Definition of Capital Asset [Section 2(14)]

- **Any Property** (Movable/immovable), connected with business/profession or not.
- Any Securities held by **FIIs** (as per SEBI regulations) **[Always CA → Even if SIT]**
- ULIP issued on/after 1.2.2021 which is not exempt u/s 10(10D) on account of –
  (a) premium payable > Rs. 2,50,000 for any of the PYs during term of such policy; or
  (b) Aggregate premium > Rs. 2,50,000 in any of PYs during term of any such ULIP(s) [If premium is payable by person for more than 1 ULIP issued on/after 1.2.2021].
  Taxable amount shall be calculated in prescribed manner [Section 45(1B)]

EXCEPTIONS: [Following are NOT CAPITAL ASSETS]

1. **SIT/RM/Consumables stores** (**Except** Securities held by FIIs as SIT).
   Note: Securities held by FIIs → Always Capital Asset even if held as SIT.
2. **Movable Personal effects** (including wearing apparel & furniture) **but excludes ↓**
   - Jewellery,
   - Archaeological collections; Drawings; Paints; Sculptures; Any other work of Art.

   PC Note: If Precious stones/metals are sewn/worked/set into Wearing Apparel/ furniture, it is classified into the category of jewellery & thus it is a Capital Asset.

   Ex: Madhuri ka Ghagra, Throne of Gold/Diamonds; Shirt with diamond buttons.
3. **Rural Agricultural Land in INDIA** [Note: Urban Agricultural land → Capital Asset]
   - **Rural Land** means land outside the following Specified limits:

Population	Distance from Municipality
≤ 10 K	0 Kms
> 10 K & ≤ 1 L	2 Kms
> 1 L & ≤ 10 L	6 Kms
Above 10 L	8 Kms

   - **Agricultural Land:** Land used for agricultural purposes for 2 years prior to transfer.

   What about Urban Land? Capital Gain on Transfer of Urban Agricultural Land → Not treated as Agricultural Income & thus it is **not exempt** u/s 10(1).
4. **Gold Deposit bonds/Certificates.**

Definition of Transfer of Capital Asset [Sec 2(47)]

1. Sale, exchange or relinquishment of the asset.
2. Extinguishment of any rights in the asset.
3. Compulsory Acquisition of any Capital Asset under any law.
4. Conversion of Capital Asset into Stock in trade.
5. Maturity/Redemption of ZCB.
6. Giving possession of IMMOVABLE PROPERTY under Part performance of a contract.
7. Other Transactions which have the effect of transferring the enjoyment of Immovable property.

TYPES OF CAPITAL ASSET [SECTION 2(42A)]

- **STCA: If POH of Asset ≤ 36 months**
- **LTCA: If POH of Asset > 36 months.**

Exceptions: Following assets become LTCA if POH is more than 12/24 Months.

A. LTCG if POH > 12 Months

(i) **Listed Equity/Preference shares.**
(ii) **Listed Securities** (Debentures/Bonds) **other than units.**
other than market linked debentures & units of specified MF.
(iii) Units of UTI/EOMF.
(iv) **Zero Coupon Bonds.**

B. LTCG if POH > 24 Months

(i) **Unlisted** Equity/Preference Shares. [Shares in Private/unlisted public company]
(ii) Immovable property, **being Land or Building** or both.

Note: Capital gains arising on transfer of **market linked debentures & units of a specified MF would always be STCG** irrespective of POH [Section 50AA]

COMPUTATION OF CAPITAL GAINS [SECTION 48]

Full Value of Consideration **(Check Sec 50C for L&B)**	XXX	If consideration is received in kind, then FVC = FMV; Adequacy & Receipt of Consideration → IRRELEVANT
Less: Expenses of Transfer	(xxx)	**Ex:** Brokerage, stamp fees, litigation expenditure etc; **[Note: STT paid is NOT DEDUCTIBLE]**
Net Sale Consideration	**XXX**	**FVC – Expenses of Transfer**
Less: Cost of Acquisition (Indexation if CA is LTCA)	(xxx)	Any Revenue Expenditure → will not form part of COA; Amount Paid to discharge mortgage → Included.
Less: Cost of Improvement (Indexation if CA is LTCA)	(xxx)	▪ Capital Expenditures only; Revenue Expenditure will not be included in COI. ▪ Year in which Improvement is done → **Not Relevant.** [If CA is LTCA → Indexation Milega]
SHORT/LONG TERM CAPITAL GAIN	XXX	Check for Section 54 Series Exemption to Arrive @ Taxable Capital Gain.

Note: COA or COI would not include the deductions claimed on interest u/s 24(b) or u/s 80EE or u/s 80EEA under the provisions of Chapter VI-A.

INDEXED COST OF ACQUISITION [CII for FY 2023-24 = 348]

$$\frac{\text{COA}}{\text{CII of PY in which asset was first held by Assessee * OR CII of 2001 – 2002 (whichever is Later)}} \times \text{CII of PY of Transfer}$$

* **CII of PY** of acquisition of asset by Previous owner **[Transfer u/s 49(1)]**

PC Note: Indexation is available from FY 2001-02.

PC Note: What if Asset is acquired before PY 2001-02? Since Indexation is available from PY 2001-02, we will have a GAP left for the earlier period & thus we will lose Indexation for such period…….WHAT TO DO ???????

OPTION TO TAKE FMV ON 1.4.2001 AS COA of CAPITAL ASSET

- If Cap. Asset is acquired before 1.4.2001 → Assessee have **option** to take FMV on 1.4.2001 as COA.
- **For L&B → If FMV > SDV on 1.4.2001,** SDV on 1.4.2001 shall be taken as FMV.
- **PC Note: OPTION NOT AVAILABLE**
  - Depreciable Assets;
  - Goodwill/other like assets.

This will Fill the Time GAP.

COST OF IMPROVEMENT

COI → Considered if incurred on/after 1.4.2001.

- COI by **Previous Owner → Considered** (Check 1)
- In case of **Goodwill/any other Intangible asset → COI = Nil.**

INDEXED COST OF IMPROVEMENT

$$= \frac{\text{COI}}{\text{CII of PY of Improvement}} \times \text{CII of PY of Transfer}$$

NO INDEXATION IS AVAILABLE IN FOLLOWING CASES [EVEN IF ASSETS ARE LTCA]

1. Zero Coupon Bonds
2. **Debentures/ Bonds** **[Except Capital Indexed Bonds/ Sovereign Gold Bonds]**
3. Slump Sale [Section 50B]
4. Depreciable Assets **[Since capital gain arising on depreciable asset is always STCG]**
5. Share/Debentures acquired by NR in foreign currency in Indian company. **(1st Proviso to sec 48)**
6. **Long term capital assets specified u/s 112A.**

Note: Capital gains arising from transfer of market linked debentures & units of a specified MF would always be STCG irrespective of the POH of such assets [Section 50AA]

TREATMENT OF ADVANCE MONEY FORFEITED [Section 51]

Forfeited Before 1.4.2014	Forfeited on/after 1.4.2014
Reduced from Original COA before Indexation	**Taxable u/h IFOS u/s 56(2)(ix)**

PC Note: Amount Forfeited by Previous owner → Ignored.

FVC IN CASE OF TRANSFER OF L&B HELD AS CAP. ASSET [Section 50C]	
1. Actual SC > SDV	FVC = Actual SC
2. Actual SC < SDV	FVC = SDV
PC Note: If SDV ≤ 110% of Actual SC → FVC = Actual SC.	

FVC ON TRANSFER OF UNLISTED SHARES [Sec 50CA]
► If Actual SC < FMV of such share → **FVC = FMV**
FMV → Deemed to be FVC [Sec 50D]
► If Consideration is not determinable → FVC = FMV on date of transfer

VALUE BY VALUATION OFFICER [PC @ बिच का बन्दर]

Value by VO > SDV	FVC = SDV
Value by VO > Actual SC but < SDV	FVC = Value by VO

Class Note:

Examples:

Actual SC	SDV	Value by VO	FVC
50	45	-	50
50	75	-	75
50	75	85	75
50	75	55	55
50	75	45	50

SDV When Date of Agreement (DoA) & Date of Registration (DoR) are DIFFERENT

Whether Payment (Full/part) received on/before DOA by A/c Payee Cheque ↓	FVC ↓
Yes	SDV on DOA
No	SDV on DOR

Examples:

DOA	DOR	Sale Consideration & Receipts	SDV on DOA	SDV on DOR	FVC
1.9.2022	1.5.2023	100L (10L received by cheque on 1.9.2022)	120 (1.9.2022)	210 (1.5.2023)	**120**
1.9.2022	1.5.2023	100 L (10 L received by cash on 1.9.2022)	120 (1.9.2022)	210 (1.5.2023)	**210**
1.5.2013	31.3.2034	100 L (Full amount received on DOR)	120 (1.5.2023)	210 (31.3.2024)	**210**

CAPITAL GAINS IN CASE OF DEEMED SALE [SEC 45] → [Not Actual Sale & thus Section 50C is NOT Applicable]

Particulars	Sec 45(1A)	Sec 45(2)	Sec 45(3)	Sec 45(4)
Cap. Gain on	Destruction of CA	Conversion of CA into SIT	~~Capital Contribution [Partners → Firm]~~	~~Dissolution/Retirement of Partners [Firm → Partners]~~
Sale Consideration	Insurance Compensation	FMV of CA on Date of Conversion	~~Value of Asset recorded in books of Firm~~	~~FMV of CA on date of transfer~~
Taxable in PY →	PY of Receipt of Money	PY in which SIT is sold/transferred & not in PY of Conversion into SIT	~~PY in which CA is given to firm~~	~~PY in which CA is given to partners~~
Indexation till	Till Date of Destruction	Till Date of conversion of CA into SIT	~~Till PY of Capital Contribution~~	~~Till PY of Distribution of CA to partners~~

COMPULSORY ACQUISITION OF CAPITAL ASSET [SEC 45(5)]

INITIAL COMPENSATION	
SC	Amount of Initial Compensation
Taxed in	▪ PY of Receipt of Initial Compensation (either Whole/Part).
	Compensation in Instalments: If compensation is received in Instalments, Entire Capital Gain on Total Compensation is taxable in PY of receipt of 1st Instalment.
POH	Till: Date of Compulsory Acquisition
Indexation	Upto PY of Compulsory Acquisition of Asset
ENHANCED COMPENSATION	
SC	Enhanced Compensation
Taxed in	**Taxable in PY of Receipt.**
	Enhanced Compensation is received in Instalments → only Proportionate Cap. Gain shall be taxable in that PY. **Note:** Enhanced compensation received under interim order will be taxable in PY in which final order of court is passed.
COA/COI	**Nil.** Litigation expenses → Allowed as deduction.

CAPITAL GAINS IN CASE OF SPECIFIED AGREEMENT [SEC 45(5A)]

Applicability	Individual & HUF
Transaction	Cap. Gain on Transfer of L&B or Both under Specified Agreement.
Taxable in	PY in which Certificate of Completion for whole/part of project is issued.
SC	**Stamp Duty Value** of his share in project **(being L&B or both)** on date of issue of Completion Certificate + Cash Received.
Meaning of Specified Agreement	Registered agreement in which a person owing L/B or both agrees to allow another person to develop a real estate project on such L/B. Developer will give such person share in the project with/without payment of part of the consideration in cash.

Consequences of Transfer before Date of Issue of Completion Certificate:

- Benefit u/s 45(5A) is not available if assessee transfers his share in project on/before issue of completion certificate to any person.
- In such case, CG shall arise in the year of such transfer.
- In such case, section 45(5A) will not apply for determining full value of consideration.
- Thus, FVC = Higher of (i) SDV on date of transfer of his share or (ii) Actual consideration.

CAPITAL GAINS ON BUYBACK OF LISTED SHARES [SEC 46(A)]

☞ Sale Consideration = Buy-back price given by the company to Shareholder

Tax Treatment on Buyback of

Taxability in hands of	Shares (Listed/Unlisted) by		Specified Securities by
	Domestic Company	Other than DC	Any company
Company	Taxable @ 23.296%	Not taxable	Not taxable
Shareholder	Exempt u/s 10(34A)	Taxable u/s 46A	Taxable as CG u/s 46A.

Class Note:

REFERENCE TO VALUATION OFFICER [SEC 55A] → Theory Question

(i) Where value of asset claimed by assessee is in accordance with valuation made by registered Valuer, but AO is of the opinion that value so claimed is less than FMV of the Asset.
- AO can refer VO in cases where FMV is taken as sale consideration.
- If FMV on 1.4.2001 is taken as COA, AO can make a reference to VO if he thinks that there is any variation b/w FMV on 1.4.2001 claimed by assessee & FMV on that date.

(ii) Where AO thinks that FMV of the asset exceeds value claimed **by**
- **More than 15% of the value claimed** by the assessee **or**
- **Rs. 25,000 (whichever is less).**

(iii) Where AO thinks that it is necessary to do so having regards to nature of the asset & relevant circumstances.

COST OF ACQUISITION IN SPECIAL CASES

GW/TM/BN/Right to manufacture or any other Intangible Asset [Sec 55(2)(A)]

Cost	1. Self-Generated Assets: Nil 2. Purchased: Actual COA (purchase price) 3. Modes u/s 49(1): Cost to Previous Owner **Option to take FMV on 1.4.2001→ Not Available**

COA of GW i.r.o. which depreciation u/s 32(1) has been obtained in any PY (upto PY 2019-20), **COA of such goodwill = Purchase price - total depreciation** (upto PY 2019-20).

Sweat Equity Shares/ESOP [Sec 49(2AA)] → **COA = FMV on Exercise date.**

RIGHT SHARES/BONUS SHARES [Sec 55(2)(aa)]

1	**Bonus Shares**	COA
	Acquired **before 1.4.2001**	**FMV as on 1.4.2001**
	Acquired **on/after 1.4.2001**	**Nil** [No option is available]
2	**Right Shares** purchased by Original Shareholder	**Issue Price**
	Right Shares purchased by Purchaser of Right	**Issue price + Cost of Right**
3	**CoA of 'Right'**	Always **Nil &** always STCG

MISCELLANEOUS CASES OF COMPUTING CAPITAL GAINS

CAPITAL GAIN IN CASE OF SLUMP SALE [Sec 50B]

COA & COI	▪ COA & COI = **Net worth** of the undertaking/division. ▪ **Net worth =** Total value of All Assets – Total Liability ▪ Change due to REVALUATION → **IGNORED**.
FVC	▪ **Higher of (i) FMV on date of transfer (ii) ASC**
FMV	▪ **Higher of** (a) FMV of capital assets transferred by way of slump sale (determined on date of slump sale) (b) FMV of consideration received (monetary & non-monetary) or accruing.
Indexation	**No Indexation**
Cap. Gain	▪ If POH of undertaking/division ≤ 36 Months → STCG. ▪ If POH of undertaking/division > 36 Months → LTCG.

❖ **Total value of All Assets** shall be calculated as:
- Sec 35AD Assets: Nil
- Depreciable Assets: WDV of block
- **All other Assets: Book value**

SHARES/DEBENTURES ACQUIRED IN FOREIGN CURRENCY BY NR [1st Proviso to Sec 48]

- Cap. Gain shall be computed in the foreign currency in which NR acquires shares/debentures.
- After calculating capital gains in foreign currency, it will be converted into Indian Currency.
- **Indexation** is **NOT AVAILABLE.**
- **Steps to compute CAPITAL GAIN**

SC & Expenses of Transfer	Convert into FC by using **Average Rate** on date of transfer.
Cost of Acquisition	Convert into FC by using **Average Rate** on date of acquisition.
Capital Gain	Capital Gain in Foreign Currency shall be **Re-converted** into INDIAN CURRENCY by applying **BUYING Rate** on date of transfer.

CAPITAL GAINS ON TRANSFER OF DEPRECIABLE ASSET [SECTION 50]

❖ **Always be STCG** irrespective of POH.

❖ **Capital Gain on Depreciable Assets will arise only in following two cases:**
- WDV is Zero but Block is not Empty → No Depreciation & STCG u/s 50(1).
- Block is empty but WDV is not Zero → No Depreciation & STCL u/s 50(2).

❖ **PC Note:** If SC of All Assets in Block < WDV of Block → STCL = SC – WDV of block

CAPITAL GAIN ON MARKET LINKED DEBENTURES [SECTION 50AA] – NEW SECTION

Section 50AA provides for computation of capital gains in case of transfer of units of (a) Specified Mutual Fund acquired on/after 1.4.2023 **or** (b) Market Linked Debenture.

Note: Always STCG & chargeable to tax at normal rate of tax.

Market Linked Debenture: Security which has an underlying principal component in the form of debt security; and where the returns are linked to market returns on other underlying securities or indices. It includes any security classified or regulated as a market linked debenture by the SEBI.

Specified Mutual Fund: MF where not more than 35% of its total proceeds is invested in equity shares of domestic companies.
However, the percentage of equity shareholding held in respect of the Specified Mutual Fund shall be computed with reference to the annual average of the daily closing figures.

ASCERTAINMENT OF COA IN SPECIFIED CIRCUMSTANCES [SEC 49(1)]

In following cases, Cost of Acquisition = Cost of Acquisition to Previous Owner.

If Capital Asset became the property of the assessee on/by way of/under:

(a) Distribution of assets on Partition of a HUF;
(b) Gift or will/Succession, Inheritance or Devolution;
(c) Distribution of Assets on Liquidation of Company;
(d) Transfer of CA under a Trust (revocable or irrevocable);
(e) Transfer of CA by HC to WOS (Indian) Company or by SC to its 100% HC (Indian).
(f) Transfer of CA by Amalgamating company to Amalgamated Indian company, in a scheme of amalgamation referred to in section 47(vi).
(g) Transfer of a Capital Asset by Demerged company to Resulting Indian company, in a scheme of demerger referred to in section 47(vib).
(h) Conversion of his separate property into HUF property by Individual ref. in 64(2).

CAPITAL GAIN ON "DISTRIBUTION OF ASSETS IN KIND BY COMPANY TO ITS SHAREHOLDERS ON LIQUIDATION" [Section 46]

FOR COMPANY IN LIQUIDATION

- Asset distributed in kind by company to its shareholders on liquidation → No Transfer
- **No Capital Gain** shall arise to the company on distribution of such Assets.

FOR SHAREHOLDERS

- Cap. Gain ☑ & SC = FMV of Assets received in Kind – Deemed Dividend u/s 2(22)(c).

Cap. Gain on Transfer of Assets received in Kind by Shareholders

- When asset received in kind by the shareholder is transferred later, CG will arise.
- **COA** of such asset = **FMV** of such asset **on date of distribution** by the company.
- **POH** shall be reckoned from the **date of receipt** of asset on liquidation.

Case Law: CIT vs. Manjula J. Shah [Bombay High Court]

- In case of mode of acquisition of asset specified u/s 49(1), POH of Previous Owner shall also be considered for taking Indexation of COA.
- **Indexation shall be available from Date of Acquisition of the Asset by Previous Owner.** Thus, Section 2(42A) → POH of the transferee shall include POH of Previous Owner.

TRANSACTIONS NOT REGARDED AS TRANSFER [SECTION 47]

A
Owner → Change
Asset → Same
↓
COA (to New owner) = Cost to Previous owner
POH → Include POH of Previous owner.

B
Owner → Same
Asset → Change
↓
COA (of New Asset) = Cost of Old Asset.
POH → Include POH of Old Asset.

SOME OTHER EXEMPT TRANSFERS:

- **Redemption of Sovereign Gold Bonds by Individual** [Sec 47(viic)].
- **Conversion of Gold into Electronic Gold Receipt or vice versa [Section 47(viid)].**
- Transfer of capital asset being **Any Work of Art to Government or University or National Museum or National Art Gallery etc.**

Category A

1. Distribution on "**Partition of HUF**"
2. Transfer by way of "**Gift/Will/Irrevocable Trust**"
3. Transfer by "**HC** to its **Indian WOS Company**"
4. Transfer by "**WOS Company** to **Indian HC**"
5. Transfer by Amalgamating Co. to Indian Amalgamated Co. in scheme of Amalgamation
6. Transfer by "**Demerged** Co.to **Indian Resulting Co.**" in scheme of Demerger.

Category B:

1. Transfer by way of 'Conversion of Bonds/Debentures into Shares'
2. Allotment of Shares to shareholders by Amalgamated Co. in lieu of Shares held in Amalgamating Co.
3. Transfer of units of MF 'held in Consolidating Scheme' in Consideration of 'Allotment of Units in Consolidated Scheme of MF'.
4. Transfer of 'Share from shareholder of company' in consideration of 'Share in LLP'.
5. Conversion of Preference shares into Equity shares.

ALLOTMENT OF SHARES BY RESULTING CO. TO SHAREHOLDERS OF DEMERGED CO.

Assets	Cost of Acquisition
Shares in Resulting Company	COA of shares in demerged Co. × $\frac{\text{Net BV of Asset **after demerger** in demerged co.}}{\text{Net BV of Asset before demerger in demerged co.}}$
Shares in Demerged Company	COA of share in demerged Company - Cost apportioned to shares of Resulting Co.

CQ. Mr A. acquired 1000 shares in XY ltd of Rs. 20,000. XY Ltd. was demerged on 25.09.2023 & Net book value of the asset transferred to Y Ltd (resulting company) was 30 Lacs. Compute the cost of acquisition of shares of Mr. A in demerged company as well as resulting company assuming the paid-up capital & general reserve of XY Ltd before demerger were 1 crore.

Solution:

- **COA of Shares in Resulting Co.** = 20,000 × $\frac{\text{30 Lacs}}{\text{1 crore}}$ = Rs. 6,000.
- **COA Shares in Demerged Co.** = Rs. 20,000 – Rs. 6,000 = Rs. 14,000.

PC Note: For determining POH of Shares in Resulting Co. → Includes POH of Shares in Demerged Co.

CONVERSION OF GOLD INTO ELECTRONIC GOLD RECEIPT OR VICE VERSA [SECTION 47(viid)]

❖ **Cost of Acquisition [Section 49(10)]**

(1) **Electronic Gold Receipt is received by transferring gold:** COA of E-Gold Receipt = Cost of gold in the hands of the person in whose name E-Gold Receipt is issued.

(2) **Where gold is released against an E-Gold Receipt, which became the property of the person as a consideration for transfer of E-Gold Receipt:** COA of Gold = Cost of E-Gold Receipt in the hands of such person.

❖ **Period of Holding:**

- **Where E-Gold Receipt is issued by Vault Manager i.r.o. gold deposited**: Period for which such gold was held by assessee prior to conversion into E-Gold Receipt.
- **Where gold is released in respect of an Electronic Gold Receipt**: Period for which such E-Gold Receipt was held by the assessee prior to its conversion into gold.

REVERSE MORTGAGE SCHEME

Meaning	▪ Senior citizens can mortgage their house property with scheduled bank etc. for lumpsum amount or regular monthly/quarterly/annual income.
Taxation	☞ Transfer of capital asset in a transaction of reverse mortgage under a scheme made & notified by CG **would not amount to a transfer - Section 47(xvi).** ☞ Amount received by senior citizen as a **Loan** (Lump sum/Instalments) in a transaction of reverse mortgage would be **Exempt** [Sec 10(43)] ☞ **Capital gains** would arise in the hands of senior citizen only when the mortgaged property is sold by the bank/housing finance company for recovering the loan.

EXEMPTIONS FROM CAPITAL GAINS [SECTION 54]

Section	Section 54		Section 54B	Section 54D	Section 54EC ***	Section 54F
Assessee	Individual/HUF		Individual/HUF	Any Assessee	Any Assessee	Individual/HUF
Transferred Asset	LTCA – House		Urban Agricultural Land (LT/ST).	Industrial L&B or Both **(STCA/LTCA)**	L & B or Both **(LTCA)**	Any LTCA Except House
Acquired Asset (in India)	**CG > 2 Cr** **1 House**	**CG ≤ 2 Cr** **2 Houses**	Agricultural Land (Rural/Urban)	Land or Building for Industrial purpose	NHAI; REC; PFC; IRFC redeemable after 5 yrs	1 Residential House in India
Time limit for Acquiring new asset	**Purchase** → Within 1 Year before DOT or w/i 2 Yrs after DOT. **Construct** → Within 3 years from DOT.		W/i 2 years from DOT	Within 3 years from Date of Receipt of compensation	Within 6 months from DOT	Same as 54
Exemption ⇒	Lower of (i) Investment in New Asset or (ii) Capital Gain **Note: Max. Exemption u/s 54 = 10 crores.**				Same as 54. **But Max. Limit of Rs. 50 Lacs in PY of Transfer & Next (Subsequent) PY.**	**Proportionate** [Refer Note Below]
Transfer of Newly acquired asset within lock-in period	▪ Exemption granted will be taken back. **[Lock-in period of 3 years]** ▪ For computing STCG on transfer of New Asset: *Cost of New Asset = (COA – CG Exempted earlier).* ▪ Sec 54B: If New Asset is Rural Agricultural Land → CA ☒ ; No Cap Gain.				Exemption granted will be taken back. **Lock-in Period = 5 Years**	
CGAS	**Applicable**				**Not Applicable**	**Applicable**

Section 54	Section 54F
▪ A person may **Sell 2 Houses & Purchase 1 House** ▪ Date of completion of construction is relevant. ▪ Holding of Legal Title → Not Necessary.	▪ To get exemption of Whole Capital Gain, you need to Invest Whole Net Sale Consideration. ▪ **Proportionate Exemption = LTCG x $\frac{\text{Amount Invested}}{\text{Net Sale Consideration}}$** **Withdrawal of Exemption** ▪ If new house is transferred within 3 years from the date of acquisition. ▪ If assessee purchases another house within 2 years from DOT of original asset. **[DOT = Date of Transfer]** ▪ If assessee completes construction of another house in or o/s India within 3 years from DOT of original asset.
Section 54EC	
Assessee should not transfer or convert or avail loan on the security of such bonds in Lock-in-Period.	

SN	LTCG	Cost of New House	Exempt u/s 54	Space for PC Analysis:
1	Rs. 07 Crores	Rs. 12 Crores	Rs. 07 Crores	
2	Rs. 12 Crores	Rs. 14 Crores	Rs. 10 Crores	
3	Rs. 11 Crores	Rs. 09 Crores	Rs. 09 Crores	
4	Rs. 15 Crores	Rs. 13 Crores	Rs. 10 Crores	

AMENDMENT U/S 54:

- **Amount utilized by the assessee for purchase or construction of new asset & amount so deposited shall be deemed to be the cost of new asset. Deemed cost of new asset would be restricted to Rs. 10 crores for the purpose of exemption u/s 54.**

  Ex 1: If LTCG is Rs. 8 crore & assessee has incurred Rs. 5 crores in construction of new house upto DD of filing ROI u/s 139(1), then he can deposit the amount of Rs. 3 crores upto DD of filing ROI in CGAS for claiming exemption u/s 54. If he deposits Rs. 2 crores, in CGAS on or before the due date u/s 139(1), deemed cost of the new residential house would be Rs. 7 crores (Rs. 5 crores + Rs. 2 crores). Exemption u/s 54 = Rs. 7 crores.

  Ex 2: If LTCG is Rs. 14 crore & assessee has already incurred Rs. 7 crores in construction of new house upto DD of filing ROI u/s 139(1), then he can deposit the difference of Rs. 3 crores (Rs. 10 crores - Rs. 7 crores) in CGAS for claiming exemption u/s 54. If he deposits, say, Rs. 2 crores in CGAS on or before the due date u/s 139(1), deemed cost of new house = Rs. 9 crores (Rs. 7 crores + Rs. 2 crores). Exemption u/s 54 = Rs. 9 crores.

AMENDMENT U/S 54F:

1. **Max Investment eligible for deduction u/s 54F = Rs. 10 Crores.**

SN	NSC	LTCG	Cost of New House	Investment eligible for deduction u/s 54F	Deduction u/s 54F	Space for Calculations
1	15 Cr	7.5 Cr	12 Cr	10 Cr	5 Cr	
2	20 Cr	12 Cr	15 Cr	10 Cr	6 Cr	
3	16 Cr	12 Cr	08 Cr	8 Cr	6 Cr	
4	10 Cr	6 Cr	10 Cr	10 Cr	6 Cr	
5	12 Cr	6 Cr	12 Cr	10 Cr	5 Cr	

2. If investment in new house is not made before DD of filing ROI u/s 139(1), then NSC has to be deposited in CGAS. However, NSC in excess of Rs. 10 crores is ignored in CGAS.
3. **Amount utilized for purchase/construction of new asset + amount deposited in CGAS ⇒ Deemed as cost of New Asset [restricted to Rs. 10 crores for section 54F]**

   Ex 1: If NSC = Rs. 9 crores; CG = Rs. 4.50 crores & amount incurred for construction of new house upto DD of filing ROI = Rs. 5 crores, then assessee can deposit Rs. 4 crores (Rs. 9 crore – Rs. 5 crore) not appropriated towards construction upto DD of filing ROI in CGAS for claiming exemption u/s 54F. If assessee has deposited Rs. 3 crore on/before DD of filing ROI, deemed cost of new house = Rs. 8 crore (Rs. 5 crore + Rs. 3 crore). Exemption u/s 54F = Rs. 4 crore [i.e., Rs. 4.50 crore x Rs. 8 crore/Rs. 9 crore].

   Ex 2: If NSC = Rs. 15 crores; CG = Rs. 7.50 crores & amount incurred for construction of new house upto DD of filing ROI = Rs. 6 crores, then assessee can deposit Rs. 4 crores (Rs. 10 crores – Rs. 6 crore) upto DD of filing ROI in CGAS for claiming exemption u/s 54F. If assessee has deposited Rs. 3 crore on/before DD of filing ROI, deemed cost of new house = Rs. 9 crore (Rs. 6 crore + Rs. 3 crore). Exemption u/s 54F = Rs. 4.50 crore [i.e., Rs. 7.50 crore x Rs. 9 crore/Rs. 15 crore].

CAPITAL GAINS A/C SCHEME (CGAS) — If **Investment is not made** before DD of filing of ROI, Capital Gain/NSC (for 54F) has to be deposited in CGAS to get exemption.

- Such deposit in CGAS should be made before filing ROI or before DD of filing ROI, whichever is earlier.
- In such cases, amount already utilized for purchase or construction of new asset plus the amount deposited in CGAS on/before DD of filing ROI u/s 139(1) would be deemed to be the cost of new asset. However, for sections 54 and 54F, amount so deemed to be cost of the new asset cannot exceed Rs. 10 crores.
- **Max. Limit:**
  - ⇒ **Section 54: Capital gain in excess of Rs. 10 crores would not be taken into account for the purpose of deposit in CGAS.**
  - ⇒ **Section 54F: NSC in excess of Rs. 10 crores would not be taken into account for the purpose of deposit in CGAS.**
- If amount deposited is not utilized for specified purpose within stipulated period, then unutilized amount shall be taxed as capital gain of PY in which specified period expires.
- If **Individual dies** before stipulated period**, unutilized amount is not** taxable in the hands of **legal heirs** of deceased individual.

RATE OF TAX ON CAPITAL GAINS

A. SHORT- TERM CAPITAL GAINS [STCG]		B. LONG - TERM CAPITAL GAINS [LTCG]	
1	STCG on Equity shares/EOMF/ULIP u/s 111A [STT paid]	1	LTCG on Equity shares/EOMF/ULIP u/s 112A [STT paid]
	▪ **Taxable @ 15%** ▪ Benefit of unexhausted BEL → Available for Resident Individual/HUF ▪ No deduction under Chapter VI-A.		▪ **Taxable @ 10% on LTCG > Rs. 1 Lac.** ▪ No Chapter VI-A Deduction. ▪ Rebate u/s 87A → Not Available against LTCG taxable u/s 112A.
	Equity share → STT is to be paid on acquisition & transfer.		**Units of EOMF → STT is to be paid on transfer of such capital asset.**
2	Other STCG	2	Other LTCG u/s 112
	▪ STCG (other than section 111A) are treated as **Normal Income**. ▪ Taxed @ Normal Rate along with other incomes.		▪ **Taxable @ 20%. No Chapter VI-A Deduction.** ▪ Resident Individual & HUF → 20%. Benefit of Unexhausted BEL is available. ▪ Other Person & Domestic Company → 20%. No Benefit of Unexhausted BEL.

Benefit of UNEXHAUSTED BEL from All LTCGs & STCG u/s 111A	Space for PC Analysis
▪ **Resident Individual/HUF → Benefit of Unexhausted BEL is available.** ▪ Unexhausted BEL means Taxable Income (excluding LTCG/STCG) < BEL ▪ Shortfall* shall be deducted from LTCG/STCG u/s 111A & balance Cap. Gains shall be taxable. ▪ **Shortfall = BEL – (Taxable income – LTCG/STCG u/s 111A)**	

VERY IMPORTANT CONCEPT FOR SECTION 112A

Q. How do we determine the cost of acquisition for assets acquired on/before 31st January 2018?

Answer: COA of LTCA specified u/s 112A acquired before 1st Feb 2018 = Higher of (a) Cost of Acquisition **or (b)** Lower of (i) FMV on 31.01.2018 or (ii) Sale consideration.

Ex: Equity share is acquired on 1st Jan 2017 at Rs. 100; FMV is Rs. 200 on 31st Jan 2018 & it is sold on 1st April 2018 at Rs. 250. As actual CoA < FMV on 31st Jan 2018, FMV of Rs. 200 will be taken as CoA & LTCG = Rs. 50 (Rs. 250 – Rs. 200).

Ex: Equity share is acquired on 1st Jan 2017 at Rs. 100, its FMV is Rs. 200 on 31st Jan 2018 & it is sold on 1st April 2018 at Rs. 150. In this case, actual cost of acquisition < FMV on 31st Jan 2018. However, sale value is also < FMV on 31st Jan 2018. Thus sale value of Rs. 150 will be taken as cost of acquisition & LTCG = NIL (Rs.150 – Rs.150).

Ex: An equity share is acquired on 1st Jan 2017 at Rs. 100, its FMV is Rs. 50 on 31st Jan 2018 & it is sold on 1st April 2018 at Rs. 150. In this case, FMV on 31st Jan 2018 < Actual cost of acquisition & thus actual cost of Rs. 100 will be taken as actual cost of acquisition and LTCG will be Rs. 50 (Rs. 150 – Rs. 100).

Ex: Equity share is acquired on 1st Jan 2017 at Rs. 100, its FMV is Rs. 200 on 31st Jan 2018 & it is sold on 1st April 2018 at Rs. 50. Actual cost of acquisition < FMV on 31st Jan 2018. Sale value < FMV on 31st Jan 2018 & also actual CoA. Therefore, actual cost of Rs. 100 will be taken as CoA. Hence, LTCL = Rs. 50 (Rs. 50 – Rs. 100).