

DEPARTMENT OF COMMERCE

(SERAMPORE COLLEGE)

B.COM (HONS) 4TH SEMESTER

TAXATION 1

INCOME FROM CAPITAL GAIN

Any profit or gains arising from sale or transfer of capital assets in previous year is called **Income from Capital Gain.**

Capital Asset means:

- a) Property of any kind held by assessee whether or not connected to business or profession.
- b) Securities
- c) Agricultural Land in India
- d) Hold bond, personal assets like furniture, motor car, gold bullion drawing paintings jewellery etc but not agricultural land situated within 8 Km from municipality or cantonment board and agricultural land situated within jurisdiction of municipality or cantonment board having population **not less than 10000**

Capital gains are of two types:

- I. **LONG TERM:** Long term capital gain relates to holding period of assets before sale is **24 months or more** but in case of share, debenture it is **more than 12 months.**
- II. **SHORT TERM:** Short term capital gain relates to holding period of assets before sale is **less than 24 months** but in case of share, debenture it is **less than 12 months.**

1. CAPITAL GAIN ON SECURITIES:

- i. Short term capital gain on securities (share, debenture etc) holding period of asset before sale is less than 12 months.
Its rate of tax is 15% + 4% cess. (No deduction under chapter VI A is allowed)
- ii. Long term capital gain on securities (share, debenture etc) holding period of asset before sale is more than 12 months:
 - a. If shares are listed in stock exchange and subject to STT then 10% tax and 4% cess will be levied if capital gain is more than 100000 (Tax 10% on excess of 100000)
No cost of inflation index and no deduction under chapter VI A.
 - b. If shares are not listed in stock exchange and not subject to STT then tax rate 20% and cess 4% will be levied after cost of inflation index.
No deduction under chapter VI A is allowed.

2. CAPITAL GAINS OTHER THAN SECURITIES:

- a) Short term capital gain holding period of asset before sale is less than 24 months:

DETAILS	AMT (Rs)	AMT (Rs)
Sale Price		****
Less:		
Cost of Aquisition	***	
Development cost	***	
Essential cost of execution of deed	***	(****)
SHORT TERM CAPITAL GAIN		****

To be added with Total Income and to be taxed at normal rate

Deduction under chapter VI A is allowed.

- b) Long term capital gain holding period of assets more than 24 months: rate of tax 20% + 4% cess. No deduction under chapter VI A allowed.

DETAILS	AMT (Rs)	AMT (Rs)
Sale Proceeds		****
Less: Index Cost of		
Acquisition on cost		
(actual cost or fair market price on		
1.4.01 whichever is higher)	***	
Improvement Cost after 1.4.01	***	
Essential legal & execution cost	***	
Deduction & exemption u/s 54, 54B, 54D, 54 EC, 54 F etc	***	****
LONG TERM CAPITAL GAIN		****

In case of residential House Property:

U/S 54 Deduction is allowed of LTCG arising from sale of residential house property if:

1. He purchased HP before 1 year or within 2 year from sale
OR
2. Constructed within 3 years of sale
OR
3. Deposited to Capital Gain Deposits A/C before 31st July of A.Y

In case of Agricultural Land:

54 B provides that it is deducted if he purchase land in rural or urban area for cultivation within 2 years from sale.

Cost of Inflation Index (C.I.I.):

Cost of Acquisition * $\frac{\text{C.I.I for previous year}}{\text{C.I.I for the year of acquisition or C.I.I for 2001-2002}}$

Cost of Improvement * $\frac{\text{C.I.I for previous year}}{\text{C.I.I for the year in which such cost incurred after 1.4.01}}$

Cost of Inflation Index:

P.Y.	C.I.I	P.Y.	C.I.I
2001-02	100	2010-11	167
2002-03	105	2011-12	184
2003-04	109	2012-13	200
2004-05	113	2013-14	220
2005-06	117	2014-15	240
2006-07	122	2015-16	254
2007-08	129	2016-17	264
2008-09	137	2017-18	272
2009-10	148	2018-19	280
		2019-20	289

BONUS SHARE AND RIGHT SHARE:

- **BONUS SHARE:**
 - a. **If allotted before 1.4.01:** cost of acquisition will be **F.M.V on 1.4.01**
 - b. **If allotted on or after 1.4.01:** cost of acquisition will be **NIL**

[Tax: If long term: nil and If short term: 15% + 4% cess]

- **RIGHT SHARE:**
 - i. **If exercised or acquired:** cost of acquisition is **acquired price**
 - ii. **If not exercised or acquired but sold to third party:** acquisition cost **NIL**
 - iii. **For third party:** cost price = pay to seller of right + cost of company.

[Tax: If long term: nil and If short term: 15% + 4% cess]

PROBLEM:

A was offered 2000 right share at Rs 35 by X company. A took up 1500 share and sold the rest to B immediately at Rs 30,000.

SOLUTION:

A: cost of acquisition = $1500 * 35 = 52500$ and his STCG will be Rs 30,000

B: cost of acquisition = $30000 + (500 * 35) = 47500$

PROBLEMS ON CAPITAL GAIN:

Problem 1:

Mr X purchased a property for Rs 100,000 in 1966 and sold on 31.12.19 for Rs 2250000. F.M.V on 1.4.01 was Rs 350000, cost of improvement Rs 85000 in 68-69 and Rs 75000 in 03-04, selling commission and stamp duty paid Rs 10000.

Solution to problem 1:

DETAILS	AMT (Rs)	AMT (Rs)
Sale Proceeds		22,50,000
Less Index Cost of acquisition		
FMV being higher $350,000 \times 289/100$	-1011500	
Less Index Cost of Improvement		
in 68-69	nil	
in 03-04 ($75000 \times 289/109$)	-198853	
Less expential expense	-10,000	-1220353
LONG TERM CAPITAL GAIN		<u>10,29,647</u>

Problem 2:

Mr X sold his house property for 390,000 on 1.1.20. Expense of sale is Rs 10000, C.I.I of cost of acquisition is Rs 75000 and C.I.I cost of improvement is Rs 25000. He purchased a land for H.P on 30.6.21 for Rs 150,000 and deposited Rs 130,000 to capital gain deposit a/c on 2.8.21.

Solution to problem 2:

DETAILS	AMT (Rs)	AMT (Rs)
Sale Proceeds		3,90,000
Less:		
C.I.I of cost of acquisition	-75000	
C.I.I of cost of improvement	-25000	
expense	-10,000	-110000
		<u>2,80,000</u>
Less: Deduction u/s 54		-1,50,000
		<u>1,30,000</u>
LONG TERM CAPITAL GAIN		<u>(to be taxed)</u>

No deduction for deposit to capital for deposit a/c as it is after due date i.e. 31.7.21.

Special Note:

Deduction u/s 54 further states that where new HP is purchased or constructed is sold within 3 years of purchase, then for the purpose of computation of capital gains on such sale, the cost of acquisition of the new house property shall be reduced by the amount of capital gains which was exempted earlier ----- such capital gain can also be short term capital gain.

Problem 3:

X sold one of his residential house properties in Chennai for Rs 1200000 on 23.5.19. This H.P was purchased by him on 1.4.09 for Rs 290,000 on 30.5.19 he purchased one flat in Mumbai for Rs 870000 for the purpose of residence for his son-in-law. On 1.5.20 he sold the H.P of Mumbai for Rs 1210000. Compute capital gain arising on the two transactions (C.I.I for 09-10 and 19-20 are 148 & 289 respectively).

Solution to problem 3:

DETAILS	AMT (Rs)	AMT (Rs)
CHENNAI H.P		
Sale	12,00,000	
Less: CII of cost of acquisition (290,000*289/148)	<u>-566284</u>	
LONG TERM CAPITAL GAIN	6,33,716	
Less: exemption u/s 54 (amount of capital gain 633716 & cost of new flat 870,000 whichever is less)	<u>-6,33,716</u>	
Taxable LTCG		nil
MUMBAI FLAT		
Sale	12,10,000	
less: cost of acquisition (870,000 - 633716)	<u>-236284</u>	
Short Term Capital Gain	9,73,716	
less exemption u/s 54 as it is STCG	<u>nil</u>	
taxable STCG		<u>9,73,716</u>
Income from capital gain		<u>9,73,716</u>

Problem 4:

Compute taxable income from capital gains to AY 20-21 from the following:

	Building	Share (unlisted)	Share (listed)	Gold
Date of Acquisition	3.5.13	21.7.12	22.7.18	15.4.15
Date of Sale	21.8.19	2.9.19	5.12.19	5.9.19
Cost of Acquisition	350,000	50,000	350,000	800,000
Sale Price	625,000	212,000	520,000	25,00,000

Solution to Problem 4:

LONG TERM CAPITAL GAIN:

DETAILS	AMT (Rs)	AMT (Rs)	
On Building:			
Sale	6,25,000		
Less: CII of cost of acquisition (350,000*289/220)	<u>-459773</u>	1,65,227	
On Sale of Share (unlisted):			
Sale	2,12,000		
Less: CII of cost of acquisition (50,000*289/200)	<u>-72250</u>	1,39,750	(as not listed provision u/s 112A will not apply)
On Sale of Share (listed and paid STT) u/s 112A:			
Sale	5,20,000		
less: cost of acquisition	<u>-3,50,000</u>		
		1,70,000	Tax @ 10% + 4% cess on 70000 (in excess of 100000)
On Sale of Gold			
Sale	25,00,000		
Less: CII of cost of acquisition (800000*289/254)	<u>-9,10,236</u>	15,89,764	
LTCG		<u>20,64,741</u>	

Problem 5:

From the following compute LTCG:

	Land in Urban Area	Debenture in A Co
Date of Acquisition	15.7.15	21.8.16
Date of Sale	5.5.19	11.2.19
Cost of Acquisition	220000	145000
Sale Proceeds (stamp duty value 1940000)	1833500	728500

Solution to problem 5:

DETAILS	AMT (Rs)	AMT (Rs)
On sale of Urban Land:		
Sale (stamp duty value being higher)	19,40,000	
Less: CII of cost of Acquisition (220000*289/254)	<u>-250315</u>	16,89,685
On sale of Debenture of a Co:		
Sale	728500	
Less: Cost of Acquisition (No indexation in case of debenture)	<u>-145000</u>	583500
LTCG		<u>22,73,185</u>

For any query contact N.B. 9830953576.