Chapter 7

Capital Gains

Q1

Study Mat

Mr. A converts his capital asset acquired for an amount of ₹ 50,000 in June, 2003 into stock-in-trade in the month of November, 2016. The fair market value of the asset on the date of conversion is ₹ 4,50,000. The stock-in-trade was sold for an amount of ₹ 6,50,000 in the month of September, 2020. What will be the tax treatment?

Financial year	Cost Inflation Index
2003-04	109
2016-17	264

Answer

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. PY 2016-17) but will be taxable only in the year in which the stock-in-trade is sold (i.e. PY 2019-20).

Profits from business will also be taxable in the year of sale of the stock-in-trade (PY 2019-20)

The long-term capital gains and business income for the AY 2021-22 are calculated as under:

Particulars	₹	₹
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 (₹ 50,000 x 264/109)	1,21,101	3,28,899

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.

Q2

Study Mat

Singhania & Co., a sole proprietorship own six machines, put in use for business in March, 2020. The depreciation on these machines is charged @ 15%. The written down value of these machines as on 1st April, 2020 was ₹ 8,50,000. Three of the old machines were sold on 10th June, 2020 for ₹ 11,00,000. A second hand plant was bought for ₹ 8,50,000 on 30th November, 2020.

You are required to:

(i) Determine the claim of depreciation for Assessment Year 2021-22.

(ii) Compute the capital gains liable to tax for Assessment Year 2021-22.

(iii) If Singhania & Co. had sold the three machines in June, 2020 for ₹ 21,00,000, will there be any difference in your above workings? Explain.

Answer

(i) Computation of depreciation for AY 2021-22

Particulars	₹
W.D.V. of the block as on 1.4.2020	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 31.3.2021 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 ₹ 45,000, being 7½% of ₹ 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, 2020 for ₹ 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 1.4.2020	8,50,000	
Purchase of second plant during the year	8,50,000	17,00,000
Short term capital gains		**4,00,000**

Q3 Study Mat

Mr. A is a proprietor of Akash Enterprises having 2 units. He transferred on 1.4.2020 his Unit 1 by way of slump sale for a total consideration of ₹ 25 lacs. Unit 1 was started in the year 2005-06. The expenses incurred for this transfer were ₹ 28,000. His Balance Sheet as on 31.3.2021 is as under:

Liabilities	Total (₹)	Assets	Unit 1(₹)	Unit 2 (₹)	Total (₹)
Own Capital	15,00,000	Building	12,00,000	2,00,000	14,00,000
Revaluation	3,00,000	Machinery	3,00,000	1,00,000	4,00,000
Reserve (for building of unit 1)					
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 1.7.2018 for ₹ 50,000 on which no depreciation has been charged.

Compute the capital gain for the assessment year 2021-22.

Answer

Computation of capital gains on slump sale of Unit 1

Particulars	₹
Sale value	25,00,000
Less: Expenses on sale	28,000
Net sale consideration	24,72,000
Less: Net worth **(See Note 1 below)**	12,50,625
Long-term capital gain	**12,21,375**

Notes:

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

Particulars	₹	₹
Building (excluding ₹ 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 (₹1,50,000 – ₹ 50,000)		1,00,000
Total assets		14,28,125
Less: Creditors (25% of ₹ 1,50,000)	37,500	
Bank Loan (70% of ₹ 2,00,000)	1,40,000	1,77,500
Net worth		**12,50,625**

2. Written down value of patents as on 1.4. 2020

Value of patents:	₹
Cost as on 1.7.2018	50,000
Less: Depreciation @ 25% for Financial Year 2018-19	12,500
WDV as on 1.4.2019	37,500
Less: Depreciation for Financial Year 2019-20	9,375
WDV as on 1.4.2020	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 ₹ 3 lakh and ₹ 9 lakh (₹ 12 lakh – ₹ 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 belong term capital gain. However, indexation benefit is not available in case of slump sale.

Q4 Study Mat

Calculate the income-tax liability for the assessment year 2021-22 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 long-term capital gain	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

Answer

Computation of income-tax liability for the AY 2021-22

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			
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 ₹ 3,00,000 and ₹ 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 ₹ 5 lakhs, he is eligible for rebate of ₹ 12,500 or the actual tax payable, whichever is lower, under section 87A.

Q5 May 17

Mr. Yuthistra bought a vacant land for ₹ 80 lakhs in May 2004. Registration and other expenses were 10% of the cost of land. He constructed a residential building on the said land for ₹ 100 lakhs during the financial year 2006-07. He entered into an agreement for sale of the above said residential house with Mr. John (not a relative) in April 2015. The sale consideration was fixed at ₹ 700 lakhs and on 23-4-2019, Mr. Yuthistra received ₹ 20 lakhs as advance in cash by executing an agreement. The sale deed was executed and registered on 14-1-2021 for the agreed consideration. However, the State stamp valuation authority had revised the values, hence, the value of property for stamp duty purposes was ₹ 770 lakhs. Mr. Yuthistra paid 1% as brokerage on sale consideration received.

Subsequent to sale, Mr. Yuthistra made following investments:

(i) Acquired a residential house at Delhi for ₹ 110 lakhs.

(ii) Acquired a residential house at London for ₹ 190 lakhs.

(iii) Subscribed to NHAI capital gains bond (approved under section 54EC) for ₹ 45 lakhs on 29-3-2021 and for ₹ 50 lakhs on 12-5-2021.

Compute the income chargeable under the head 'Capital Gains'. The choice of exemption must be in the manner most beneficial to the assessee.

Cost Inflation Index:

FY 2004-05	113
FY 2006-07	122
FY 2020-21	301

Answer

(a) Computation of income chargeable under the head "Capital Gains" for AY 2020-21

Particulars	₹ (in lakhs)	₹ (in lakhs)
Capital Gains on sale of residential building		
Actual sale consideration	₹ 700 lakhs	
Value adopted by Stamp Valuation Authority	₹ 770 lakhs	
Gross Sale consideration		700
[In case 110% of actual sale consideration declared by the assessee is not exceeding the value adopted by the Stamp Valuation Authority for the purpose of charging stamp duty, then, the value adopted by the Stamp Valuation Authority shall be taken to be the full value of consideration as per section 50C]		
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 on or before the date of agreement. In this case, since advance of ₹ 20 lakh is paid by cash, stamp duty value on the date of agreement cannot be adopted as the full value of consideration. Stamp duty value on the date of registration would be the full value of consideration]		
Less: Brokerage@1% of sale consideration (1% of ₹ 700 lakhs)		7
Net Sale consideration		693
Less: Indexed cost of acquisition		

- Cost of vacant land, ₹ 80 lakhs, plus registration and other expenses i.e., ₹ 8 lakhs, being 10% of cost of land [₹ 88 lakhs × 301/113]	234.41	
- Construction cost of residential building (₹ 100 lakhs x 301/122)	246.72	481.63
Long-term capital gains before exemption		**211.87**
Less: Exemption under section 54		110
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 properties in India one year before or two years after the date of transfer of original asset. Therefore, 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		
Less: Exemption under section 54EC		50
Amount deposited in capital gains bonds of NHAI within six months from the date of transfer (i.e., on or before 13.7.2021) would qualify for exemption, to the maximum extent of ₹50 lakhs, whether such investment is made in the current financial year or subsequent financial year. Therefore, in the present case, exemption can be availed only to the extent of ₹ 50 lakh out of ₹ 95 lakhs, even if the both the investments are made on or before 13.7.2021 (i.e., within six months from the date of transfer).		
Long term capital gains chargeable to tax		**51.87**

Q6 Nov 17

Mr. Sunil entered into an agreement with Mr. Dhaval to sell his residential house located at Navi Mumbai on 16.08.2020 for ₹ 80,00,000.

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. Dhaval was handed over the possession of the property on 15.12.2020 and the registration process was completed on 14.01.2021. He paid the sale proceeds as per the sale agreement.

The value determined by the Stamp Duty Authority on 16.08.2020 was ₹ 90,00,000 whereas on 14.01.2021 it was ₹ 91,50,000.

Mr. Sunil had acquired the property on 01.04.2001 for ₹ 20,00,000. After recovering the sale proceeds from Dhaval, he purchased another residential house property for ₹ 35,00,000.

Compute the income under the head "Capital Gains" for the Assessment Year 2021-22.

Cost Inflation Index for Financial Year(s)

2001-02- 100; 2020-21 - 301

Answer

Computation of income chargeable under the head "Capital Gains" for AY 2020-21

Particulars		₹
Capital Gains on sale of residential house		
Actual sale consideration	₹ 80 L	
Value adopted by Stamp Valuation Authority	₹ 90 L	
Full value of sale consideration [Higher of the above]		90,00,000
[As per section 50C, in case 110% of the actual sale consideration declared by the assessee is less than the value adopted by the Stamp Valuation Authority for the purpose of charging stamp duty, then, the value adopted by the Stamp Valuation Authority shall be taken to be the full value of consideration 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 on or before the date of agreement. In this case, since 20% of ₹ 80 lakhs is paid through account payee bank draft on the date of agreement, stamp duty value on the date of agreement can be adopted as the full value of consideration]		
Less: Indexed cost of acquisition of residential house		
[₹ 20 lakhs x 301/100]		60,20,000
Long-term capital gains [Since the residential house property was held by Mr. Sunil for more than 36 months immediately preceding the date of its transfer]		**29,80,000**
Less: Exemption u/s 54		29,80,000
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 properties in India within one year before or two years after the date of transfer of original asset.		
Long term capital gains chargeable to tax		**Nil**

Q7 — RTP May 18

Mr. Arjun bought a vacant land for ₹ 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 ₹ 100 lakhs during the financial year 2006-07.

He entered into an agreement for sale of the above said residential house with Mr. Jerry (not a relative) on 9th April 2020 and received ₹ 20 lakhs as advance in cash on that date. The stamp duty value on that date was ₹ 740 lakhs. The actual sale consideration was, however, fixed at ₹ 700 lakhs.

The sale deed was executed and registered on 10-6-2020 for the agreed consideration. However, the State stamp valuation authority had revised the values, hence, the value of property for stamp duty purposes was ₹ 770 lakhs. Mr. Arjun paid 1% as brokerage on sale consideration received.

Subsequent to sale, Mr. Arjun made following investments:

(i) Acquired a residential house at Mumbai for ₹ 110 lakhs.

(ii) Acquired a residential house at London for ₹ 150 lakhs.

(iii) Subscribed to NHAI bond: ₹ 45 lakhs on 29-8-2020 and ₹ 50 lakhs on 12-10-2020.

Compute the income chargeable under the head "Capital Gains" for AY 2021-22. The choice of exemption must be in the manner most beneficial to the assessee.

Cost Inflation Index:

FY 2004-05	113
FY 2006-07	122
FY 2020-21	301

Answer

Computation of income chargeable under the head "Capital Gains" for AY 2021-22

Particulars	₹ (in lakhs)	₹ (in lakhs)
Capital Gains on sale of residential building		
Actual sale consideration ₹ 700 lakhs		
Value adopted by Stamp Valuation Authority ₹ 770 lakhs		
Gross Sale consideration		770.00
[In case 110% of the actual sale consideration declared by the assessee is less than the value adopted by the Stamp Valuation Authority for the purpose of charging stamp duty, then, the value adopted by the Stamp Valuation Authority shall be taken to be the full value of consideration as per section 50C. 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 on or before the date of agreement. In this case, since advance of ₹ 20 lakh is paid by cash, stamp duty value of ₹ 740 lakhs on the date of agreement cannot be adopted as the full value of consideration. Stamp duty value on the date of registration would be the full value of consideration]		
Less: Brokerage@1% of sale consideration (1% of ₹ 700 lakhs)		7.00
Net Sale consideration		**693.00**
Less: Indexed cost of acquisition		

Cost of vacant land, ₹ 80 lakhs, plus registration and other expenses i.e., ₹ 8 lakhs, being 10% of cost of land [₹ 88 lakhs × 301/113]	234.41	
Construction cost of residential building (₹ 100 lakhs x 301/122)	246.72	481.13
Long-term capital gains before exemption		**211.87**
Less: Exemption under section 54		110.00
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 properties in India one year before or two years after the date of transfer of original asset. Therefore, in the present case, the exemption would be available only in respect of the residential house acquired at Mumbai and not in respect of the residential house in London		
Less: Exemption under section 54EC		50.00
Amount deposited in capital gains bonds of NHAI within six months from the date of transfer (i.e., on or before 09.12.2019) would qualify for exemption, to the maximum extent of ₹ 50 lakhs. Therefore, in the present case, exemption can be availed only to the extent of ₹ 50 lakh out of ₹ 95 lakhs, even if the both the investments are made on or before 09.12.2019 (i.e., within six months from the date of transfer).		
Long term capital gains chargeable to tax		**51.87**

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

Q8 RTP Nov 18

Mr. Sahu entered into an agreement with Mr. Devansh to sell his residential house located at New Delhi on 27.07.2020 for ₹ 82,00,000. Mr. Devansh was handed over the possession of the property on 16.12.2020 and the registration process was completed on 24.02.2021.

Mr. Devansh had paid the sale proceeds in the following manner;

(i) 25% through account payee bank draft on the date of agreement.

(ii) 50% on the date of the possession of the property.

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

The value determined by the Stamp Duty Authority on 27.07.2020 was ₹ 92,00,000 whereas on 24.02.2021 it was ₹ 94,50,000.

Mr. Sahu had acquired the property on 01.04.2002 for ₹ 21,00,000. After recovering the sale proceeds from Devansh, he purchased another residential house property in Navi Mumbai for ₹ 35,00,000.

Cost Inflation Index for Financial Year(s)

2001-02	100
2002-03	105
2020-21	301

Compute the total income of Mr. Sahu for the Assessment Year 2021-22 and his net tax liability/refund due for that year, assuming that he has earned income of ₹ 12,000 from Savings Bank A/c and received income of ₹ 84,000 (Net of TDS) from lotteries. Assume that the tax deductible at source, if any, on consideration for sale of residential house has been deducted.

Answer

Computation of income chargeable under the head "Capital Gains" for AY 2021-22

Particulars		₹
Capital Gains on sale of residential house		
Actual sale consideration	₹ 82 L	
Value adopted by Stamp Valuation Authority	₹ 92 L	
Full value of sale consideration [Higher of the above]		92,00,000
[As per section 50C, in case 110% of the actual sale consideration declared by the assessee is less than the value adopted by the Stamp Valuation Authority for the purpose of charging stamp duty, then, the value adopted by the Stamp Valuation Authority shall be taken to be the full value of consideration. 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 on or before the date of agreement. In this case, since 25% of ₹ 82 lakhs was paid through account payee bank draft on the date of agreement, stamp duty value on the date of agreement can be adopted as the full value of consideration]		
Less: Indexed cost of acquisition of residential house		
[₹ 21 lakhs x 301/105]		60,20,000
Long-term capital gains [Since the residential house property was held by Mr. Sahu for more than 24 months immediately preceding the date of its transfer]		**31,80,000**
Less: Exemption under section 54		31,80,000
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 properties in India within one year before or two years after the date of transfer of original asset.		
Long-term capital gains chargeable to tax		**Nil**
Income from Other Sources		
Interest on Savings Bank A/c		12,000
Income from lotteries [₹ 84,000 x 100/70]		1,20,000
[Under section 194B, tax @ 30% is required to be deducted at source on lottery income at the time of payment, if the amount exceeds ₹ 10,000]		1,32,000
Gross Total Income		**1,32,000**

Less: Deduction under Chapter VI-A: Under section 80TTA, in respect of interest on Savings bank a/c, restricted to	10,000
Total Income	**1,22,000**
Tax Liability	
Tax on total income of ₹ 2,000 i.e., excluding lotteries income	Nil
Tax on income from lotteries @ 30%	36,000
	36,000
Add: Health & Education cess @ 4%	1,440
Tax liability	**37,440**
Less: Tax deducted at source	
- under section 194B on income from lotteries	36,000
- under section 194-IA on transfer of residential house (1% of ₹ 82,00,000)	82,000
Tax refundable	**80,560**

Q9 — MTP Aug 18

Mr. Shiva purchased a house property on February 15, 1979 for ₹ 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 ₹ 14,35,000 and received an amount of ₹ 1,11,000 as advance. However, the sale consideration did not materialize and Mr. Shiva forfeited the advance. In May 2014, he entered into an agreement for sale of said house for ₹ 20,25,000 to Ms. Deepshikha and received ₹ 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 ₹ 3,90,000.

On November 15, 2020, Mr. Shiva entered into an agreement with Mr. Manish for sale such house for ₹ 30,50,000 and received an amount of ₹ 1,50,000 as advance through an account payee cheque. Mr. Manish paid the balance entire sum and Mr. Shiva transfer the house to Mr. Manish on February 20, 2021. Mr. Shiva has paid the brokerage @1% of sale consideration to the broker.

The fair market value of the house property on April 1, 1981 was ₹ 4,00,000. The fair market value of the house property on April 1, 2001 was ₹ 10,70,000. Valuation as per Stamp duty Authority of such house on 15 November, 2020 was ₹ 30,00,000 and on 20 February, 2021 was ₹ 32,00,000.

Compute the capital gains in the hands of Mr. Shiva for AY 2021-22.

CII for FY 2001-02: 100; FY 2007-08: 129; FY 2014-15: 240; FY 2020-21: 301.

Answer

Computation of Capital gains in the hands of Mr. Shiva for AY 2021-22

Particulars	Amount (₹)	Amount (₹)
Actual sale consideration	30,50,000	
Valuation as per Stamp duty Authority	30,00,000	

(As per section 50C, value to be taken is the higher of actual sale price or valuation adopted for stamp duty purpose. In case date of agreement and date of registration are not the same, the vale adopted for the stamp duty purpose on the date of agreement may be taken if the amount of consideration or a part thereof has been received, inter alia, by way of an account payee cheque)		
Deemed sale consideration		30,50,000
Less: Expenses on transfer (Brokerage @1% of ₹ 30,50,000)		30,500
Net sale consideration		30,19,500
Less: Indexed cost of acquisition **(Note 1)**	28,86,590	
Less: Indexed cost of improvement **(Note 2)**	4,89,125	33,75,715
Long term capital gains		**(3,56,215)**

Notes :

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

Particulars	Amount (₹)	Amount (₹)
Cost of acquisition,		10,70,000
Being the higher of		
(i) Fair market value on April 1, 2001	10,70,000	
(ii) Actual cost of acquisition (₹ 3,24,000 + ₹ 35,000, being stamp duty @10% of ₹ 3,50,000	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 (₹ 9,59,000 x 301/100)		28,86,590

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

Particulars	Amount (₹)
Cost of construction on first floor in August, 2014	3,90,000
Indexed cost of improvement (₹ 3,90,000 x 301/240)	4,89,125

(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. ₹ 10,70,000 – ₹ 1,11,000 = ₹ 9,59,000. It may be noted that in cases 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, ₹ 1,51,000, being the advance received from Ms. Deepshikha and retained by him, is taxable under the head "Income from other source"

Q10 MTP Mar 19

Mrs. Harsha purchased a land at a cost of ₹ 45 lakhs in the financial year 2007-08 and held the same as her capital asset till 31st March, 2017. She started her real estate business on 1st April, 2017 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 ₹ 225 lakhs.

She constructed 15 flats of equal size, quality and dimension. Cost of construction of each flat is ₹15 lakhs. Construction was completed in January, 2021. She sold 10 flats at ₹ 40 lakhs per flat in 20th March, 2021. The remaining 5 flats were held in stock as on 31st March, 2021.

She invested ₹ 50 lakhs in bonds issued by National Highways Authority of India on 31st March, 2021 and another ₹50 lakhs in bonds of Rural Electrification Corporation Ltd. in April, 2021.

Compute the amount of chargeable capital gain and business income in the hands of Mrs. Harsha arising from the above transactions for Assessment Year 2021-22 indicating clearly the reasons for treatment for each item.

[Cost Inflation Index: FY 2007-08: 129; FY 2017-18: 272; FY 2020-21: 301].

Answer

Computation of capital gains and business income of Harsha for AY 2021-22

Particulars	₹
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)	2,25,00,000
Less : Indexed cost of acquisition [₹ 45,00,000 × 272/129]	94,88,372
	1,30,11,628
Proportionate capital gains arising during AY 2021-22 [₹1,30,11,628 × 2/3]	86,74,419
Less: Exemption under section 54EC	50,00,000
Capital gains chargeable to tax for AY 2021-22	**36,74,419**
Business Income	
Sale price of flats [10 × ₹ 40 lakhs]	4,00,00,000
Less : Cost of flats	
Fair market value of land on the date of conversion [₹ 225 lacs × 2/3]	1,50,00,000
Cost of construction of flats [10 × ₹15 lakhs]	1,50,00,000
Business income chargeable to tax for AY 2021-22	**1,00,00,000**

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 PY 2020-21, only proportionate capital gains (i.e., 2/3rd) would be chargeable to tax in the AY 2021-22.

(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 [CBDT Circular No.791 dated 2.6.2000]. 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 on land or building or both in any financial year, the maximum deduction under section 54EC would be ₹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 ₹ 50 lakhs has been made in bonds of NHAI during the PY 2020-21 and investment of ₹50 lakhs has been made in bonds of RECL during the PY 2021-22, both within the stipulated 6 month period, the maximum deduction allowable for AY 2021-22, in respect of long-term capital gain arising on sale of long-term capital asset(s) during the PY 2020-21, is only ₹ 50 lakhs.

Q11 — RTP May 19

Mr. Pratap, a proprietor has transferred his unit RS to Mr. Raj by way of Slump Sale on December 7, 2020. The summarised Balance Sheet of Mr. Pratap as on that date is given below:

Liabilities	Amount (₹ In lacs)	Assets	Amount (₹ In lacs)
Own Capital	1,850	**Fixed Assets:**	
Accumulated P & L balance	870	Unit PT	250
Liabilities:		Unit QL	170
Unit PT	190	Unit RS	950
Unit QL	260	**Other Assets:**	
Unit RS	340	Unit PT	790
		Unit QL	860
		Unit RS	490
Total	**3,510**	**Total**	**3,510**

Other information:

(i) Slump sale consideration on transfer of Unit RS was ₹ 1540 lacs.

(ii) Fixed Assets of Unit RS includes land which was purchased at ₹ 90 lacs in the year 2008 and was revalued at ₹ 180 lacs.

(iii) Other fixed assets are reflected at ₹ 770 lacs, (i.e., ₹ 950 lacs less value of land) which represents written down value of those assets as per books. The written down value of these assets is ₹ 630 lacs as per Income-tax Act, 1961.

(iv) Unit RS was set up by Mr. Pratap in December, 2006.

Compute the Capital Gains arising in the hands of Mr. Pratap from slump sale of Unit RS for Assessment year 2021-22.

Note: Cost Inflation Indices for the financial year 2006-07 and financial year 2020-21 are 122 and 301, respectively.

Answer

Computation of capital gain on slump sale of Unit RS for AY 2021-22

Particulars	₹
Full value of consideration	15,40,00,000
Less: Deemed cost of acquisition (Net worth is deemed to be the cost of acquisition) **[Refer Working Note below]**	8,70,00,000
Long-term capital gain [Since the Unit is held for more than 36 months]	**6,70,00,000**

Working Note: Net worth of Unit-RS

Particulars	₹
Cost of Land (Revaluation not to be considered)	90,00,000
WDV of other depreciable fixed assets as per the Income-tax Act, 1961	6,30,00,000
Other Assets (book value)	4,90,00,000
	12,10,00,000
Less: Liabilities	3,40,00,000
Net worth	**8,70,00,000**

Notes:

(1) In case of slump sale, net worth of the undertaking transferred shall be deemed to be the cost of acquisition and cost of improvement as per section 50B.

(2) "Net worth" of the undertaking shall be the aggregate value of total assets of the undertaking or division as reduced by the value of liabilities of such undertaking or division as appearing in the books of accounts.

However, any change in the value of assets on account of revaluation shall not be considered for this purpose.

(3) For calculating aggregate value of total assets of the undertaking or division in case of slump sale in case of depreciable assets, the written down value of block of assets determined in accordance

with the provisions contained in section 43(6) of Income-tax Act, 1961 is to be considered and for all other assets, book value is to be considered.

(4) Since Unit RS is held by the assessee for more than 36 months, the capital gain arising from slump sale is a long-term capital gain.

(5) Indexation benefit is not available in case of slump sale.

Q12 CA Inter May 19

Mr. Deepak has a residential house property taxable under section 22. Such property was acquired on 12-08-2005 for ₹ 2,00,000. The property is sold for ₹ 21,00,000. The sub-registrar refused to register the documents for the said value, as according to him, stamp duty value based on State Government guidelines was ₹ 28,00,000. Mr. Deepak preferred an appeal to the revenue divisional officer who fixed the value of the house ₹ 25,00,000. He acquired another residential house on 31-03-2021 for ₹ 17,00,000 for self-occupation. On 01-03-2022, he sold such new residential house for ₹ 30,00,000.

Compute his capital gain for the AY 2021-22 and 2022-23. (Cost Inflation Index : FY 2001-02; 2005-06; 2018-19 and 2020-21 are, 100; 117, 280 and 301)

Answer

Computation of capital gain in the hands of Mr. Deepak for AY 2021-22

Particulars	₹
Full value of consideration	25,00,000
[As per section 50C, in case the actual sale consideration (i.e., ₹ 21 lakhs, in this case) is less than 110% of the stamp duty value (i.e., ₹ 28 lakhs, in this case) assessed by the stamp valuation authority (Sub-registrar, in this case), the stamp duty value shall be deemed as the full value of consideration if it exceeds 110% of the sale consideration However, if assessee has preferred an appeal to the Valuation Officer (i.e., revenue divisional officer, in this case) and the Valuation Officer has fixed the value of the house (i.e., ₹ 25 lakh, in this case) less than stamp duty value (i.e., ₹ 28 lakh, in this case), such value determined by the Valuation Officer shall be deemed as the full value of consideration.]	
Less: Indexed cost of acquisition [₹ 2,00,000 x 301/117]	5,14,530
Long-term capital gain [Since the residential house is held for more than 24 months]	19,85,470
Less: Exemption under section 54	
Purchase of new residential house property on 31.3.2021 (i.e., within two years from the date of transfer of residential house)	17,00,000
Taxable long term capital gain	**2,85,470**

Computation of capital gains in the hands of Mr. Deepak for AY 2021-22

Particulars	₹
Full value of consideration	30,00,000
Less: Cost of acquisition [As per section 54, if the new residential house purchased (i.e., on 31.3.2021, in this case) is transferred within 3 years of its purchase (i.e., on 1.3.2022, in this case), and the cost of acquisition of the new house (i.e., ₹ 17 lakhs, in this case) is lower than the long-term capital gain (i.e., ₹ 19,85,470, in this case), the cost of acquisition of such new residential house shall be taken as Nil, while computing capital gains on sale of the new residential house]	Nil
Short term capital gain [Since the residential house is held for a period less than 24 months]	**30,00,000**

Note : The date/year of sale of the old residential house property is not given in the question. It is assumed that the said residential house property was sold in the PY 2020-21.

Q13 — May 19

Mr. Roy owned a residential house in Noida. It was acquired on 09.09.2009 for ₹ 30,00,000. He sold it for ₹ 1,57,00,000 on 07.01.2016.

Mr. Roy utilized the sale proceeds of the above property to acquire a residential house in Panchkula for ₹ 2,05,00,000 on 20.07.2016. The said house property was sold on 15.07.2020 and he purchased another residential house in Delhi for ₹ 2,57,00,000 on 02.03.2021. The property at Panchkula was sold for ₹ 3,25,00,000.

Calculate capital gains chargeable to tax for the assessment year 2016-17 and 2021-22. All workings should form part of your answer: Cost inflation index for various financial years are as under :

2009-10	148
2015-16	254
2016-17	264
2018-19	280
2020-21	301

Answer

Computation of capital gains chargeable to tax for AY 2016-17

Particulars	₹
Full value of consideration received on sale of residential house in Noida	1,57,00,000
Less: Indexed cost of acquisition [₹ 30,00,000 x 254/148]	51,48,649
Long-term capital gain	1,05,51,351
Less: Exemption under section 54	
Purchase of new residential house property at Panchkula for ₹ 2,05,00,000 on 20.7.2016 i.e., within two years from the date of transfer of residential house in Noida; exemption restricted to long term capital gain, since cost of new house exceeds long-term capital gain	1,05,51,351
Taxable long term capital gain	**Nil**

Computation of capital gains chargeable to tax for AY 2020-21

Particulars	₹
Full value of consideration received on sale of residential house at Panchkula	3,25,00,000
Less: Indexed cost of acquisition [As per section 54, if the new residential house purchased (i.e., on 20.7.2016, in this case) is transferred within 3 years of its purchase (i.e., on 15.07.2020, in this case), and the cost of acquisition of the new house (i.e., ₹ 2,05,00,000) is higher than the long-term capital gain (i.e., ₹ 1,05,51,351,) then, the cost of acquisition of such new residential house shall be reduced by long term capital gain exempted earlier, while computing capital gains on sale of the new residential house] [₹ 99,48,649 (₹ 2,05,00,000 – ₹ 1,05,51,351) x 301/264]	1,13,42,967
Long-term capital gain [Since the residential house is held for more than 24 months]	2,11,57,2033
Less: Exemption under section 54	
Purchase of new residential house property in Delhi for ₹ 2,57,00,000 on 2.3.2021 i.e., within two years from 15.07.2020, being the date of transfer of residential house at Panchkula; exemption restricted to long term capital gain, since cost of new house exceeds long-term capital gains	2,11,57,033
Taxable long term capital gain	**Nil**

Q14 RTP Nov 19

Mrs. Yuvika bought a vacant land for ₹ 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 ₹ 100 lakhs during the financial year 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 ₹ 700 lakhs and on 23-4-2015, Mrs. Yuvika received ₹ 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 01.08.2020 for sale of this house at ₹ 780 lakhs. She received ₹ 80 lakhs as advance by cash payment. The stamp duty value on the date of agreement was ₹ 835 lakhs. The sale deed was executed and registered on 14-1-2021 for the agreed consideration. However, the State stamp valuation authority had revised the values, hence, the value of property for stamp duty purposes was ₹ 870 lakhs. Mrs. Yuvika paid 1% as brokerage on sale consideration received.

Subsequent to sale, Mrs. Yuvika made following investments:

(i) Acquired a residential house at Delhi for ₹ 130 lakhs on 31.5.2021.

(ii) Acquired a residential house at UK for ₹ 290 lakhs on 23.3.2021.

(iii) Subscribed to NHAI capital gains bond (approved under section 54EC) for ₹ 47 lakhs on 29-3-2021 and for ₹ 50 lakhs on 12-5-2021.

Compute the income chargeable under the head 'Capital Gains'. The choice of exemption must be in the manner most beneficial to the assessee.

Cost Inflation Index: FY 2004-05 – 113; FY 2006-07 – 122; FY 2020-21 - 301.

Answer

Computation of income chargeable under the head "Capital Gains" for AY 2021-22

Particulars	₹ (in lakhs)	₹ (in lakhs)
Capital Gains on sale of residential building		
Actual sale consideration ₹ 810 L		
Value adopted by Stamp Valuation Authority ₹ 870 L		
Gross Sale consideration		870.00
[Where the actual sale consideration declared by the assessee on the date 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. 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 on or before the date of agreement. In this case, since advance of ₹ 80 lakh is received by cash, stamp duty value on the date of agreement cannot be adopted as the full value of consideration. Stamp duty value on the date of registration would be considered for determining the full value of consideration, since such value exceeds 110% of ₹ 780 lakhs]		
Less: Brokerage@1% of sale consideration (1% of ₹ 780 lakhs)		7.80
Net Sale consideration		862.20
Less: Indexed cost of acquisition		
Cost of vacant land, ₹ 80 lakhs, plus registration and other expenses i.e., ₹ 8 lakhs, being 10% of cost of land [₹ 88 lakhs × 301/113]	234.41	
Construction cost of residential building (₹ 100 lakhs x 301/122)	246.72	481.13
Long-term capital gains before exemption		**381.07**
Less: Exemption under section 54		130.00
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 properties in India one year before or two years after the date of transfer of original asset. Therefore, 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 UK		
Less: Exemption under section 54EC		50.00

Amount deposited in capital gains bonds of NHAI within six months after the date of transfer (i.e., on or before 13.7.2021), of long-term capital asset, being land or building or both, would qualify for exemption, to the maximum extent of ₹ 50 lakhs, whether such investment is made in the current financial year or subsequent financial year. Therefore, in the present case, exemption can be availed only to the extent of ₹ 50 lakh out of ₹ 97 lakhs, even if the both the investments are made on or before 13.7.2021 (i.e., within six months after the date of transfer).		
Long term capital gains chargeable to tax		**201.07**

Note: Advance of ₹ 20 lakhs received from Mr. Johar, would have been chargeable to tax under the head "Income from other sources", in the AY 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.

Q 15 — Nov 19 (New)

Mr. Rajan provides you the following details with regard to sale of certain securities by him during FY 2020-21:

(i) Sold 10000 shares of A Ltd. on 05-04-2020 @ ₹ 650 per share

A Ltd. is a listed company. These shares were acquired by Mr. Rajan on 05-04-2016 @₹ 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 - ₹ 300 per share

Average price - ₹ 290 per share

Lowest price - ₹ 280 per share

(ii) Sold 1000 units of B Mutual Fund on 20-04-2020 @ ₹ 50 per unit

B Mutual Fund is an equity oriented fund. These units were acquired by Mr. Rajan on 15-04-2017 @ ₹ 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 ₹ 55 per unit.

(iii) Sold 100 shares of C Ltd. on 25-04-2020 @ ₹ 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 ₹ 50 per share.

Cost Inflation Index for various financial years are as under :

2001-02	- 100
2016-17	- 264
2017-18	- 272
2018-19	- 280
2020-21	- 301

Calculate the amount chargeable to tax under the head 'Capital Gains' and also calculate tax on such gains for AY 2020-21 assuming that the other incomes of Mr. Rajan exceeds the maximum amount not chargeable to tax. (Ignore surcharge and cess).

Answer

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

	Particulars		₹
(i)	**Sale of 10,000 shares of A Ltd. on 5.4.2020 @ 650 per share**		
	Sales consideration (10,000 x ₹ 650)		65,00,000
	Less: Cost of acquisition ₹		
	Higher of:		30,00,000
	- Actual cost (10,000 x ₹ 100)	10,00,000	
	- Lower of:	30,00,000	
	• ₹ 30,00,000 (₹ 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 Fund on 20.4.2020 @ □ 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	
	- Lower of:	50,000	
	• ₹ 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 25.4.2020@ 200 per share**		
	Sale consideration (100 x ₹ 200)		20,000
	Less: Indexed Cost of acquisition [100 x ₹ 50 (being FMV on 1.4.2001) x 301/100]		15,050
	Long-term capital gain under section 112 [Since shares are unlisted and held for more than 24 months]		4,950

Computation of tax on such capital gains for AY 2021-22

Particulars	₹
Tax under section 112A @ 10% on long-term capital gains of ₹ 34,00,000 [LTCG of ₹ 35,00,000 (-) ₹ 1,00,000] arising on sale of shares of A Ltd.	3,40,000
Tax under section 112 @ 20% on long-term capital gains of ₹ 4,950 arising on sale of unlisted shares of C Ltd.	990
Total tax payable	**3,40,990**

Q 16 MTP May 20

Mr. Ramesh sold a house plot to Mrs. Vikas for ₹ 45 lakhs on 10-9-2020. The valuation determined by the stamp valuation authority was ₹ 53 lakhs.

Mr. Vikas has sold this plot to Ms. Babli on 21-3-2021 for ₹ 55 lakhs.

The valuation as per stamp valuation authority was ₹ 54 lakhs on 21-3-2021.

Discuss the tax consequences of above, in the hands of each one of them, viz, Mr. Ramesh, Mr. Vikas & compute the capital gain in the hands of Mr. Vikas.

Note: None of the parties viz Mr. Ramesh, Mr. Vikas & Ms. Babli are related to each other; the transactions are between outsiders.

Answer

<table>
<tr><td>I</td><td>Tax consequences in the hands of Mr. Ramesh</td></tr>
<tr><td></td><td>As per section 50C, the stamp duty value of immovable property, being land or building or both, would be deemed to be the full value of consideration arising on transfer of such property, if the same is higher than actual consideration. However, where the stamp duty value does not exceed 110% of the sale consideration received or accruing as a result of transfer, the consideration so received or accruing shall be deemed to be the full value of the consideration.</td></tr>
<tr><td></td><td>Accordingly, in this case, capital gains would be computed in the hands of Mr. Ramesh, for AY 2021-22, taking the stamp duty value of ₹ 53 lakh of house plot as the full value of consideration arising on transfer of such house plot, since the same exceeds 110% of the actual consideration of ₹ 45 lakh.</td></tr>
<tr><td></td><td>Note : If it is assumed that Mr. Ramesh is a property dealer, the income would be taxable as his business income under section 43CA</td></tr>
<tr><td>II</td><td>Tax consequences in the hands of Mr. Vikas</td></tr>
<tr><td></td><td>In case, immovable property is received for inadequate consideration, the difference between the stamp duty value and actual consideration would be taxable under section 56(2)(x) in the hands of the recipient, if such difference exceeds the higher of ₹ 50,000 or 10% of actual sales consideration.</td></tr>
<tr><td></td><td>Therefore, in this case, ₹ 8 lakh (₹ 53 lakh – ₹ 45 lakh) would be taxable in the hands of Mr. Vikas under the head “Income from Other Sources” in AY 2021-22 since the difference exceeds ₹ 2,25,000, being the higher of ₹50,000 and 10% of consideration.</td></tr>
<tr><td></td><td>At the time of subsequent sale of property by Mr. Vikas to Ms. Babli (on 21.3.2021), short term capital gains would arise in the hands of Mr. Vikas in AY 2021-22, since the property is held by him for less than 24 months.
<table>
<tr><th>Particulars</th><th>₹</th></tr>
<tr><td>Full value of consideration (Since actual consideration of ₹55 lakh is higher than stamp duty value of ₹54 lakh)</td><td>55 lakh</td></tr>
<tr><td>Less: Cost of acquisition (Value taken into account for the purpose of section 56(2)(x)</td><td>53 lakh</td></tr>
<tr><td>Short-term capital gains</td><td>2 lakh</td></tr>
</table></td></tr>
</table>

Q17 Nov 20 (New)

Mr. Govind purchased 600 shares of "Y" limited at ₹ 130 per share on 26.02.1979. "Y" limited issued him, 1,200 bonus shares on 20.02.1984. The fair market value of these share at Mumbai Stock Exchange as on 1.04.2001 was X 900 per share and ₹ 2,000 per share as on 31.01.2018. On 31.01.2019 he converted 1000 shares as his stock in trade. The shares was traded at Mumbai Stock Exchange on that date at a high of X 2,200 per share and closed for the day at ₹ 2,100 per share.

On 07.07.2020 Mr. Govind sold all 1800 shares @ ₹ 2,400 per share at Mumbai Stock Exchange and securities transaction tax was paid.

Compute total income of Mr. Govind for the assessment year 2021-22.

Answer

Computation of total income of Mr. Govind for the A.Y.2020-21

	Particulars	₹	₹
I	**Profits and gains of business and profession**		
	Full value of consideration [1000 shares x ₹ 2,400 per share]	24,00,000	
	Less: FMV on the date of conversion (₹ 2,100 x 1000 shares) [See Note below]	21,00,000	3,00,000
II	**Capital Gains**		
	In respect of 800 shares held as capital asset up- to the date of sale		
	Full value of consideration [800 shares x ₹ 2,400 per share]	19,20,000	
	Less: Cost of acquisition [800 shares x ₹ 2,000] (See Working Note below)	16,00,000	3,20,000
	In respect of 1,000 shares converted into stock in trade on 31.1.2019 (Capital gains is taxable in the P.Y.2019-20, when the stock in trade is sold)		
	Full value of consideration [1000 shares x ₹ 2,100, being FMV on the date of conversion]	21,00,000	
	Less: Cost of acquisition [1000 shares x ₹ 2,000] (See Working Note below)	20,00,000	1,00,000
Total Income			7,20,000
Working Note - Cost of acquisition (per share)			
Higher of (i) and (ii), below		2,000	
(i)	₹ 900 per share, being		
	In case of shares purchased - Original cost of acquisition (₹ 130) or FMV as on 1.4.2001 (₹ 900), at the option of the assessee		
	In case of bonus shares - FMV as on 1.4.2001 (Nil or ₹ 900, at the option of the assessee)		
(ii)	₹ 2,000 per share, being the lower of		

	FMV as on 31.1.2018 - ₹ 2,000 per share		
	Sale consideration – ₹ 2,400 per share		

Note – Explanation to section 55(2)(ac) defines "fair market value" as the highest price of capital asset quoted on the stock exchange only for the purpose of the said clause (ac) i.e., to arrive at the FMV as on 31.1.2018 for computing cost of acquisition of shares.

However, the question states two prices on 31.1.2019, being the date of conversion of capital asset into stock in trade for which we have to consider the definition of "fair market value" as per section 2(22B). As per this definition, FMV refers to the price that the capital asset would ordinarily fetch on sale in the open market on the relevant date. In the question, two prices are given on the relevant date i.e., the date of conversion of capital asset into stock in trade, namely, the highest price and the closing price. The above solution is given considering the closing price as the FMV as on 31.1.2019.

Alternatively, highest price can also be considered as the FMV as on 31.1.2019. In such case, the total income of Mr. Govind would be computed in the following manner:

Alternate Answer

Computation of total income of Mr. Govind for the A.Y.2020-21

	Particulars	₹	₹
I	**Profits and gains of business and profession**		
	Full value of consideration [1000 shares x ₹ 2,400 per share]	24,00,000	
	Less: FMV on the date of conversion (₹ 2,200 x 1000 shares] [See Note above]	22,00,000	2,00,000
II	**Capital Gains**		
	In respect of 800 shares held as capital asset upto the date of sale		
	Full value of consideration [800 shares x ₹ 2,400 per share]	19,20,000	
	Less: Cost of acquisition [800 shares x ₹ 2,000] (See Working Note below)	16,00,000	3,20,000
	In respect of 1,000 shares converted into stock in trade on 31.1.2019 (Capital gains is taxable in the P.Y.2019-20, when the stock in trade is sold)		2,00,000
	Full value of consideration [1000 shares x ₹ 2,200, being FMV on the date of conversion] [See Note above]	22,00,000	
	Less: Cost of acquisition [1000 shares x ₹ 2,000] (See Working Note below)	20,00,000	
Total Income			7,20,000
Working Note - Cost of acquisition (per share)			
Higher of (i) and (ii), below		2,000	
(i)	₹ 900 per share, being		
	In case of shares purchased - Original cost of acquisition (₹ 130) or FMV as on 1.4.2001 (₹ 900), at the option of the assessee		
	In case of bonus shares - FMV as on 1.4.2001 (Nil or ₹ 900, at the option of the assessee)		

(ii)	₹2,000 per share, being the lower of		
	FMV as on 31.1.2018 - ₹ 2,000 per share		
	Sale consideration – ₹ 2,400 per share		

Note - It is possible to take a view that since no STT was paid on the date of conversion of capital asset, being listed shares into stock in trade, capital gains has to be computed u/s 112 and not 112A. If this view is taken, the total income of Mr. Govind would, accordingly, be computed in the following manner:

Computation of total income of Mr. Govind for the A.Y.2020-21

	Particulars	₹	₹
I	**Profits and gains of business and profession**		
	Full value of consideration [1000 shares x ₹ 2,400 per share]	24,00,000	
	Less: FMV on the date of conversion (₹ 2,100 x 1000 shares] [See Note below]	21,00,000	
			3,00,000
II	**Capital Gains**		
	In respect of 800 shares held as capital asset up- to the date of sale		
	Full value of consideration [800 shares x ₹ 2,400 per share]	19,20,000	
	Less: Indexed cost of acquisition [800 shares x ₹ 900 x 289/100] (See Working Notes 1 and 2 below)	20,80,800	
	In respect of 1,000 shares converted into stock in trade on 31.1.2019 (Capital gains is taxable in the P.Y.2019-20, when the stock in trade is sold)	(1,60,800)	
	Full value of consideration [1000 shares x ₹ 2,100, being FMV on the date of conversion]	21,00,000	
	Less: Cost of acquisition [1000 shares x ₹ 900 x 280/100] (See Working Notes 1 and 2 below)]	25,20,000	
		(4,20,000)	
	Long-term capital loss to be carried forward = (1,60,800) + (4,20,000) =	(5,80,800)	
Total Income			3,00,000
Working Note – **1. Cost of acquisition (per share)**			
Higher of (i) and (ii), below i.e., ₹ 900 per share			
(i)	₹ 900 per share, being the FMV as on 1.4.2001		
(ii)	In case of shares purchased - Original cost of acquisition (₹ 130)		
	In case of bonus shares – Nil		

2.	In case of 800 shares sold during the year, the CII of F.Y.2019-20 i.e., 289 has to be considered to calculate indexed cost of acquisition. In case of 1000 shares converted into stock in trade on 31.1.2019, the CII of the year of conversion, i.e., F.Y.2018-19 i.e., 280 has to be considered to compute the indexed cost of acquisition.		

Note – Explanation to section 55(2)(ac) defines "fair market value" as the highest price of capital asset quoted on the stock exchange only for the purpose of the said clause (ac) i.e., to arrive at the FMV as on 31.1.2018 for computing cost of acquisition of shares.

However, the question states two prices on 31.1.2019, being the date of conversion of capital asset into stock in trade for which we have to consider the definition of "fai r market value" as per section 2(22B). As per this definition, FMV refers to the price that the capital asset would ordinarily fetch on sale in the open market on the relevant date. In the question, two prices are given on the relevant date i.e., the date of conversion of capital asset into stock in trade, namely, the highest price and the closing price. The above solution is given considering the closing price as the FMV as on 31.1.2019.

Alternatively, highest price can also be considered as the FMV as on 31.1.2019. In such case, the total income of Mr. Govind would be computed in the following manner:

Alternate Answer

	Particulars	₹	₹
I	**Profits and gains of business and profession**		
	Full value of consideration [1000 shares x ₹ 2,400 per share]	24,00,000	
	Less: FMV on the date of conversion (₹ 2,200 x 1000 shares] [See Note above]	22,00,000	
			2,00,000
II	**Capital Gains**		
	In respect of 800 shares held as capital asset up- to the date of sale		
	Full value of consideration [800 shares x ₹ 2,400 per share]	19,20,000	
	Less: Indexed cost of acquisition [800 shares x ₹ 900 x 289/100] (See Working Notes 1 and 2 below)	20,80,800	
	In respect of 1,000 shares converted into stock in trade on 31.1.2019 (Capital gains is taxable in the P.Y.2019-20, when the stock in trade is sold)	(1,60,800)	
	Full value of consideration [1000 shares x ₹ 2,200, being FMV on the date of conversion]	22,00,000	
	Less: Cost of acquisition [1000 shares x ₹ 900 x 280/100] (See Working Notes 1 and 2 below)]	25,20,000	
		(3,20,000)	
	Long-term capital loss to be carried forward = (1,60,800) + (3,20,000) =	(4,80,800)	
Total Income			2,00,000

Working Note – **1. Cost of acquisition (per share)**			
Higher of (i) and (ii), below i.e., ₹ 900 per share			
(i)	₹ 900 per share, being the FMV as on 1.4.2001		
(ii)	In case of shares purchased - Original cost of acquisition (₹130)		
	In case of bonus shares – Nil		
2.	In case of 800 shares sold during the year, the CII of F.Y.2019-20 i.e., 289 has to be considered to calculate indexed cost of acquisition. In case of 1000 shares converted into stock in trade on 31.1.2019, the CII of the year of conversion, i.e., F.Y.2018-19 i.e., 280 has to be considered to compute the indexed cost of acquisition.		

Q18 Jan 21 (Old)

(1) Prabhu Dayal Prem Narain, HUF purchased a house property in the year 1945 for ₹ 30,000. On 30.09.2020, the HUF was totally partitioned and the aforesaid house property was given to Mr. Prem Narain, a member of the family. Fair Market value of the house as on 30.09.2020 was ₹ 18,00,000. FMV of the house as on 1.4.2001 was ₹ 2,00,000. What will be the tax implications in the hands of Mr. Prem Narain and the HUF ?

(2) One equity share of a company listed on recognised stock exchange is acquired on 01.01.2017 at ₹ 100. Its fair market value is ₹ 200 on 31.01.2018 and it is sold on 01.04.2020 at ₹ 150. Assuming all conditions required by section 112A are fulfilled, compute the amount of capital gain/loss on sale of this share u/s 112 A.

Answer

(1) **Tax implications in the hands of HUF**

As per section 47, any distribution of capital assets on the total or partial partition of a HUF would not be regarded as transfer for the purpose of capital gains tax.

In this case, Prabhu Dayal Prem Narain, HUF transferred the asset to Mr. Prem Narain, a member of HUF on total partition of the HUF. Hence, the transaction would not be regarded as transfer.

Tax implications in the hands of Mr. Prem Narain

If an immovable property is received by any person without consideration, the stamp duty value of such property would be taxed as the income of the recipient under section 56(2)(x), if it exceeds ₹ 50,000. However, it would not be taxable as income if the transfer is way of a transfer, inter alia, on total or partial partition of a HUF.

In the give case, since Mr. Prem Narain received the house property on total partition of the HUF, it would not be taxable in his hand.

(2) **Computation of long term capital gains/loss under section 112A**

Particulars		Amount (₹)
Full value of consideration		150
Less: Cost of acquisition		
Higher of		
- Cost of acquisition	₹100	
- Lower of fair market value as on 31.1.2018 i.e., ₹ 200 and sale consideration i.e., ₹ 150	₹150	150
Long term capital gain		Nil

Q19 MTP Apr 21

Calculate the amount chargeable to tax under the head 'Capital Gains' and also calculate tax on such gains for A.Y. 2021-22 from the following details provided by Mr. Naveen with respect to sale of certain securities during F.Y. 2020-21, assuming that the other incomes of Mr. Naveen exceeds the maximum amount not chargeable to tax. (Ignore surcharge and cess):

(i) **Sold 10,000 shares of Y Ltd. on 05-04-2020 @ ₹ 650 per share**

Y Ltd. is a listed company. These shares were acquired by Mr. Naveen on 05-04-2016 @₹ 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 Y Ltd. were traded on a recognized stock exchange as under : Highest price - ₹ 300 per share

Average price - ₹ 290 per share Lowest price - ₹ 280 per share

(ii) **Sold 1,000 units of AB Mutual Fund on 20-05-2020 @₹ 50 per unit**

AB Mutual Fund is an equity oriented fund. These units were acquired by Mr. Naveen on 10-03-2017 @ ₹ 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 AB Mutual Fund was ₹ 55 per unit. The units of AB Mutual Fund were not listed on the stock exchange as on 31.1.2018.

(iii) **Sold 100 shares of C Ltd. on 27-09-2020 @ ₹ 200 per share**

C Ltd. is an unlisted 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 ₹ 50 per share.

Cost Inflation Index for various financial years are as under :

2001-02	-	100
2016-17	-	264
2017-18	-	272
2020-21	-	301

Answer

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

	Particulars	₹
(i)	Sale of 10,000 shares of Y Ltd. on 5.4.2020 @ 650 per share	
	Sales consideration (10,000 x ₹ 650)	65,00,000
	Less: Cost of acquisition ₹ Higher of: - Actual cost (10,000 x ₹ 100) 10,00,000 - Lower of: 30,00,000 • ₹ 30,00,000 (₹ 300 x 10,000), being fair market value as on 31.1.2018 (Highest price of the shares traded on 31.1.2018); and • ₹ 65,00,000, being full value of consideration on transfer	30,00,000
	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 AB Mutual Fund on 20.5.2020 @ ₹ 50 per unit	
	Sale consideration (1,000 x ₹ 50)	50,000
	Less: Cost of acquisition - Higher of - - Actual cost (1,000 x ₹ 10) 10,000 - Lower of: 50,000 • ₹ 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	50,000
	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 27.9.2020 @ 200 per share	
	Sale consideration (100 x ₹ 200)	20,000
	Less: Indexed Cost of acquisition [100 x ₹ 50 (being FMV on 1.4.2001) x 301/100]	15,050
	Long-term capital gain under section 112 [Since shares are unlisted and held for more than 24 months]	4,950

Computation of tax on such capital gains for A.Y. 2021-22

Particulars	₹
Tax under section 112A @ 10% on long-term capital gains of ₹ 34,00,000 [LTCG of ₹ 35,00,000 (-) ₹ 1,00,000] arising on sale of shares of Y Ltd.	3,40,000
Tax under section 112 @ 20% on long-term capital gains of ₹ 4,950 arising on sale of unlisted shares of C Ltd.	990
Total tax payable	3,40,990

Q20 May 21 (New)

Examine the taxability of capital gains in the following scenarios for the Assessment Year 2021-22, determine the taxable amount and rate of tax applicable:

(i) On 28th February, 2021 10,000 shares of XY Ltd., a listed company are sold by Mr. B @ 550 per share and STT was paid at the time of sale of shares. These shares were acquired by him on 5th April, 2017 @ ₹ 395 per share by paying STT at the time of purchase. On 31st January, 2018, the shares of XY Ltd. were traded on a recognized stock exchange at the Fair Market Value of ₹ 390 per Share.

(ii) Mr. A is the owner of residential house which was purchased on 1st September, 2016 for ₹ 9,00,000. He sold the said house on 4th September, 2020 for ₹ 19,00,000. Valuation as per stamp valuation authorities was ₹ 45,00,000. He invested ₹ 19,00,000 in NHAI Bonds on 21st March, 2021.

The Cost Inflation index for-

F.Y.	2016-17	264
F.Y.	2020-21	301

Answer

	Particulars		Amount ₹
(i)	Long-term capital gain on transfer of 10,000 shares of XY Ltd. [taxable u/s 112A @10% on amount exceeding ₹ 1,00,000]		
	Full value of consideration [10,000 x ₹ 550]		55,00,000
	Less: Cost of acquisition		
	Higher of		
	Cost of acquisition [10,000 x ₹ 395]	39,50,000	
	Lower of fair market value per share as on 31.1.2018 i.e., ₹ 390 per share and sale consideration i.e., ₹ 550 per share [10,000 x ₹ 390]	39,00,000	
			39,50,000
	Long term capital gain taxable u/s 112A		15,50,000
	Long-term capital gain exceeding ₹ 1 lakh i.e., ₹ 14,50,000 would be taxable @10%		
(ii)	Sale of residential house [long-term capital asset, since held for more than 24 months]		
	Full value of consideration [stamp duty value, since it exceeds 110% of actual sale consideration]		45,00,000
	Less: Indexed cost of acquisition [₹ 9,00,000 x 301/264]		10,26,136
			34,73,864

	Less: Deduction under section 54EC No deduction under section 54EC would be allowed on investment of ₹ 19,00,000 in NHAI bonds, since such investment is made on 21st March 2021 i.e., after six months from the date of transfer i.e., 4th September, 2021	Nil	
	Long-term capital gain taxable u/s 112 @ 20%	34,73,864	

Q21 May 21 (New)

Mr. Patel is a proprietor of Star Stores since 20-05-2018. 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 31-03-2021 is as under :

Liabilities	₹	Assets	₹
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 01-04-2020 on which no depreciation has been provided.
3. Furniture of ₹ 1,50,000 purchased on 05-11-2020 on which no depreciation has been provided.
4. Unsecured loan includes ₹ 50,000 as advance received from his wife, which she has agreed to waive off.

Compute the capital gain for A.Y. 2021-22.

Answer

Computation of capital gains on slump sale of shop

Particulars		₹
Sale value		40,00,000
Less: Expenses 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: Deprecation 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: Deprecation 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

Q 22 — May 21 (Old)

Compute the tax liability for the Assessment Year 2021-22, (in a manner most beneficial to the assessee) of Mr. Satya, a resident individual aged 42 years, where his total income is ₹ 4,90,000 and the income comprises of long term capital gains on sale of plot of ₹ 1,00,000 and short term capital gains on sale of listed equity shares (STT paid) of ₹ 2,90,000. Ignore the concessional provisions under section 115BAC.

Answer

Determination of tax liability of Mr. Satya, a resident, for A.Y.2021 -22

Particulars	₹
Long-term capital gains on sale of plot of land [Taxable@20% u/s 112]	1,00,000
Short-term capital gains on sale of listed equity shares (STT paid) [Taxable@15% u/s 111A]	2,90,000
Other Income	1,00,000
Total Income	4,90,000
Tax on total income	
Long-term capital gains [₹ 1,00,000 – unexhausted basic exemption limit of ₹ 1,00,000]	Nil
Short-term capital gains @15% of ₹ 2,40,000 [i.e., ₹2,90,000 – unexhausted basic exemption limit of ₹ 50,000]	36,000
	36,000
Less: Rebate u/s 87A [Since total income does not exceed ₹ 5 lakh, rebate of tax payable or ₹ 12,500, whichever is lower is allowable]	12,500

	23,500
Add: Health and education cess @ 4%	940
Tax liability	24,440

Note – The basic exemption limit of ₹ 2,50,000 would be first exhausted against other income of ₹ 1,00,000. Thereafter, since Mr. Satya is a resident, he would be eligible to adjust the unexhausted basic exemption limit of ₹ 1,50,000 against both long-term capital gains taxable u/s 112 and short-term capital gains taxable u/s 111A. It would be more beneficial for Mr. Satya to adjust the unexhausted basic exemption limit of ₹ 1, 50,000 first against long-term capital gains of ₹ 1 lakh taxable u/s 112, since the tax rate of 20% u/s 112 is higher than the tax rate of 15% u/s 111A. Thereafter, he can adjust the balance ₹ 50, 000 against short-term capital gains chargeable to tax u/s 111A.

Q 23 May 21 (Old)

ABC Ltd., a domestic company brought back its 1000 equity shares listed on a recognized stock exchange. Examine the taxability of the above transaction in the hands of the company and the shareholders.

Answer

ABC Ltd., a domestic company, has to pay additional income-tax@20% (plus surcharge @12% and cess@4%) on buyback of its 1000 listed equity shares.

The income arising to the shareholders in respect of such buyback of shares by ABC Ltd. would be exempt under section 10(34A), since ABC Ltd. is liable to pay additional income-tax on the buy back of shares.

Q 24 Nov 21 (New)

Ms. Mishika has entered into an agreement with M/s CVM Build Limited on 25.04.2017 in which she agrees to allow such Company to develop a shopping mall on land owned by her in New Delhi. She purchased such land on 05.05.2009 in ₹ 15,00,000. In consideration, M/s CVM Build Limited will provide 20% share in shopping mall to Mishika. The certificate of completion of shopping mall was issued by authority as on 26.12.2020. On such date, Stamp duty value of shopping mall was ₹ 4,14,00,000. Subsequently on 18.03.2021, she sold her 15% share in shopping mall to Mr. Ketav in consideration of ₹ 65,00,000.

She has also purchased a house on 09.05.2020 in consideration of ₹ 46,00,000 and occupied for own residence. Punjab National Bank has sanctioned a loan of ₹ 35,50,000 (80% of stamp value) at the interest rate of 12% per annum on 01.05.2020 and disbursement was made on 01.06.2020. She does not own any other residential house on the date of sanction of loan. Principal amount of ₹ 1,30,000 was paid during the financial year 2020-21.

Cost Inflation Indices: 2020-21: 301, 2009-10: 148

Compute total income of Ms. Mishika for the assessment year 2021-22 assuming that she has not opted provisions under section 115BAC.

Answer

Computation of total income of Ms. Mishika for the A.Y.2021 -22

Particulars	Amount (₹)	Amount (₹)
Income from house property [Self-occupied]		
Net Annual Value	Nil	
Less: Interest on housing loan of ₹ 3,55,000 [₹ 35,50,000 x 12% x 10/12 months] restricted to ₹ 2,00,000/-	2,00,000	
	(2,00,000)	
Less: Set-off of loss against long-term capital gains	2,00,000	Nil
Long-term capital gains on transfer of land under specified agreement Since Ms. Mishika transferred her share in the project after issue of completion certificate, capital gains on transfer of land handed over to developer under specified agreement in the P.Y. 2017-18 would be taxable in the previous year 2020-21, being the year in which certificate of completion is issued as per section 45(5A). Accordingly, capital gain arising in respect of land would be -		
Full value of consideration, being 20% share in shopping mall [Stamp duty value on the date of issue of completion certificate (₹ 4,14,00,000 x 20%)]	82,80,000	
Less: Indexed of cost of acquisition [₹ 15,00,000 x 301/148]	30,50,676	
Long-term capital gain	52,29,324	
Less: Deduction under section 54F		
Deduction in respect of amount invested for purchase of a residential house acquired within one year prior to date of transfer would be allowable proportionately, since amount invested is less than the net consideration. Accordingly, deduction would be ₹ 29,05,180 (₹ 52,29,324 x ₹46,00,000 / ₹ 82,80,000)	29,05,180	
Long-term capital gains	23,24,144	
Less: Set-off of loss from house property [It is beneficial to set-off loss from house property against long-term capital gains, since in case of Ms. Mishika total income comprises of LTCG taxable@20% and STCG taxable at normal slab rates; and she can claim deduction of ₹ 2,80,000 under Chapter VI-A against STCG of ₹ 2,90,000. Moreover, the remaining STCG would also not be taxable since it would be below the basic exemption limit]	2,00,000	
		21,24,144
Short-term capital gains Sale of 15% share in shopping mall [short-term capital asset, since held for not more than 24 months]		
Net Sales consideration	65,00,000	
Less: Cost of acquisition, being the full value of consideration taxable on transfer of land [₹ 4,14,00,000 x 15%]	62,10,000	
Short-term capital gains		2,90,000

Gross Total Income		24,14,144
Less: Deductions under Chapter VI-A (allowable against short-term capital gains of ₹ 2,90,000)		
Deduction under section 80C – repayment of principal amount of housing loan	1,30,000	
Deduction under section 80EEA – Ms. Mishika would be eligible for deduction of interest on housing loan (₹ 3,55,000 - ₹ 2,00,000 = ₹ 1,55,000) to the extent of ₹ 1,50,000, since stamp duty value of the house does not exceed ₹ 45,00,000 [being ₹ 44,37,500 (₹ 35,50,000 x 100/80)] and she does not own any other residential house on the date of sanction of loan.	1,50,000	2,80,000
Total Income		21,34,144
Total Income (rounded off)		21,34,140

Note -

As per section 45(5A), any capital gains arising from the transfer of a capital asset, being land or building or both, under a specified agreement, is chargeable to income-tax as income of the previous year in which the certificate of completion is issued by the competent authority. In the above solution, the CII of F.Y.2020-21 has been considered on the basis of parity, since, as per section 45(5A), it is the stamp duty value of the developed property (shopping mall, in this case) on the date of issue of certificate of completion (26.12.2020), which is deemed as the full value of consideration for transfer of land handed over to the developer.

Alternate view -

The definition of transfer, inter alia, includes any arrangement or transaction where any rights are handed over in execution of part performance of contract, even though the legal title has not been transferred. Hence, in case of 'specified agreement(s)', 'transfer' takes place at the time when the owner of the immovable property hands over the same to the developer i.e., in F.Y.2017-18 in this case.

As per the plain reading of definition of 'indexed cost of acquisition', the CII of the year in which the asset (land, in this case) is transferred has to be considered. Accordingly, as per this interpretation, CII of F.Y. 2017-18 i.e., 272 can be considered for computing indexed cost of acquisition. If the CII of F.Y.2017-18 is considered on the basis of this line of reasoning, the figures of long-term capital gains and total income would accordingly change. However, the CII of F.Y.2017-18 has not been given in the question for the purpose of making such computation.

Q 25 MTP Oct 21

Mr. Gyaanchand purchased 1200 shares of "A" limited at ₹ 130 per share on 26.02.1979. "A" limited issued him 600 bonus shares on 20.02.2002. The fair market value of these shares at Mumbai Stock Exchange as on 1.04.2001 was ₹ 900 per share and ₹ 2,000 per share as on 31.01.2018. On 07.07.2020 Mr. Gyaanchand sold all 1800 shares @ ₹ 2,400 per share at Mumbai Stock Exchange and securities transaction tax was paid. Compute capital gain chargeable to tax in the hands of Mr. Gyaanchand for the A.Y.2021-22.

Answer

Computation of capital gain of Mr. Gyaanchand for the A.Y.2021-22

Particulars	₹	₹
Capital Gains		
In respect of 600 shares (bonus shares)		
Full value of consideration [600 shares x ₹ 2,400 per share]	14,40,000	
Less: Cost of acquisition [600 shares x ₹ 2,000]	12,00,000	2,40,000
Higher of (i) and (ii), below		
(i) Nil, being cost of acquisition		
(ii) ₹ 2,000 per share, being the lower of		
FMV as on 31.1.2018 - ₹ 2,000 per share		
Sale consideration – ₹ 2,400 per share		
In respect of 1,200 original shares		
Full value of consideration [1,200 shares x ₹ 2,400]	28,80,000	
Less: Cost of acquisition [1,200 shares x ₹ 2,000]	24,00,000	4,80,000
Higher of (i) and (ii), below		
(i) ₹ 900, being original cost of acquisition (₹ 130) or FMV as on 1.4.2001 (₹ 900), at the option of the assessee		
(ii) ₹ 2,000 per share, being the lower of		
FMV as on 31.1.2018 - ₹ 2,000 per share		
Sale consideration – ₹ 2,400 per share		
Long term capital gain		7,20,000