-in-trade was sold for an amount of INR 6,50,000 in the month of September, 2021. What will be the tax treatment?

| Financial year | Cost Inflation Index |
|---|---|
| 2003-04 | 109 |
| 2019-20 | 289 |

## Solution:

The capital gains on the sale of the capital asset converted to stock-in-trade is taxable in the given case. It arises in the year of conversion (i.e., P.Y. 2019-20) but will be taxable only in the year in which the stock-in-trade is sold (i.e., P.Y. 2021-22). Profits from business will also be taxable in the year of sale of the stock-in-trade (P.Y. 2021-22).

The long-term capital gains and business income for the A.Y.2022-23 are calculated as under:

| Particulars | Amount |
|---|---|
| **Profits and Gains from Business or Profession** | |
| Sale proceeds of the stock-in-trade | 6,50,000 |
| Less: Cost of the stock-in-trade (FMV on the date of conversion) | 4,50,000 |
| | **2,00,000** |
| **Long Term Capital Gains** | |
| Full value of the consideration (FMV on the date of the conversion) | 4,50,000 |
| Less: Indexed cost of acquisition (INR 50,000 x 289/109) | 1,32,569 |
| | **3,17,431** |

**Note:** For the purpose of indexation, the cost inflation index of the year in which the asset is converted into stock-in-trade should be considered.

## Concept Problem 9

Singhania & Co., a sole proprietorship, owns six machines, put in use for business in March, 2021. The depreciation on these machines is charged @ 15%. The openingbalance of these machines after providing depreciation for

P.Y. 2020-21 was ₹ 8,50,000. Three of the old machines were sold on 10th June, 2021 for ₹ 11,00,000.A second hand plant was bought for ₹ 8,50,000 on 30th November, 2021.

You are required to:

a) determine the claim of depreciation for Assessment Year 2022-23.

b) compute the capital gains liable to tax for Assessment Year 2022-23.

c) If Singhania & Co. had sold the three machines in June, 2021 for INR 21,00,000, will there be any difference in your above workings? Explain.

**Solution**

**(i)** Computation of depreciation for A.Y.2022-23

| Particulars | Amount |
|---|---|
| W.D.V. of the block as on 1.4.2021 [i.e., W.D.V. as on 31.3.2021 after providing depreciation for P.Y. 2020-21] | 8,50,000 |
| Add: Purchase of second-hand plant during the year | 8,50,000 |
| | 17,00,000 |
| Less: Sale consideration of old machinery during the year | 11,00,000 |
| **W.D.V of the block as on 31.03.2021** | **6,00,000** |

Since the value of the block as on 31.3.2022 comprises of a new asset which has been put to use for less than 180 days, depreciation is restricted to 50% of the prescribed percentage of 15% i.e., depreciation is restricted to 7½%. Therefore, the depreciation allowable for the year is INR 45,000, being 7½% of INR 6,00,000.

**(ii)** The provisions under section 50 for computation of capital gains in the case of depreciable assets can be invoked only under the following circumstances:

a) When one or some of the assets in the block are sold for consideration more than the value of the block.

b) When all the assets are transferred for a consideration more than the value of the block.

c) When all the assets are transferred for a consideration less than the value of the block.

Since in the first two cases, the sale consideration is more than the written down value of the block, the computation would result in short term capital gains.

In the third case, since the written down value of the block exceeds the sale consideration, the resultant figure would be a short-term capital loss of the block.

In the given case, capital gains will not arise as the block of asset continues to exist, and some of the assets are sold for a price which is lesser than the written down value of the block.

**(iii)** If the three machines are sold in June, 2021 for INR 21,00,000, then short term capital gains would arise, since the sale consideration is more than the aggregate of the written down value of the block at the beginning of the year and the additions made during the year.

| Particulars | | |
|---|---|---|
| Sale consideration | | 21,00,000 |
| Less: W.D.V. of the machines as on 1.4.2021 | 8,50,000 | |
| Less: Purchase of second plant during the year | 8,50,000 | 17,00,000 |
| **Short term capital gains** | | **4,00,000** |

**Concept Problem 10**

Mr. A is a proprietor of Akash Enterprises having 2 units. He transferred on 1.4.2021his Unit 1 by way of slump sale for a total consideration of ₹ 25 lacs. The fair market value of the unit on 1.4.2021 is ₹ 30 lacs. Unit 1 was started in the year 2005-06. The expenses incurred for this transfer were ₹ 28,000. His Balance Sheet ason 31.3.2021 is as under:

| Liabilities | Total | Assets | Unit1 | Unit 2 | Total |
|---|---|---|---|---|---|
| Own Capital | 15,00,000 | Building | 12,00,000 | 2,00,000 | 14,00,000 |
| Revaluation Reserve (for building of unit 1) | 3,00,000 | Machinery | 3,00,000 | 1,00,000 | 4,00,000 |
| Bank loan (70% for unit 1) | 2,00,000 | Debtors | 1,00,000 | 40,000 | 1,40,000 |
| Trade creditors (25%for unit 1) | 1,50,000 | Other assets | 1,50,000 | 60,000 | 2,10,000 |
| **Total** | **21,50,000** | **Total** | **17,50,000** | **4,00,000** | **21,50,000** |

Other information:

i) Revaluation reserve is created by revising upward the value of the building of Unit 1.

ii) No individual value of any asset is considered in the transfer deed.

iii) Other assets of Unit 1 include patents acquired on 1.7.2019 for INR 50,000 on which no depreciation has been charged.

Compute the capital gain for the assessment year 2022-23.

**Solution**

**Computation of capital gains on slump sale of Unit 1**

| Particulars | Amount |
|---|---|
| Sale value [Fair market value on 1.4.2021] | 30,00,000 |
| Less: Expenses on sale | 28,000 |
| **Net sale consideration** | **29,72,000** |
| Less: Net worth **(See Note 1 below)** | 12,50,625 |
| **Long-term capital gain** | **17,21,375** |

**Notes**

**1. Computation of net worth of Unit 1 of Akash Enterprises**

| Particulars | Amount |
|---|---|
| Building (excluding INR 3 lakhs on account of revaluation) | 9,00,000 |
| Machinery | 3,00,000 |
| Debtors | 1,00,000 |
| Patents (See Note 2 below) | 28,125 |
| Other assets (INR 1,50,000 – INR 50,000) | 1,00,000 |
| **Total assets** | **14,28,125** |
| Less: Creditors | 37,500 |
| Less: Bank Loan | 1,40,000 |
| **Net worth** | **12,50,625** |

**2. Written down value of patents as on 1.4.2021**

| Value of patents | Amount |
|---|---|
| Cost as on 1.7.2019 | 50,000 |

| Value of patents | Amount |
|---|---|
| Less: Depreciation @ 25% for Financial Year 2019-20 | 12,500 |
| **WDV as on 1.4.2020** | **37,500** |
| Less: Depreciation for Financial Year 2020-21 | 9,375 |
| **WDV as on 1.4.2021** | **28,125** |

For the purposes of computation of net worth, the written down value determined as per section 43(6) has to be considered in the case of depreciable assets. The problem has been solved assuming that the Balance Sheet values of INR 3 lakh and INR 9 lakh (INR 12 lakh – INR 3 lakh) represent the written down value of machinery and building, respectively, of Unit 1.

3. Since the Unit is held for more than 36 months, capital gain arising would be long term capital gain. However, indexation benefit is not available in case of slump sale.

## Concept Problem 11

Mr. Cee purchased a residential house on July 20, 2019 for INR 10,00,000 and made some additions to the house incurring INR 2,00,000 in August 2019. He sold the house property in April, 2021 for INR 20,00,000. Out of the sale proceeds, he spent INR 5,00,000 to purchase another house property in September, 2021.

What is the amount of capital gains taxable in the hands of Mr. Cee for the AY 2022-23?

## Solution

The house is sold before 24 months from the date of purchase. Hence the house is a short-term capital asset and no benefit of indexation would be available.

| Particulars | Amount |
|---|---|
| Sale consideration | 20,00,000 |
| Less: cost of acquisition | (10,00,000) |
| Less: Cost of improvement | (2,00,000) |
| **Short term capital gain** | **8,00,000** |

**Note:** The exemption of capital gains under section 54 is available only in case of long-term capital asset. As the house is short-term capital asset, Cee cannot claim exemption under section 54. Thus, the amount of taxable short-term capital gains is INR 8,00,000.

## Concept Problem 12

Calculate the income-tax liability for the assessment year 2022-23 in the following cases:

| | Mr. A (age 45) | Mrs. B (age 62) | Mr. C (age 81) | Mr. D (age 82) |
|---|---|---|---|---|
| **Status** | **Resident** | **Non- resident** | **Resident** | **Non-resident** |
| Total income other than LTCG | 2,40,000 | 2,80,000 | 5,90,000 | 4,80,000 |
| Long-term capital gain | 15,000 from sale of vacant site | 10,000 from sale of listed equity shares (STT paid on sale and purchase of shares) | 60,000 from sale of agricultural land in rural area | Nil |

**Note -** Assume that Mr. A, Mrs. B, Mr. C and Mr. D do not opt for section 115BAC.

## Solution

Computation of income-tax liability for the A.Y.2022-23

| Particulars | Mr. A (age 45) | Mrs. B (age 62) | Mr. C (age 81) | Mr. D (age 82) |
|---|---|---|---|---|
| **Residential Status** | **Resident** | **Non-resident** | **Resident** | **Non- resident** |
| Applicable basic exemption limit | 2,50,000 | 2,50,000 | 5,00,000 | 2,50,000 |
| Asset sold | Vacant site | Listed equity shares (STT paid on both sale and purchase of shares) | Rural agricultural land | - |
| Long-term capital gain (on sale of above asset) | 15,000 [Taxable @ 20% u/s 112] | 10,000 [exempt u/s 112A since it is less than 1,00,000] | 60,000 (Exempt – not a capital asset) | - |
| Other income | 2,40,000 | 2,80,000 | 5,90,000 | 4,80,000 |
| **Tax liability** | | | | |
| On LTCG (after adjusting Basic Exemption limit) | 1,000 | - | - | - |
| On Other income | Nil | 1,500 | 18,000 | 11,500 |
| | **1,000** | **1,500** | **18,000** | **11,500** |
| Less: Rebate u/s 87A | 1,000 | - | - | - |
| | **Nil** | **1,500** | **18,000** | **11,500** |
| Add: Health and education cess @ 4% | Nil | 60 | 720 | 460 |
| **Total tax liability** | **Nil** | **1,560** | **18,720** | **11,960** |

**Notes:**

1) Since Mrs. B and Mr. D are non-residents, they cannot avail the higher basic exemption limit of INR 3,00,000 and INR 5,00,000 for persons over the age of 60 years and 80 years, respectively.

2) Since Mr. A is a resident whose total income does not exceed INR 5 lakhs, he is eligible for rebate of INR 12,500 or the actual tax payable, whichever is lower, under section 87A.

## Concept Problem 13

Mr. Mithun purchased 100 shares of M/s Good money Co. Ltd. on 01-04-2005 at rate of INR 1,000 per share in public issue of the company by paying securities transaction tax.

Company allotted bonus shares in the ratio of 1:1 on 01.12.2020. He has also received dividend of INR 10 per share on 01.05.2021.

He has sold all the shares on 01.10.2021 at the rate of INR 4,000 per share through a recognized stock exchange and paid brokerage of 1% and securities transaction tax of 0.02% to celebrate his 75th birthday.

Compute his total income and tax liability for Assessment Year 2022-23, assuming that he is having no income other than given above. Fair market value of shares of M/s Good money Co. Ltd on 31.1.2018 is INR 2,000.

## Solution

**Computation of total income and tax liability of Mr. Mithun for A.Y. 2022-23**

| Particulars | Amount |
|---|---|
| **Long term capital gains on sale of original shares** | |
| Gross sale consideration (100 x INR 4,000) | 4,00,000 |
| Less: Brokerage @ 1% | 4000 |
| **Net sale consideration** | **3,96,000** |
| Less: Cost of acquisition of original shares (100 x INR 2000) **(Note b)** | 2,00,000 |
| **Long term capital gain** | **1,96,000** |
| **Short term capital gain on sale of bonus shares** | |
| Gross sale consideration (100 x INR 4000) | 4,00,000 |
| Less: Brokerage @ 1% | 4,000 |
| **Net sale consideration** | **3,96,000** |
| Less: Cost of acquisition of Bonus Shares | NIL |
| **Short term Capital Gains** | **3,96,000** |
| **Income from other sources** | |
| Dividend received from M/s Goodmoney Co. Ltd. is taxable in the hands of shareholders [200 shares x 10 per share] | 2,000 |
| **Total Income** | **5,94,000** |
| **Tax Liability** | |
| Tax on dividend | **Nil** |
| 15% of (INR 3,96,000- INR 2,98,000 being unexhausted basic exemption limit) | 14,700 |
| 10% of (INR 1,96,000- INR 1,00,000) | 9,600 |
| | **24,300** |
| Add: Health and education cess @ 4% | 972 |
| **Tax payable** | **25,272** |
| **Tax payable (Rounded off)** | **25,270** |

**Notes:**

a) Long-term capital gains exceeding INR 1 Lakh on sale of original shares through a recognised Stock exchange (STT paid at the time of acquisition and sale) is taxable under section 112A at a concessional rate of 10% without indexation benefit.

b) Cost of acquisition of such equity shares acquired before 1.2.2018 is higher of:

- Cost of acquisition i.e. INR 1000 per share and
- Lower of-

  Fair Market value of such asset i.e. INR 2000 per share and

  Full value consideration i.e. INR 4000 per share

So, the cost of acquisition of original shares is INR 2000 per share.

c) Since bonus shares are held for less than 12 months before sale, the gain arising there from is a short-term capital gain chargeable to tax @ 15% as per section 111A after adjusting the un exhausted basic exemption limit. Since Mr. Mithun is over 60 years of age, he is entitled for a higher basic exemption limit of INR 3,00,000 for A.Y. 2022-23.

d) Brokerage paid is allowable since it is an expenditure incurred wholly and exclusively in connection with the transfer. Hence, it qualifies for deduction under section 48(i).

e) Cost of bonus shares will be Nil as such shares are allotted after 1.04.2001.

f) Securities transaction tax is not allowable as deduction.

## Concept Problem 14

Aarav converts his plot of land purchased in July, 2003 for INR 80,000 into stock-in-trade on 31st March, 2021. The fair market value as on 31.3.2021 was INR 3,00,000. The stock-in- trade was sold for INR 3,25,000 in the month of January, 2022.

Find out the taxable income, if any, and if sounder which 'head of income' and for which Assessment Year?

Cost Inflation Index: F.Y. 2003-04: 109; F.Y. 2020-21: 301.

### Solution

Conversion of a capital asset into stock-in-trade is a transfer within the meaning of section 2(47) in the previous year in which the asset is so converted. However, the capital gains will be charged to tax only in the year in which the stock-in-trade is sold.

The cost inflation index of the financial year in which the conversion took place should be considered for computing indexed cost of acquisition. Further, the fair market value on the date of conversion would be deemed to be the full value of consideration for transfer of the asset as per section 45(2). The sale price less the fair market value on the date of conversion would be treated as the business income of the year in which the stock-in-trade is sold.

Therefore, in this problem, both capital gains and business income would be charged to tax in the A.Y. 2022-23.

| Particulars | Amount |
|---|---|
| **Capital Gains** | |
| Sale consideration (Fair market value on the date of conversion) | 3,00,000 |
| Less: Indexed cost of acquisition (INR 80,000 × 301/109) | 2,20,917 |
| **Long-term capital gain** | **79,083** |
| **Profits & Gains of Business or Profession** | |
| Sale price of stock-in-trade | 3,25,000 |
| Less: Fair market value on the date of conversion | 3,00,000 |
| | **25,000** |

**Computation of taxable income of Mr. Aarav for A.Y. 2022-23**

| Particulars | Amount |
|---|---|
| Profits and gains from business or profession | 25,000 |
| Long term capital gains | 79,083 |
| **Taxable income** | **1,04,083** |

## Concept Problem 15

Mrs. Harshita purchased a land at a cost of INR 35 lakhs in the financial year 2003-04 and held the same as her capital asset till 31st March, 2021. She started her real estate business on 1st April, 2021 and converted the said land into stock-in-trade of her business on the said date, when the fair market value of the land was INR 210 lakhs.

She constructed 15 flats of equal size, quality and dimension. Cost of construction of each flat is INR 10 lakhs. Construction was completed in February, 2022. She sold 10 flats at INR 30 lakhs per flat in March, 2022. The remaining 5 flats were held in stock as on 31stMarch, 2022.

She invested INR 50 lakhs in bonds issued by National Highways Authority of India on 31stMarch, 2022 and another INR 50 lakhs in bonds of Rural Electrification Corporation Ltd. in April, 2022.

Compute the amount of chargeable capital gain and business income in the hands of Mrs. Harshita arising from the above transactions for Assessment Year 2022-23 indicating clearly the reasons for treatment for each item.

[Cost Inflation Index: F.Y. 2003-04: 109; F.Y. 2020-21: 301].

**Solution**

**Computation of capital gains and business income of Harshita for A.Y. 2022-23**

| Particulars | Amount |
|---|---|
| **Capital Gains** | |
| Fair market value of land on the date of conversion deemed as the full value of consideration for the purposes of section 45(2) | 2,10,00,000 |
| Less: Indexed cost of acquisition [INR 35,00,000 × 310/109] | **96,65,138** |
| | **1,13,34,862** |
| | |
| **Proportionate capital gains arising during AY 2022-23 [INR 1,13,34,862 × 2/3]** | **75,56,575** |
| Less: Exemption under section 54EC | 50,00,000 |
| **Capital gains chargeable to tax for A.Y. 2022-23** | **25,56,575** |
| **Business Income** | |
| Sale price of flats [10 × INR 30 lakhs] | 3,00,00,000 |
| Less: Cost of flats | |
| Fair market value of land on the date of conversion [INR 210 lacs × 2/3] | 1,40,00,000 |
| Cost of construction of flats [10 × INR 10 lakhs] | 1,00,00,000 |
| **Business income chargeable to tax for A.Y.2022-23** | **60,00,000** |

**Notes:**

1. The conversion of a capital asset into stock-in-trade is treated as a transfer under section 2(47). It would be treated as a transfer in the year in which the capital asset is converted into stock-in-trade.
2. However, as per section 45(2), the capital gains arising from the transfer by way of conversion of capital assets into stock-in-trade will be chargeable to tax only in the year in which the stock-in-trade is sold.
3. The indexation benefit for computing indexed cost of acquisition would, however, be available only up to the year of conversion of capital asset into stock-in-trade and not up to the year of sale of stock-in-trade.
4. For the purpose of computing capital gains in such cases, the fair market value of the capital asset on the date on which it was converted into stock-in-trade shall be deemed to be the full value of consideration received or accruing as a result of the transfer of the capital asset.

   In this case, since only 2/3rd of the stock-in-trade (10 flats out of 15 flats) is sold in the P.Y.2021-22, only proportionate capital gains (i.e., 2/3rd) would be chargeable to tax in the A.Y.2022-23.
5. On sale of such stock-in-trade, business income would arise. The business income chargeable to tax would be the difference between the price at which the stock in-trade is sold and the fair market value on the date of conversion of the capital asset into stock-in-trade.
6. In case of conversion of capital asset into stock-in-trade and subsequent sale of stock-in-trade, the period of 6 months is to be reckoned from the date of sale of stock-in-trade for the purpose of exemption under section 54EC.

   In this case, since the investment in bonds of NHAI has been made within 6 months of sale of flats, the same qualifies for exemption under section 54EC. With respect to long-term capital gains arising in any financial year, the maximum deduction under section 54EC would be INR 50 lakhs, whether the investment in bonds of NHAI or RECL are made in the same financial year or next financial year or partly in the same financial year and partly in the next financial year.

Therefore, even though investment of INR 50 lakhs has been made in bonds of NHAI during the P.Y. 2021-22 and investment of INR 50 lakhs has been made in bonds of RECL during the P.Y. 2022-23, both within the stipulated six-month period, the maximum deduction allowable for A.Y. 2022-23, in respect of long-term capital gain arising on sale of long-term capital asset(s) during the P.Y. 2021-22, is only INR 50 lakhs.

## Concept Problem 16

Mr. A is an individual carrying on business. His stock and machinery were damaged and destroyed in a fire accident. The value of stock lost (total damaged) was INR 6,50,000. Certain portion of the machinery could be salvaged. The opening WDV of the block as on 1-4-2021 was INR 10,80,000.

During the process of safeguarding machinery and in the fire-fighting operations, Mr. A lost his gold chain and a diamond ring, which he had purchased in April, 2004 for INR 1,20,000. The market value of these two items as on the date of fire accident was INR 1,80,000.

Mr. A received the following amounts from the insurance company:

| Particulars | Amount |
|---|---|
| Towards loss of stock | 4,80,000 |
| Towards damage of machinery | 6,00,000 |
| Towards gold chain and diamond ring | 1,80,000 |

## Solution

**a) Compensation towards loss of stock:**

Any compensation received from the insurance company towards loss/damage to stock in trade is to be treated as a trading receipt. Hence, INR 4,80,000 received as insurance claim for loss of stock has to be assessed under the head "Profit and Gains of Business or Profession".

**Note:** The Assessee can claim the value of stock destroyed by fire as revenue loss, eligible for deduction while computing income under the head "Profits and gains of business or profession".

**b) Compensation towards damage to machinery:**

The question does not mention whether the salvaged machinery is taken over by the Insurance company or whether there was any replacement of machinery during the year. Assuming that the salvaged machinery is taken over by the Insurance company, and there was no fresh addition of machinery during the year, the block of machinery will cease to exist. Therefore, INR 4,80,000 being the excess of written down value (i.e., INR 10,80,000) over the insurance compensation (i.e., INR 6,00,000) will be assessable as a short-term capital loss.

**Note –** If new machinery is purchased in the next year, it will constitute the new block of machinery, on which depreciation can be claimed for that year

**c) Compensation towards loss of gold chain and diamond ring:**

Gold chain and diamond ring are capital assets as envisaged by section 2(14). As per section 45(1A), if any profit or gain arises in a previous year owing to receipt of insurance claim, the same shall be chargeable to tax as capital gains.

The capital gain has to be computed by reducing the indexed cost of acquisition of jewellery from the insurance compensation of INR 1,80,000.

## Concept Problem 17

Mr. Sarthak entered into an agreement with Mr. Jaikumar to sell his residential house located at Kanpur on 16.08.2021 for INR 1,50,00,000.

The sale proceeds were to be paid in the following manner:

i) 20% through account payee bank draft on the date of agreement.

ii) 60% on the date of the possession of the property.

iii) Balance after the completion of the registration of the title of the property.

Mr. Jaikumar was handed over the possession of the property on 15.12.2021 and the registration process was completed on 14.01.2022. He paid the sale proceeds as per the sale agreement.

The value determined by the Stamp Duty Authority-

a) on 16.08.2021 was INR 1,70,00,000;

b) on 15.12.2021 was INR 1,71,00,000; and

c) on 14.01.2022 was INR 1,71,50,000.

Mr. Sarthak had acquired the residential house at Kanpur on 01.04.2001 for 30,00,000. After recovering the sale proceeds from Jaikumar, he purchased two residential house properties, one in Kanpur for INR 20,00,000 on 24.3.2022 and another in Delhi for INR 35,00,000 on 28.5.2022.

Compute the income chargeable under the head "Capital Gains" of Mr. Sarthak for the AY 2022-23.

Cost Inflation Index for Financial Year(s): 2001-02 - 100; 2021-22 – 317.

**Solution**

**Computation of income under the head "Capital Gains" of Mr. Sarthak for the AY 2022-23**

| Particulars | | Amount |
|---|---|---|
| **Capital Gains on sale of residential house** | | |
| Actual sale consideration | 1,50,00,000 | |
| Value adopted by Stamp Valuation Authority on the date of agreement | 1,70,00,000 | |
| [As per section 50C, where the actual sale consideration is less than the value adopted by the Stamp Valuation Authority for the purpose of charging stamp duty, and such stamp duty value exceeds 110% of the actual sale consideration, then, the value adopted by the Stamp Valuation Authority shall be taken to be the full value of consideration.<br>In a case where the date of agreement is different from the date of registration, stamp duty value on the date of agreement can be considered provided the whole or part of the consideration is paid by way of account payee cheque/bank draft or by way of ECS through bank account or through such other electronic mode as may be prescribed, on or before the date of agreement.<br>In this case, since 20% of INR 150 lakhs is paid through account payee bank draft on the date of agreement, stamp duty value on the date of agreement would be considered for determining the full value of consideration] | | |
| Full value of sale consideration [Stamp duty value on the date of agreement, since it exceeds 110% of the actual sale consideration] | | 1,70,00,000 |
| Less: Indexed cost of acquisition of residential house [INR 30 lakhs x 317/100] | | 95,10,000 |
| **Long-term capital gains** [Since the residential house property was held by Mr. Sarthak for more than 24 months immediately preceding the date of its transfer] | | **74,90,000** |
| **Less: Exemption u/s 54**<br>Since, long-term capital gains do not exceed INR 2 crore, he would be eligible for exemption in respect of both the residential house properties purchased in India. The capital gain arising on transfer of a long-term residential property shall not be chargeable to tax to the extent such capital gain is invested in the purchase of these residential house properties in India within one year before or two years after the date of transfer of original asset. Thus, he would be eligible for exemption of INR 55,00,000 being INR 20,00,000 and INR 35,00,000 invested on acquisition of residential house property in Kanpur and Delhi, respectively. | | 55,00,000 |
| **Long term capital gains chargeable to tax** | | **24,70,000** |

**Concept Problem 18**

Mrs. Yuvika bought a vacant land for INR 80 lakhs in May 2004. Registration and other expenses were 10% of the cost of land. She constructed a residential building on the said land for INR 100 lakhs during the FY 2006-07.

She entered into an agreement for sale of the above said residential house with Mr. Johar (not a relative) in April 2015. The sale consideration was fixed at INR 700 lakhs and on 23-4-2015, Mrs. Yuvika received INR 20 lakhs as advance in cash by executing an agreement. However, due to failure on part of Mr. Johar, the said negotiation could not materialise and hence, the said amount of advance was forfeited by Mrs. Yuvika.

Mrs. Yuvika, again entered into an agreement on 01.08.2021 for sale of this house at INR 810 lakhs. She received INR 80 lakhs as advance by RTGS. The stamp duty value on the date of agreement was INR 890 lakhs. The sale deed was executed and registered on 14-1-2022 for the agreed consideration. However, the State stamp valuation authority had revised the values, hence, the value of property for stamp duty purposes was INR 900 lakhs. Mrs. Yuvika paid 1% as brokerage on sale consideration received.

Subsequent to sale, Mrs. Yuvika made following investments:

i) Acquired two residential houses at Delhi for INR 130 lakhs and INR 50 lakhs on 31.1.2022 and 15.5.2022.

ii) Acquired a residential house at UK for INR 180 lakhs on 23.3.2022.

iii) Subscribed to NHAI capital gains bond (approved under section 54EC) for 50 lakhs on 29-3-2022 and for INR 40 lakhs on 12-5-2022.

Compute the income chargeable under the head 'Capital Gains' of Mrs. Yuvika for A.Y.2022-23. The choice of exemption must be in the manner most beneficial to the assessee.

Cost Inflation Index: F.Y. 2004-05 – 113; F.Y. 2006-07 – 122; F.Y. 2021-22 - 317.

**Solution**

Computation of income chargeable under the head "Capital Gains" of Mrs. Yuvika for A.Y.2022-23

| Particulars | Amount (in lakhs) | Amount (in lakhs) |
|---|---|---|
| **Capital Gains on sale of residential building** | | |
| Actual sale consideration INR 810 lakhs | | |
| Value adopted by Stamp Valuation Authority INR 890 lakhs | | |
| [Where the actual sale consideration is less than the value adopted by the Stamp Valuation Authority for the purpose of charging stamp duty, and such stamp duty value exceeds 110% of the actual sale consideration, then, the value adopted by the Stamp Valuation Authority shall be taken to be the full value of consideration as per section 50C.<br>However, where the date of agreement is different from the date of registration, stamp duty value on the date of agreement can be considered provided the whole or part of the consideration is received by way of account payee cheque/bank draft or by way of ECS through bank account or through prescribed electronic modes on or before the date of agreement.<br>In this case, since advance of INR 80 lakh is received by RTGS, i.e., one of the prescribed modes, stamp duty value on the date of agreement can be adopted as the full value of consideration. However, in the present case since stamp duty value on the date of agreement does not exceed 110% of the actual consideration, actual sale consideration would be taken as the full value of consideration) | | |
| Gross Sale consideration (actual consideration, since stamp duty value on the date of agreement does not exceed 110% of the actual consideration) | | 810.00 |
| Less: Brokerage @ 1% of sale consideration (1% of INR 810 lakhs) | | 8.10 |
| **Net Sale consideration** | | **801.90** |
| Less: Indexed cost of acquisition | | |

| Particulars | Amount (in lakhs) | Amount (in lakhs) |
|---|---|---|
| - Cost of vacant land, INR 80 lakhs, plus registration and other expenses i.e., INR 8 lakhs, being 10% of cost of land [INR 88 lakhs × 317/113] | 246.87 | |
| - Construction cost of residential building (INR 100 lakhs x 317/122) | 259.84 | 506.71 |
| **Long-term capital gains**<br>Since the residential house property was held by Mrs. Yuvika for more than 24 months immediately preceding the date of its transfer, the resultant gain is a long-term capital gain] | | **295.19** |
| **Less: Exemption under section 54**<br>Where long-term capital gains exceed INR 2 crore, the capital gain arising on transfer of a long-term residential property shall not be chargeable to tax to the extent such capital gain is invested in the purchase of one residential house property in India, one year before or two years after the date of transfer of original asset.<br>Therefore, in the present case, the exemption would be available only in respect of the one residential house acquired in India and not in respect of the residential house in UK. It would be more beneficial for her to claim the cost of acquisition of residential house at Delhi, i.e., INR 130 lakhs as exemption. | | 130.00 |
| **Less: Exemption under section 54EC**<br>Amount invested in capital gains bonds of NHAI within six months after the date of transfer (i.e., on or before 13.7.2022), of long-term capital asset, being land or building or both, would qualify for exemption, to the maximum extent of INR 50 lakhs, whether such investment is made in the current financial year or subsequent financial year.<br>Therefore, in the present case, exemption can be availed only to the extent of INR 50 lakh out of INR 90 lakhs, even if the both the investments are made on or before 13.7.2022 (i.e., within six months after the date of transfer). | | 50.00 |
| **Long term capital gains chargeable to tax** | | **115.19** |

**Note:** Advance of INR 20 lakhs received from Mr. Johar, would have been chargeable to tax under the head "Income from other sources", in the A.Y. 2016-17, as per section 56(2)(ix), since the same was forfeited on or after 01.4.2014 as a result of failure of negotiation. Hence, the same should not be deducted while computing indexed cost of acquisition.

## Concept Problem 19

Mr. Shiva purchased a house property on February 15, 1979 for INR 3,24,000. In addition, he has also paid stamp duty value @ 10% on the stamp duty value of 3,50,000.

In April, 2007, Mr. Shiva entered into an agreement with Mr. Mohan for sale of such property for INR 14,35,000 and received an amount of INR 1,11,000 as advance. However, the sale consideration did not materialize and Mr. Shiva forfeited the advance.

In May 2014, he again entered into an agreement for sale of said house for INR 20,25,000 to Ms. Deepshikha and received INR 1,51,000 as advance. However, as Ms. Deepshikha did not pay the balance amount, Mr. Shiva forfeited the advance. In August, 2014, Mr. Shiva constructed the first floor by incurring a cost of INR 3,90,000.

On November 15, 2021, Mr. Shiva entered into an agreement with Mr. Manish for sale of such house for INR 30,50,000 and received an amount of INR 1,50,000 as advance through an account payee cheque. Mr. Manish paid the balance entire sum and Mr. Shiva transferred the house to Mr. Manish on February 20, 2022. Mr. Shiva has paid the brokerage @ 1% of sale consideration to the broker.

On April 1, 2001, fair market value of the house property was INR 11,85,000 and Stamp duty value was INR 10,70,000. Further, the Valuation as per Stamp duty Authority of such house on 15$^{th}$ November, 2021 was INR 39,00,000 and on 20th February, 2022 was INR 41,00,000.

Compute the capital gains in the hands of Mr. Shiva for A.Y.2022-23.

CII for F.Y. 2001-02: 100; F.Y. 2007-08: 129; F.Y. 2014-15: 240; F.Y. 2021-22: 317

**Solution**

**Computation of Capital gains in the hands of Mr. Shiva for A.Y. 2022-23**

| Particulars | Amount | Amount |
|---|---|---|
| Actual sale consideration | 30,50,000 | |
| Valuation as per Stamp duty Authority on the date of agreement | 39,00,000 | |
| (Where the actual sale consideration is less than the value adopted by the Stamp Valuation Authority for the purpose of charging stamp duty, and such stamp duty value exceeds 110%of the actual sale consideration then, the value adopted by the Stamp Valuation Authority shall be taken to be the full value of consideration as per section 50C.<br>However, where the date of agreement is different from the date of registration, stamp duty value on the date of agreement can be considered provided the whole or part of the consideration is received by way of account payee cheque/bank draft or by way of ECS through bank account or such other electronic mode as may be prescribed on or before the date of agreement.<br>In the present case, since part of the payment is made by account payee cheque on the date of agreement, the stamp duty value on the date of agreement would be considered as full value of consideration)<br>**Deemed Full value of consideration** [Since stamp duty value on the date of agreement exceeds 110% of the actual consideration, stamp duty value would be deemed as Full Value of Consideration] | | 39,00,000 |
| Less: Expenses on transfer (Brokerage @ 1% of INR 30,50,000) | | **30,500** |
| **Net sale consideration** | | **38,69,500** |
| Less: Indexed cost of acquisition (Note 1) | 30,40,030 | |
| Less: Indexed cost of improvement (Note 2) | 5,15,125 | 35,55,155 |
| **Long term capital gain** | | **3,14,345** |

**Note:**

**(1) Computation of indexed cost of acquisition**

| Particulars | Amount | Amount |
|---|---|---|
| Cost of acquisition, | | 10,70,000 |
| Being the higher of | | |
| i) Lower of Fair market value i.e., INR 11,85,000 and Stamp duty value i.e., INR 10,70,000, on April 1, 2001<br>ii) Actual cost of acquisition (INR 3,24,000 + 35,000, being stamp duty @ 10% of INR 3,50,000) | 10,70,000<br>3,59,000 | |
| Less: Advance money taken from Mr. Mohan and forfeited | | 1,11,000 |
| **Cost of acquisition for indexation** | | **9,59,000** |
| Indexed cost of acquisition (INR 9,59,000 x 317/100) | | 30,40,030 |

**(2) Computation of indexed cost of improvement**

| Particulars | Amount |
|---|---|

| | |
|---|---|
| Cost of construction of first floor in August, 2014 | 3,90,000 |
| Indexed cost of improvement (INR 3,90,000 x 317/240) | 5,15,125 |

**(3)** Where advance money has been received by the assessee, and retained by him, as a result of failure of the negotiations, section 51 will apply. The advance retained by the assessee will go to reduce the cost of acquisition. Indexation is to be done on the cost of acquisition so arrived at after reducing the advance money forfeited i.e., INR 10,70,000 – INR 1,11,000 (being the advance money forfeited during the P.Y.2007-08) = INR 9,59,000.

However, where the advance money is forfeited during the previous year 2014-15 or thereafter, the amount forfeited would be taxable under the head "Income from Other Sources" and such amount will not be deducted from the cost of acquisition of such asset while calculating capital gains. Hence, INR 1,51,000, being the advance received from Ms. Deepshikha and retained by him, is taxable under the head "Income from other sources" in the hands of Mr. Shiva in A.Y.2015-16.

## 2. ICAI RTPs, MTPs and Past Year Questions

### Concept Problem 20

Compute capital gains in the following situations for the assessment year 2021-22.

| Asset | Gold | Land | Residential house | Personal Music System |
|---|---|---|---|---|
| Date of purchase | 01.07.1998 | 01.04.1990 | 01.07.2004 | 01.05.2003 |
| Cost price | 4,00,000 | 6,00,000 | 8,00,000 | 25,000 |
| Cost of improvement | 30,000 | 2,00,000 | 4,00,000 | Nil |
| Year of improvement | 2000-01 | 1995-96 | 2005-06 | 2006-07 |
| Fair market value on 01.04.2001 | 3,90,000 | 6,50,000 | N.A. | N.A. |
| Date of Sale | 01.01.2022 | 01.01.2022 | 01.01.2022 | 01.01.2022 |
| Full value of consideration | 40,00,000 | 40,00,000 | 20,00,000 | 20,000 |

**Solution**

**Gold**

| Particulars | Amount |
|---|---|
| Full value of consideration | 40,00,000 |
| Less: Indexed cost of acquisition | |
| = 4,00,000/Index of 2001-02 x Index of 2021-22 | |
| = 4,00,000/100 x 317 | (12,68,000) |
| **Long term capital gain** | **27,32,000** |

**Land**

| Particulars | Amount |
|---|---|
| Full value of consideration | 40,00,000 |
| Less: Indexed cost of acquisition | |
| = 6,50,000/Index of 2001-02 x Index of 2021-22 | |
| = 6,50,000/100 x 317 | (20,60,500) |
| **Long term capital gain** | **19,39,500** |

**Residential House**

| Particulars | Amount |
|---|---|
| Full value of consideration | 20,00,000 |
| Less: Indexed cost of acquisition | |
| = 8,00,000/Index of 2004-05 x Index of 2021-22 | |
| = 8,00,000 / 113 x 317 | (22,44,248) |
| Less: Indexed cost of improvement | |
| = 4,00,000/ Index of 2005-06 x Index of 2021-22 | |
| = 4,00,000/ 117 x 317 | (10,83,761) |
| **Long term capital loss** | **(13,28,009)** |

**Personal Music System**

It is not a capital asset as per section 2(14).

## Concept Problem 21

Raj purchased one residential house on 01.04.2002 for INR 5,00,000. This house was acquired compulsorily by the Government on 01.10.2017 and compensation of INR 50,00,000 was fixed by the government but the amount was paid by the Government on 01.03.2022. The Assessee has purchased one residential house on 01.01.2022 for INR 2,00,000 and the house was sold by him on 01.01.2023 for INR 4,00,000.

Compute his tax liability for the assessment year 2022-23 and also capital gains for the various years.

## Solution

| Computation of capital gains under section 45(5) | Amount |
|---|---|
| Capital gain shall be computed in the year in which the asset was acquired i.e., in the PY 2017-18 and shall be taxed in the year in which the first payment has been received i.e., in the PY 2021-22. | |
| Full value of consideration | 50,00,000 |
| Less: Indexed cost of acquisition | |
| = 5,00,000/105 x 272 | (12,95,238) |
| **Long Term Capital Gains** | **37,04,762** |
| Less: Exemption u/s 54 | (2,00,000) |
| **Long Term Capital Gains** | **35,04,762** |
| **Income under the head Capital Gain (LTCG)** | **35,04,762** |
| **Gross total income** | **35,04,762** |
| Less: Deduction u/s 80C TO 80U | Nil |
| **Total Income (rounded off u/s 288A)** | **35,04,760** |

**Computation of Tax Liability**

Since normal income is Nil, as per section 112, deficiency of INR 2,50,000 shall be allowed from long term capital gain and balance income shall be taxed at flat of 20%.

| Particulars | Amount |
|---|---|
| Tax on INR 32,54,760 (INR 35,04,760 – INR 2,50,000) @ 20% | 6,50,952 |
| Add: Health and education cess @ 4% | 26,038 |
| **Tax Liability** | **6,76,990** |

**Computation of capital gain for the assessment year 2023-24.**

| Capital gain on sale of House | Amount |
|---|---|
| Full value of consideration | 4,00,000 |
| Less: cost of acquisition (INR 2,00,000 - INR 2,00,000) | Nil |
| **Short term capital gains** | **4,00,000** |
| **Hence short-term capital gain for assessment year 2023-24** | **4,00,000** |

**Concept problem 22**

Mr. Ram purchased Gold on 01.10.1992 for INR 2,00,000 and its fair market value on 01.04.2001 is INR 3,00,000. He converted it into stock-in-trade on 01.10.2010 when the market value of the gold was INR 11,00,000.

Subsequently, half of the stock was sold on 01.10.2021 for 6,50,000 and balance half was sold on 01.10.2022 for INR 7,50,000.

Compute his total income for various years.

**Solution**

| Computation of Capital Gains Section 45(2) | Amount |
|---|---|
| Full value of consideration | 11,00,000 |
| Less: Indexed cost of acquisition | |
| =3,00,000 / Index of 2001-02 x Index of 2010-11 | |
| =3,00,000/100 x 167 | (5,01,000) |
| **Long Terms Capital Gains** | **5,99,000** |

**Computation of Total Income**

| Previous year 2021-22 | Amount |
|---|---|
| Long Term Capital Gain (1/2 of INR 5,99,000) | 2,99,500 |
| Business Income (INR 6,50,000 - INR 5,50,000) | 1,00,000 |
| **Total Income** | **3,99,500** |

| Previous year 2022-23 | Amount |
|---|---|
| Long Term Capital Gain (1/2 of INR 5,99,000) | 2,99,500 |
| Business Income (INR 7,50,000 - INR 5,50,000) | 2,00,000 |
| **Total Income** | **4,99,500** |

**Concept Problem 23**

Mrs. Ram purchased one house on 01.07.1998 for INR 2,00,000 and incurred INR 1,00,000 on its improvement in PY 1999-00 and its market value as on 01.04.2001 is INR 2,50,000. She incurred INR 2,00,000 on its improvement in 2013-14 and the house was acquired by the Government on 01.07.2017. The compensation fixed is INR 60,00,000 and half of the amount was paid by the Government on 01.01.2022 and balance half on 01.01.2023. She has also received interest of INR 2,00,000 in PY 2021-22 from the Government for delay in payment of compensation.

Income from Business/Profession is INR 20,03,990. Compute tax liability of Mrs. Ram for the AY 2022-23.

She also received enhanced compensation of INR 5 Lakhs on 01/06/2022.

**Solution**

**Computation of income under the head Capital Gains**

Capital gain shall be computed in the year in which the asset was acquired by the Government i.e., in the PY 2017-18 and shall be taxed in the year in which the first payment has been received by Assessee i.e., PY 2021-22.

| | Amount |
|---|---|
| Full value of consideration | 60,00,000 |
| Less: Indexed cost of acquisition | |
| =2,50,000/Index of 2001-02 x Index of 2017-18 | |
| =2,50,000/100 x 272 | (6,80,000) |
| Less: Indexed cost of improvement | |
| =2,00,000/Index of 2013-14 x Index of 2017-18 | |
| =2,00,000/220 x 272 | (2,47,273) |
| **Long Term Capital Gain** | **50,72,727** |

| Computation of income under the head other sources | Amount |
|---|---|
| Interest income | 2,00,000 |
| Less: Deduction u/s 57 @ 50% | (1,00,000) |
| **Income under the head Other Sources** | **1,00,000** |

| Computation of Total Income | Amount |
|---|---|
| Income under the head Business Profession | 20,03,990 |
| Income from long term capital gains | **50,72,727** |
| Income under the head Other Sources | 1,00,000 |
| **Gross Total Income** | **71,76,717** |
| Less: Deduction u/s 80C to 80U | Nil |
| **Total Income** | **71,76,717** |
| LTCG | **50,72,727** |
| Normal income | 21,03,990 |

| Computation of Tax Liability | Amount |
|---|---|
| Tax on LTCG INR 50,72,727 @ 20% u/s 112 | 10,14,546 |
| Tax on INR 21,03,990 at slab rate | 4,43,697 |
| Add: Surcharge @ 10% (14,58,242 x 10%) | 1,45,824 |
| **Tax before Health and education cess** | **16,04,067** |
| Add: Health and education cess @ 4% | 64,163 |
| **Tax Liability** | **16,68,230** |

Enhanced compensation of INR 5,00,000 received on 01/06/2022 shall be taxable as LTCG in PY 2022-23 and cost of acquisition and cost of improvement in this case shall be Nil.

**Concept Problem 24**

Mr. Kumar has an agricultural land (costing INR 6 lakh) in Lucknow and has been using it for agricultural purposes since 1.4.2002 till 1.8.2012 when the Government took over compulsory acquisition of this land. A compensation of INR 12 lakh was settled. The compensation was received by Mr. Kumar on 1.7.2021.

i) Compute the amount of capital gains taxable in the hands of Mr. Kumar.

ii) Will your answer be any different if Mr. Kumar had by his own will sold this land to his friend Mr. Sharma? Explain.

iii) Will your answer be different if Mr. Kumar had not used this land for agricultural activities? Explain.

iv) Will your answer be different if the land belonged to ABC Ltd. and not Mr. Kumar and compensation on compulsory acquisition was received by the company? Explain.

**Solution**

**i)** In the given problem, compulsory acquisition of an urban agricultural land has taken place and the compensation is received after 1.4.2004. This land had also been used for at least 2 years by the Assessee himself for agricultural purposes.

Thus, as per section 10(37), entire capital gains arising on such compulsory acquisition will be fully exempt and nothing is taxable in the hands of Mr. Kumar in the year of receipt of compensation i.e., A.Y.2022-23.

**ii)** As per section 10(37), exemption is available if compulsory acquisition of urban agricultural land takes place. Since the sale is out of own will and desire, the provisions of this section are not attracted and the capital gains arising on such sale will be taxable in the hands of Mr. Kumar.

**iii)** As per section 10(37), exemption is available only when such land has been used for agricultural purposes during the preceding two years by such individual or a parent of his or by such HUF. Since the Assessee has not used it for agricultural activities, the provisions of this section are not attracted and the capital gains arising on such compulsory acquisition will be taxable in the hands of Mr. Kumar.

**iv)** Section 10(37) exempts capital gains arising to an individual or a HUF from transfer of agricultural land by way of compulsory acquisition. If the land belongs to ABC Ltd., a company, the provisions of this section are not attracted and capital gains arising on such compulsory acquisition will be taxable in the hands of ABC Ltd.

**Concept Problem 25**

Ravi sold his house property in Bangalore as well as his rural agricultural land for a consideration of INR 60 lakh and INR 15 lakh respectively to Sudhir on 01.08.2021. He has purchased the house property and the land in the year 2021 for INR 40 lakh and INR 10 lakh respectively. The stamp duty value on the date of transfer i.e., 01.08.2021, is INR 85 lakh and INR 20 lakh for the house property and rural agricultural land respectively.

Determine the tax implications in the hands of Ravi and Sudhir and the TDS implications, if any, in the hands of Sudhir, assuming that both Ravi and Sudhir are resident Indians

**Solution**

| (i) | **Tax implications in the hands of Ravi** |
|---|---|
| | As per section 50C, the stamp duty value of house property (i.e., INR 85 lakh) would be deemed to be the full value of consideration if SDV exceeds 110% of actual consideration.<br>Therefore, INR 45 lakh (i.e., INR 85 lakh – INR 40 lakh), would be taxable as short –term capital gains.<br>Since rural agricultural land is not a capital asset, capital gains shall not be computed. |
| (ii) | **Tax implications in the hands of Sudhir** |
| | In case immovable property is received for inadequate consideration, the difference between the stamp value and actual consideration would be taxable as gift u/s 56(2)(x) if such difference exceeds the higher of INR 50,000 and 10% of the consideration.<br>Therefore, in this case INR 25 lakh (INR 85 lakh – INR 60 lakh) would be taxable in the hands of Mr. Sudhir under section 56(2)(x).<br>Since agricultural land is not a capital asset, the provisions of section 56(2) are not attracted in respect of receipt of agricultural land for inadequate consideration. The definition of "property" under section 56(2) does not include agricultural land. |
| (iii) | **TDS implications in the hands of Sudhir** |
| | Since the sale consideration of house property exceeds INR 50 lakh, Mr. Sudhir is required to deduct tax at source under section 194-IA. The tax to be deducted under section 194-IA would be INR 45,000, being 0.75% of INR 60 lakh. |

| | |
|---|---|
| | TDS provisions under section 194-IA are not attracted in respect of transfer of rural agricultural land. |

**Concept Problem 26**

Mr. Malik owns a factory building on which he had been claiming depreciation for the past few years. It is the only asset in the block. The factory building and attached land were sold during year. The following details are available:

| Particulars | Amount |
|---|---|
| Building completed in September, 2009 for | 10,00,000 |
| Land appurtenant thereto purchased in April, 2002 for | 12,00,000 |
| Advance received from a prospective buyer for land in May, 2003, forfeited in favour of Assessee, as negotiations failed | 50,000 |
| WDV of the building block as on 1.4.2021 | 8,74,800 |
| Sale value of factory building in November, 2021 | 8,00,000 |
| Sale value of appurtenant land in November, 2021 | 40,00,000 |

The Assessee is ready to invest in long-term specified assets under section 54EC, within specified time.

Compute the amount of taxable capital gain for the assessment year 2022-23 and the amount to be invested under section 54EC for availing the maximum exemption.

**Solution**

**Computation of taxable capital gain of Mr. Malik for A.Y.2022-23**

| Particulars | Amount | Amount |
|---|---|---|
| **Factory building** | | |
| Sale price of building | 8,00,000 | |
| Less: WDV as on 1.4.2021 | 8,74,800 | |
| **Short-term capital loss on sale of building** | | **(74,800)** |
| | | |
| **Land appurtenant to the above building** | | |
| Sale value of land | 40,00,000 | |
| Less: Indexed cost of acquisition (INR 11,50,000 × 317/105) | 34,71,667 | |
| **Long-term capital gains on sale of land** | | **5,28,333** |
| **Chargeable long-term capital gain** | | **4,53,533** |

**Investment under section 54EC**

In this case, both land and building have been held for more than 24 months and hence, are long-term capital assets. Exemption under section 54EC is available if the capital gains arising from transfer of a long-term capital asset, being land or building or both including depreciable asset (building) held for more than 24 months, are invested in five year redeemable bonds of National Highways Authority of India and Rural Electrification Corporation Ltd. or bonds notified by Central Government in this behalf, within 6 months from the date of transfer.

As per section 54EC, the amount to be invested for availing the maximum exemption is the net amount of capital gain arising from transfer of long-term capital asset, which is INR **4,53,533** (rounded off to INR **4,53,533**) in this case.

**Notes:**

i) Forfeiture of advance money prior to 01.04.2014 is reduced from the cost of acquisition and Indexation is to be done on the cost of acquisition so arrived at after reducing the advance money forfeited i.e. INR 12,00,000 – INR 50,000 = INR 11,50,000.

ii) Factory building on which depreciation has been claimed, is a depreciable asset. Profit / loss arising on sale is deemed to be short-term capital gain/loss as per section 50, and no indexation benefit is available.

iii) Land is not a depreciable asset; hence section 50 will not apply. Being a long-term capital asset (held for more than 24 months), indexation benefit is available.

iv) As per section 74, short term capital loss can be set-off against any income under the head "Capital gains", long-term or short-term. Therefore, in this case, short-term capital loss of INR 74,800 can be set-off against long-term capital gain.

## Concept Problem 27

Shubham purchased agricultural land in the urban area on 01.04.2001 for INR 2,00,000. It was sold by the Assessee on 01.07.2021 for INR 123,00,000.

He made following investments:

a) Bonds of National Bank for Agriculture and Rural Development on 01.06.2021 for 1,50,000 which are redeemable after 3 years.

b) He purchased agricultural land on 01.09.2021 for INR 2,00,000.

c) He has invested INR 75,000 on 01.10.2021 in the bonds of National Highway Authority of India redeemable after five years.

He sold the bonds of National Highway Authority of India on 15.04.2022 for INR 3,00,000.

Compute his capital gains for various years and also tax liability for assessment year 2022-23.

## Solution

**Assessment year 2022-23**

**Computation of Capital gains**

| Particulars | Amount |
|---|---|
| Full value of consideration | 1,23,00,000 |
| Less: Indexed cost of acquisition (2,00,000 / 100 x 317) | 6,34,000 |
| **Long Term Capital Gain** | **1,16,66,000** |
| Less: Exemption u/s 54B | (2,00,000) |
| Less: Exemption u/s 54EC | (75,000) |
| **Long Term Capital Gain** | **1,13,91,000** |
| **Income under the head Capital Gain (LTCG)** | **1,13,91,000** |
| **Gross Total Income** | **1,13,91,000** |
| Less: Deduction u/s 80C to 80U | Nil |
| **Total Income** | **1,13,91,000** |

**Computation of Tax Liability**

Since normal income is nil, as per section 112, deficiency of INR 2,50,000 shall be allowed from long term capital gain and balance income shall be taxed at flat rate of 20%.

| Particulars | Amount |
|---|---|
| Tax on INR 1,11,41,000 (INR **1,13,91,000** – INR 2,50,000) @ 20% | 22,28,200 |
| Add: Surcharge @ 15% | 3,34,230 |
| **Tax before education cess** | **25,62,430** |
| Add: Health and education cess @ 4% | 1,02,497.2 |

| | |
|---|---|
| **Tax Liability [R/off u/s 288B)** | **26,64,930** |

**Capital Gain on sale of bonds within 5 years - Assessment year 2023-24**

| Particulars | Amount |
|---|---|
| Full value of consideration | 3,00,000 |
| Less: Cost of acquisition | (75,000) |
| **Short Term Capital** | **2,25,000** |
| **Long Term Capital Gain (withdrawal of exemption)** | **75,000** |

## Concept Problem 28

Mr. Yusuf bought a vacant land for INR 80 lakhs in March 2005. Registration and other expenses were 10% of the cost of land. He constructed a residential building on the said land for INR 100 lakhs during the FY 2006-07

He entered into an agreement for sale of the above said residential house with Mr. John (not a relative) in July 2021. The sale consideration was fixed at INR 600 lakhs and on the date of agreement, Mr. Yusuf received INR 20 lakhs as advance in cash. The stamp duty value on that date was INR 650 lakhs.

The sale deed was executed and registered on 10-2-2022 for the agreed consideration. However, the state stamp valuation authority had revised the values, hence, the value of property for stamp duty purposes was 670 lakhs. Mr Yusuf paid 1% as brokerage on sale consideration received.

Subsequently to sale, Mr. Yusuf made following investments:

a. Acquired a residential house at Delhi for INR 80 lakhs.

b) Acquired a residential house at London for INR 40 lakhs.

c) Subscribed to NHAI bond: INR 45 lakhs on 29-5-2022 and INR 15 lakhs on 12-7-2022.

Compute the income chargeable under the head "Capital Gains" for A.Y. 2022-23. The choice of exemption must be in the manner most beneficial to the assessee.

| | | |
|---|---|---|
| Cost inflation Index: | F.Y. 2004-05 | 113 |
| | F.Y. 2006-07 | 122 |
| | F.Y. 2021-22 | 317 |

## Solution

Computation of income chargeable under the head "Capital Gains" for A.Y.2022-23

| Particulars | Amount | Amount |
|---|---|---|
| **Capital Gains on sale of residential building**<br>Actual sale consideration INR 600 lakhs<br>Value adopted by Stamp Valuation Authority INR 670 lakhs<br>Gross Sale consideration<br>[Where the actual sale consideration is less than the value adopted by the Stamp Valuation Authority for the purpose of charging stamp duty, and such stamp duty value exceeds 110% of the actual sale consideration, then, the value adopted by the Stamp Valuation Authority shall be taken to be the full value of consideration as per section 50C.<br>In a case where the date of agreement is different from the date of registration, stamp duty value on the date of agreement can be considered provided the whole or part of the consideration is paid by way of account payee cheque/bank draft or by way of ECS through bank account or through any other prescribed electronics mode on or before the date of agreement. | | 6,70,00,000 |

| Particulars | Amount | Amount |
|---|---|---|
| In this case, since advance of INR 20 lakh is received in cash on the date of agreement, stamp duty value on the date of registration has to be considered. Since stamp duty value on the date of registration exceeds 110% of the actual consideration, SDV would be taken as full value of consideration] | | |
| **Less:** Brokerage @1% of sale consideration (1% of INR 600 lakhs) | | 6,00,000 |
| **Net Sale consideration** | | **6,64,00,000** |
| **Less:** Indexed cost of acquisition | | |
| - Cost of vacant land, INR 80 lakhs, plus registration and other expenses i.e., INR 8 lakhs, being 10% of cost of land [INR 88 lakhs × 317/113] | 2,24,42,478 | |
| - Construction cost of residential building (INR 100 lakhs x 317/122) | 2,59,83,606 | 4,84,26,084 |
| **Long-term capital gains before exemption** | | **1,79,73,916** |
| **Less: Exemption under section 54**<br>Since the amount of capital gain does not exceed INR 2 crore, the capital gain arising on transfer of a long-term residential property shall not be chargeable to tax to the extent such capital gain is invested in the purchase of two residential house property in India one year before or two years after the date of transfer of original asset, at the option of the assessee.<br>However, in the present case, the exemption would be available only in respect of the residential house acquired at Delhi and not in respect of the residential house in London since the residential house property should be purchased or constructed in India | | 80,00,000 |
| **Less: Exemption under section 54EC**<br>Amount deposited in capital gains bonds of NHAI within six months from the date of transfer (i.e., on or before 09.08.2021) would qualify for exemption, to the maximum extent of INR 50 lakhs.<br>Therefore, in the present case, exemption can be availed only to the extent of INR 50 lakh out of INR 60 lakhs, even if the both the investments are made on or before 09.08.2021 (i.e., within six months from date of transfer). | | 50,00,000 |
| **Long term capital gains chargeable to tax** | | **49,73,916** |

**Note:** Since the residential house property was held by Mr. Yusuf for more than 24 months immediately preceding the date of its transfer, the resultant gain is a long-term capital gain.

## Concept Problem 29

Mr. Rajan provides you the following details with regard to sale of certain securities by him during F.Y. 2021-22:

**(i) Sold 10,000 shares of A Ltd. on 05-04-2021 @ INR 650 per share**

A Ltd. is a listed company. These shares were acquired by Mr. Rajan on 05-04-2016 @ INR 100 per share. STT was paid both at the time of acquisition as well as at the time of transfer of such shares which was affected through a recognized stock exchange.

On 31-01-2018, the shares of A Ltd. were traded on a recognized stock exchange as under:

Highest price - INR 300 per share; Average price - INR 290 per share; Lowest price - INR 280 per share.

**(ii) Sold 1000 units of B Mutual Fund on 20-04-2021 @ INR 50 per unit**

B Mutual Fund is an equity-oriented fund. These units were acquired by Mr. Rajan on 15-04-2017 @ INR 10 per unit. STT was paid only at the time of transfer of such units. On 31-01-2018, the Net Asset Value of the units of B Mutual Fund was INR 55 per unit.

**(iii) Sold 100 shares of C Ltd. on 25-04-2021 @ INR 200 per share**

C Ltd. is an un-listed company. These shares were issued by the company as bonus shares on 30-09-1997. The Fair Market Value of these shares as on 01-04-2001 was INR 50 per share.

Cost Inflation Index for various financial years are as under:

2001- 02 - 100

2016- 17 - 264

2017- 18 - 272

2021- 22 - 317

Calculate the amount chargeable to tax under the head 'Capital Gains' and also calculate tax on such gains for A.Y. 2022-23 assuming that the other incomes of Mr. Rajan exceeds the maximum amount not chargeable to tax. (Ignore surcharge and cess).

**Solution**

Computation of amount chargeable to tax under the head "Capital Gains" in the hands of Mr. Rajan

| | Particulars | Amount |
|---|---|---|
| **(i)** | **Sale of 10,000 shares of A Ltd. on 5.4.2021 @ 650 per share** | |
| | Sales consideration (10,000 x INR 650) | 65,00,000 |
| | Less: Cost of Acquisition | 30,00,000 |
| | Higher of<br>- Actual cost (10,000 x 100) 10,00,000<br>- Lower of: 30,00,000<br>• 30,00,000 (INR 300 x 10,000), being fair market value as on 31.1.2018 (Highest price of the shares traded on 31.01.2018); and 65,00,000, being full value of consideration on transfer | |
| | **Long-term capital gain under section 112A [Since shares held for more than 12 months and STT is paid both at the time of purchase and sale. Benefit of indexation is, however, not available on LTCG taxable u/s 112A].** | **35,00,000** |
| **(ii)** | **Sale of 1,000 units of B Mutual Fund5 on 20.4.2021 @ INR 50 per unit** | |
| | Sale consideration (1,000 x 50) | 50,000 |
| | Less: Cost of acquisition – Higher of - | 50,000 |
| | - Actual cost (1,000 x 10) 10,000<br>- Lower of: 50,000<br>• 55,000 (55 x 1,000) FMV, being Net Asset Value as on 31.1.2018; and 50,000 being full value of consideration on transfer | |
| | **Long-term capital gain under section 112A [Since shares are held for more than 12 months and STT is paid at the time of sale]** | **NIL** |
| **(iii)** | **Sale of 100 shares of C Ltd. on 25.4.2021 @ 200 per share** | |
| | Sale consideration (100x 200) | 20,000 |
| | Less: Indexed cost of Acquisition [ 100 x 50 (being FMV on 1.4.2001) x 317/100] | 15,850 |
| | **Long-term capital gain under section 112 [Since shares are unlisted and held for more than 24 months]** | **4,150** |

**Computation of tax on such capital gains for A.Y. 2022-23**

| Particulars | Amount |
|---|---|
| Tax under section 112A @ 10% on long-term capital gains of INR 34,00,000 [LTCG of INR 35,00,000 (-) INR 1,00,000] arising on sale of shares of A Ltd. | 3,40,000 |

| Particulars | Amount |
|---|---|
| Tax under section 112 @ 20% on long-term capital gains of INR 4,150 arising on sale of unlisted shares of C Ltd. | 830 |
| **Total Tax payable** | **3,40,830** |

## Concept Problem 30

Miss Neha has transferred 1,000 shares of Tax Ltd, (which she acquired at cost of INR 10,000 in 01.04.2018 to Roshan, her brother at a consideration of INR 3,41,476 on 15.05.2021 privately.

During the previous year 2021-22, she has paid through e-banking INR 15,000 towards Medical Premium, INR 50,000 towards LIC and INR 25,000 towards PPF.

Assuming she has no other source of Income, compute her Total Income and tax payable for AY 2021-22.

### Solution

| Particulars | Option 1 with Indexation | Option 2 without Indexation |
|---|---|---|
| Sale consideration | 3,41,476 | 3,41,476 |
| **Less:** Indexed Cost of Acquisition / Cost of Acquisition | (10,000 / 280 * 317) = (11,321) | (10,000) |
| **Long –Term Capital Gain** | **3,30,155** | **3,31,476** |
| **Less:** Basic exemption limit applicable | (2,50,000) | (2,50,000) |
| **Taxable long – term capital gain** | **80,155** | **81,476** |
| Tax rate applicable u/s 112 | 20% | 10% |
| **Tax on long – term capital gain** | **16,031** | **8,148** |

1. In case of transfer of listed security on which STT is not paid, then the Assessee can opt for 20% tax rate with indexation benefit or 10% tax rate without indexation benefit whichever is **more beneficial** to him. In the given case, **option 2** is more beneficial to the Assessee (i.e., lower tax) and therefore it is consideration in the calculations.
2. As per sec. 112, no deduction shall be allowed under chapter VI-A for long term capital gain.
3. In case of transfer of unlisted security tax on LTCG shall be calculated at 20% and the Assessee has no option to compute/ adopt for 10% without any indexation benefit.
4. When total income of resident individual does not exceed INR 5 lakh **rebate u/s 87A** = 100% of tax payable or INR 12,500 whichever is **less.**

| Particulars | Listed shares |
|---|---|
| **Income from Capital gain:** | |
| long term capital gain | 3,31,476 |
| **Gross total income** | **3,31,476** |
| **Less:** Deduction under chapter VI-A (W.N.3) | Nil |
| **Total income (R/off u/s 288A)** | **3,31,480** |
| Tax on total income @ 10% [3,31,480 – 2,50,000] | 8,148 |
| **Less:** rebate u/s 87A | (8,148) |
| **Tax payable** | **Nil** |

## Concept Problem 31

Mr. R holds 1000 shares in Star Minus Ltd., an unlisted company, acquired in the year 2001-02 at a cost of INR 75,000. He has been offered right shares by the company in the month of August, 2021 at INR 160 per share, in the ratio of 2 for every 5 held. He retains 50% of the rights and renounces the balance right shares in favour of Mr. Q for INR 30 per share in September 2021. All the shares are sold by Mr. R for INR 300 per share in January 2022 and Mr. Q sells his shares in December 2021 at INR 280 per share. What are the capital gains taxable in the hands of Mr. R and Mr. Q?

**Solution**

**Computation of capital gains in the hands of Mr. R for the A.Y.2022-23**

| Particulars | Amount |
|---|---|
| **1000 Original shares** | |
| Sale proceeds (1000 × INR 300) | 3,00,000 |
| Less: Indexed cost of acquisition [INR 75,000 × 301/100] | 2,37,750 |
| **Long term capital gain (A)** | **62,250** |
| | |
| **200 Right shares** | |
| Sale proceeds (200 × INR 300) | 60,000 |
| Less: Cost of acquisition [INR 160 × 200] **[Note 1]** | 32,000 |
| **Short term capital gain (B)** | **28,000** |
| | |
| **Sale of Right Entitlement** | |
| Sale proceeds (200 × INR 30) | 6,000 |
| Less: Cost of acquisition **[Note 2]** | NIL |
| **Short term capital gain (C)** | **6,000** |
| **Capital Gains (A+B+C)** | **96,250** |

**Note 1:**

Since the holding period of these shares is not more than 24 months, they are short term capital assets and hence cost of acquisition will not be indexed.

**Note 2:**

The cost of the rights renounced in favour of another person for a consideration is taken to be Nil. The consideration so received is taxed as short-term capital gains in full. The period of holding is taken from the date of the rights offer to the date of the renouncement.

**Computation of capital gains in the hands of Mr. Q for the A.Y. 2022-23**

| Particulars | Amount |
|---|---|
| **200 shares** | |
| Sale proceeds (200 × INR 280) | 56,000 |
| Less: Cost of acquisition [200 shares × (INR 30 + INR 160)] [See Note below] | 38,000 |
| **Short term capital gain** | **18,000** |

**Note:**

The cost of the rights is the amount paid to Mr. R as well as the amount paid to the company. Since the holding period of these shares is not more than 24 months, they are short term capital assets.

~~**Concept problem 32**~~

~~Saiyam and Ashish are two partners of a firm SA & Co. On 01.01.2022, Mr. Ravi joins the firm and brings shares in a company as his capital contribution. Fair market value of these shares on 01.01.2022 is INR 5,00,000 whereas amount credited in Ravi's accounts in the firm is INR 4,00,000.~~
~~Assuming that cost of acquisition in 2006-07 of these shares was INR 48,000, find out the amount of chargeable capital gain for the assessment year 2022-23 in the hands of Ravi.~~

**~~Solution~~**

**~~Computation of Capital Gains~~**

| ~~Particulars~~ | ~~Amount~~ |
|---|---|
| ~~Full value of consideration~~ | ~~4,00,000~~ |
| ~~Less: Indexed cost of acquisition~~ | |
| ~~= 48,000/122 x 317~~ | ~~(1,24,721)~~ |
| **~~Long term capital gain~~** | **~~2,75,279~~** |

## ~~Concept Problem 33~~

~~One partnership firm has purchased gold on 01.10.2006 for INR 5,00,000 and dissolution has taken place on 01.10.2021. This gold was transferred to one of the partners in settlement of his claim of INR 25,00,000, though the market value was INR 35,00,000.~~

~~Compute capital gains for assessment year 2022-23 and also its tax liability.~~

**~~Solution~~**

| ~~Computation of Capital Gains~~ | ~~Amount~~ |
|---|---|
| ~~Full value of consideration~~ | ~~35,00,000~~ |
| ~~Less: Indexed cost of acquisition~~ | |
| ~~=5,00,000 / Index of 2006-07 x Index of 2021-22~~ | |
| ~~=5,00,000/122 x 317~~ | ~~(12,99,180)~~ |
| **~~Long Terms Capital Gains~~** | **~~22,00,820~~** |

## Concept Problem 34

Mr. Dinesh received a vacant site as gift from his friend in November 2005. The site was acquired by his friend for INR 3,00,000 in April 2002. Dinesh constructed a residential building during the year 2011-12 in the said site for INR 15,00,000. He carried out some further extension of the construction in the year 2013-14 for INR 5,00,000.

Dinesh sold the residential building for INR 55,00,000 in January 2022 but the State stamp valuation authority adopted INR 65,00,000 as value for the purpose of stamp duty.

Compute his long-term capital gain for the assessment year 2022-23.

**Solution**

| Particulars | Amount |
|---|---|
| Full value of consideration (Note 1) | 65,00,000 |
| Less: Indexed cost of acquisition- Land (INR 3,00,000 × 317/105) (Note 2 & 3) | 9,05,714 |
| Less: Indexed Cost of acquisition- Building (INR 15,00,000 × 317/184) (Note 3) | 25,84,239 |
| Less: Indexed Cost of improvement- Building (INR 5,00,000 x 317/220) | 7,20,454 |
| **Long term capital gain** | **22,89,593** |

**Notes:**

1. As per section 50C, where the consideration received or accruing as a result of transfer of a capital asset, being land or building or both, is less than the value adopted by the Stamp Valuation Authority, such value adopted

by the Stamp Valuation Authority shall be deemed to be the full value of the consideration if SDV exceeds 110% pf actual consideration. Accordingly, full value of consideration will be INR 65 lakhs in this case.

2. Since Dinesh has acquired the asset by way of gift, therefore, as per section 49(1), cost of the asset to Dinesh shall be deemed to be cost for which the previous owner acquired the asset i.e., INR 3,00,000, in this case.
3. Indexation benefit is available since both land and building are long-term capital assets and period of holding of previous owner shall also be considered.

## Concept Problem 35

Priyanshu purchased one building on 01.10.2003 for INR 5,00,000. He entered into an agreement on 01.10.2021 to sell this building and advance money of INR 25,000 was received but subsequently the buyer backed out and the advance money was forfeited. This building was sold on 01.01.2022 to some other person for INR 55,00,000.

Compute total income in the hand of Priyanshu for the AY 2022-23.

### Solution

| Particulars | Amount |
|---|---|
| **Income under the Other Sources**<br>As per section 51, amount so forfeited is income uth Other Sources | 25,000 |
| **Computation of capital Gains** | |
| Full value of consideration | 55,00,000 |
| Less: Indexed cost of acquisition | |
| =5,00,000/Index of 2003-04 x Index of 2021-22 | |
| = 5,00,000/ 109 x 317 | (14,54,128) |
| **Long Term Capital Gain** | **40,45,872** |
| **Gross Total Income** | **40,70,872** |
| Less: Deduction u/s 80C to 80U | Nil |
| **Total Income (rounded off u/s 288A)** | **40,70,872** |

## Concept Problem 36

Mr. Rakesh purchased a house property on 14th April, 1999 for INR 1,05,000. He entered into an agreement with Mr. Bobby for the sale of house on 15th September, 2002 and received an advance of INR 25,000. However, since Mr. Bobby did not remit the balance amount, Mr. Rakesh forfeited the advance. Later on, he gifted the house property to his friend Mr. Aakash on 15th June, 2006. Following renovations were carried out by Mr. Rakesh and Mr. Aakash to the house property:

| | Amount |
|---|---|
| By Mr. Rakesh during FY 1999-00 | 10,000 |
| By Mr. Rakesh during FY 2003-04 | 50,000 |
| By Mr. Akash during FY 2009-10 | 1,90,000 |

The fair market value of the property as on 1.4.2001 is INR 1,50,000. Mr. Aakash entered into an agreement with Mr. Chintu for sale of the house on 1st June, 2011 and received an advance of INR 80,000. The said amount was forfeited by Mr. Aakash, since Mr. Chintu could not fulfill the terms of the agreement. Finally, the house was sold by Mr. Aakash to Mr. Sanjay on 2nd January, 2022 for a consideration of INR 12,00,000.

Compute the capital gains chargeable to tax in the hands of Mr. Aakash for the AY 2022-23.

### Solution

Computation of taxable capital gains of Mr. Aakash for the A.Y. 2022-23

| Particulars | Amount |
|---|---|
| Sale consideration | 12,00,000 |
| Less: Indexed cost of acquisition (Working Note: 1) | 2,21,900 |
| Less: Indexed cost of improvement (Working Note: 2) | 5,52,372 |
| **Long term capital gain** | **4,25,728** |

**Working Note:**

**1. Indexed cost of acquisition is determined as under:**

| Particulars | Amount |
|---|---|
| Cost to the previous owner or FMV on 1st April, 2001, whichever is more, is to be taken as cost of acquisition of Mr. Aakash INR 1,50,000 | 1,50,000 |
| Less: Advance money forfeited by Mr. Aakash (as per section 51)<br>(Note: Advance forfeited by Mr. Rakesh, the previous owner, should not be deducted) | 80,000 |
| **Cost of acquisition** | **70,000** |
| **Indexed Cost of acquisition (70,000 × 317/100)** | **2,21,900** |

**2. Indexed cost of Improvement is determined as under:**

| Particulars | Amount |
|---|---|
| Expenditure incurred before 1st April, 2001 should not be considered | Nil |
| Expenditure incurred on or after 1st April, 2001 | |
| During 2003-04: Indexed cost of Improvement [50,000 × 317/109] | 1,45,413 |
| During 2009-10: Indexed cost of Improvement [1,90,000 × 317/148] | 4,06,959 |
| **Total indexed cost of improvement** | **5,52,372** |

## Concept Problem 37

Bharat purchased agricultural land on 01.10.2002 for INR 3,00,000 and it was being used for agricultural purpose by him. It was sold on 01.01.2022 for INR 50,00,000. The Assessee has purchased one agricultural land in the rural area on 10.01.2022 for INR 10,00,000 and this land was sold by him on 11.02.2022 for INR 11,00,000. Bharat has invested INR 30,000 in National Saving Certificate.

a) Compute his tax liability for assessment year 2022-23. He is aged about 86 years.

b) Assume land purchased is Urban Agricultural land.

## Solution

**(a)**

| Computation of capital Gains | Amount |
|---|---|
| Full value of consideration | 50,00,000 |
| Less: Indexed cost of acquisition (3,00,000 / 105 x 317) | (9,05,714) |
| **Long Term Capital Gain** | **40,94,286** |
| Less: Exemption u/s 54B | (10,00,000) |
| **Long Term Capital Gain (LTCG)** | **30,94,286** |
| **Income under the head Capital gain** | **30,94,286** |
| **Gross Total Income** | **30,94,286** |
| Less: Deduction u/s 80C {Deduction u/s 80C is not allowed from LTCG} | Nil |

| Computation of capital Gains | Amount |
|---|---|
| **Total Income (Rounded off u/s 288A)** | **30,94,290** |

**Computation of Tax Liability**

Since normal income is Nil, as per section 112, deficiency of INR 5,00,000 shall be allowed from long term capital gain and balance income shall be taxed at flat of 20%.

| Particulars | Amount |
|---|---|
| Tax on INR 25,94,290 (INR **30,94,290** – INR 5,00,000) @ 20% | 5,18,858 |
| Add: Health and education cess @ 4% | 20,754 |
| **Tax Liability (Rounded off)** | **5,39,612** |

**Note:** If land is purchased in rural area, exemption is allowed under section 54B but on its sale exemption is not withdrawn.

**Solution (b):**

| Computation of Capital Gains | Amount |
|---|---|
| **Long Term Capital Gain** | **40,94,286** |
| Less: Exemption u/s 54B | (10,00,000) |
| **Long Term Capital Gain** | **30,94,286** |

**On Sale of new urban agriculture land**

| Particulars | Amount |
|---|---|
| Full value of consideration | 11,00,000 |
| Less: Cost of acquisition (10,00,000 – 10,00,000) | Nil |
| **Short Term Capital Gain** | **11,00,000** |
| **Income under the head Capital Gains** | **41,94,286** |
| **Gross Total Income** | **41,94,286** |
| Less: Deduction u/s 80C {NSC} | (30,000) |
| **Total Income (Rounded off)** | **41,64,290** |

**Computation of tax liability**

| Particulars | Amount |
|---|---|
| Tax on long term capital gain INR **30,94,286** @ 20% | 6,18,858 |
| Tax on INR 10,70,000 at slab rate | 1,21,000 |
| **Tax before cess** | **7,39,858** |
| Add: Health and education cess @ 4% | 29,594 |
| **Tax Liability (Rounded off)** | **7,69,450** |

**Concept Problem 38**

Rohit purchased gold on 01.04.1991 for INR 3,00,000 and its market value on 01.04.2001 is INR 2,00,000. This gold was sold by him on 01.01.2022 for INR 35,00,000 and selling expenses are INR 37,000. He has purchased one house on 01.05.2022 for INR 4,00,000 because he did not have any house in his name and he deposited INR 3,00,000 in capital gain account scheme on 31.07.2022.

Rohit is also engaged in a business and he has turnover of his business INR 105,00,000 and cost of goods sold INR 100,00,000 and other expenses INR 5,10,000.

He has withdrawn INR 2,00,000 from capital gain account scheme on 01.01.2023 and constructed 1st floor of the house which was purchased by him on 01.05.2022.

Remaining amount in the capital gain account scheme was unutilized.

Compute Assessee's tax liability for assessment year 2022-23 and capital gains for various years.

**Solution**

**Assessment year 2022-23**

**Computation of capital gain**

| Particulars | Amount |
|---|---|
| Full value of consideration | 35,00,000 |
| Less: Selling expenses | (37,000) |
| **Net consideration** | **34,63,000** |
| Less: Indexed cost of acquisition (INR 3,00,000 / 100 x 317) | (9,51,000) |
| **LTCG** | **25,12,000** |
| Less: Exemption u/s 54F [INR 700,000/34,63,000*25,12,000] | 5,07,768 |
| **Income under the head Capital Gain (LTCG)** | **20,04,232** |
| **Loss uth PGBP** | (10,000) |
| **Gross Total Income** | **19,94,232** |
| Less: Deduction u/s 80C to 80U | Nil |
| **Total Income** | **19,94,230** |

**Computation of Tax Liability**

Since normal income is Nil, as per section 112, deficiency of INR 2,50,000 shall be allowed from long term capital gain and balance income shall be taxed at flat rate of 20%.

| Particulars | Amount |
|---|---|
| Tax on 17,44,230 (INR 19,94,230 – INR 2,50,000) @ 20% | 3,48,846 |
| Health and education cess @ 4% | 13,954 |
| **Tax Liability (round off u/s 288B)** | **3,62,800** |

**Previous year 2024-25**

| Particulars | Amount |
|---|---|
| Amount deposited in capital gains account scheme | 3,00,000 |
| Less: Amount withdrawn | 2,00,000 |
| **Balance Amount** | **1,00,000** |
| **LTCG [25,12,000/34,63,000*100,000]** | **72,538** |

Proportionate exemption with regard to unutilized amount lying in the capital gain account scheme is chargeable to tax after expiry of period of three years.

**Concept Problem 39**

Mr. Patel is a proprietor of Star Stores since 20-05-2019. He has transferred his shop by way of slump sale for a total consideration of 40 lakh. The professional fees & brokerage paid for this sale are 80,000. His balance sheet as on 31-03-2022 is as under:

| Liabilities | Amount | Assets | Amount |
|---|---|---|---|
| Own Capital | 10,50,000 | Building | 5,00,000 |
| Bank Loan | 5,00,000 | Furniture | 5,00,000 |
| Trade Creditors | 2,50,000 | Debtors | 2,00,000 |
| Unsecured Loan | 2,00,000 | Other Assets | 8,00,000 |
| | **20,00,000** | | **20,00,000** |

Other Information:

1. No individual value of any asset is considered in the transfer deed.
2. Other assets include trademarks valuing 2,00,000 as on 01-04-2021 on which no depreciation has been provided.
3. Furniture of 1,50,000 purchased on 05-11-2021 on which no depreciation has been provided.
4. Unsecured loan includes 50,000 as advance received from his wife, whish she has agreed to waive off.

Compute the capital gain for A.Y. 2022-23.

**Solution**

**Computation of capital gains on slump sale on shop**

| Particulars | Amount | |
|---|---|---|
| Sale Value | 40,00,000 | |
| Less: Expense on sale [professional fees & brokerage] | 80,000 | |
| Net Sale consideration | 39,20,000 | |
| Less: Net Worth **(See working Note below)** | 10,42,500 | |
| **Short – term capital gain** [Since shop is held for not more than 36 months immediately preceding the date of transfer] | | **28,77,500** |
| **Working Note:** | | |
| **Computation of net worth of shop** | | |
| Building | 5,00,000 | |
| Furniture | 5,00,000 | |
| Less: Depreciation on 1,50,000 @ 5% , being 50 % of 10% since furniture is put to use for less than 180 days during the previous year | 7,500 | |
| | 4,92,500 | |
| Debtors | 2,00,000 | |
| Other Assets | 8,00,000 | |
| Less: Depreciation on 2,00,000 , being intangible asset @25% | 50,000 | |
| | 7,50,000 | |
| **Total assets** | | **19,42,500** |
| Less: Bank loan | 5,00,000 | |
| Trade Creditors | 2,50,000 | |
| Unsecured loan 2,00,000 less 50,000,being the amount waived off by his wife | 1,50,000 | |
| | | 9,00,000 |
| **Net worth** | | **10,42,500** |

## Concept Problem 40

Mrs. Neha transferred 100 shares of ABC (P) Ltd. to M/s. XYZ Co. (P) Ltd. on 10.9.2021 for Rs. 3,00,000 when the market price was Rs. 5,00,000. The indexed cost of acquisition of shares for Mrs. Neha was computed at Rs. 4,30,000. The transfer was not subjected to securities transaction tax.

Determine the income chargeable to tax in the hands of Mrs. Neha and M/s. XYZ Co. (P) Ltd. because of the above said transaction.

### Solution -

Any movable property received for inadequate consideration by any person is chargeable to tax u/s 56(2)(x), if the difference between aggregate Fair Market Value of the property and consideration exceeds Rs. 50,000.

Thus, share received by M/s XYZ (P) Ltd. from Mrs. Neha for inadequate consideration is chargeable to tax under section 56(2)(x) to the extent of Rs. 2,00,000.

As per section 50CA, since, the consideration is less than the fair market value of unquoted shares of ABC (P) Ltd., fair market value of shares of the company would be deemed to be the full value of consideration. It is presumed that the shares of ABC (P) Ltd are unquoted shares.

The full value of consideration (Rs. 5,00,000) less the indexed cost of acquisition (Rs. 4,30,000) would result in a long term capital gains of Rs. 70,000 in the hands of Mrs. Neha.

*This Question Bank is meant for Nov 2022 exams and must be read with our Lectures (Regular or Fast Track) as many additional concepts are covered in class. We do lots of written practice in class & Kishan Sir personally evaluates grand Mock Test. Must cover Income Tax Chalisa Handwritten Notes as well.*