

## TEST 7 CAPITAL GAIN

### Illustration 1

The following buildings (rate of depreciation 10 per cent) are owned by a firm on April 1, 2020:

Asset	Depreciated value Rs.
Building A	21,00,000
Building B	6,00,000
Building C	15,50,700

After April 1, 2020, the firm acquires the following assets:

Assets	Date of acquisition	Rate of depreciation	Cost price (Rs.)
Building D	April 10, 2020	10%	78,00,000
Building E	January 10, 2021	5%	90,00,000
Furniture	March 10, 2021	10%	1,20,000

On March 16, 2021, the firm sells buildings A, B and C for a total consideration of Rs.92,00,000 (expenses on transfer Rs.4,50,000). Determine the amount of capital gain / loss on sale of buildings A, B and C for the assessment year 2021 - 2022.

### Solution

	Rs.
Sale consideration of Buildings A, B and C	92,00,000
Less: Expenses on transfer	(-) 4,50,000
Less: Cost of acquisition (being depreciated value of the block on April 1, 2019:	
Rs.21,00,000 + Rs.6,00,000 + Rs.15,50,700 + any new acquisition within the block in the previous year 2020 - 2021: Nil)	(-) 42,50,700
Short term capital gain	44,99,300

### Illustration 2

X purchases a house property on September 1, 1989 for Rs.42,00,000. Fair market value of the property on April 1, 2001 is Rs.40,50,000. He incurs the following expenses:

	Rs.
a. Construction of a room on the ground floor during 1990 - 91	3,00,000
b. Renewals / reconstruction in 1993 - 94	6,00,000

The property is transferred on March 31, 2021 for Rs.5,10,00,000. Find out the amount of long term capital gain for the assessment year 2021 - 2022.

**Solution**

	Rs.
Sale consideration	5,10,00,000
Less: Expenses on transfer	Nil
Less: Indexed cost of acquisition ( $\text{Rs.}42,00,000 \times 301 \div 100$ )	1,26,42,000
Long term capital gain	3,83,58,000

**Illustration 3**

X purchases the following assets on March 10, 2015:

	Cost Rs.
Listed debentures of A Ltd.	1,10,000
Listed debentures of B Ltd.	1,04,000

On June 10, 2016, he gifts debentures of B Ltd. to his son Y. X dies on April 3, 2018 and as per his will, debentures of A Ltd. are transferred to his son Y. On March 1, 2021, Y sells debentures of A Ltd. for Rs.4,10,000 (expenditure on transfer: Rs.600) and debentures of B Ltd. for Rs.2,78,000 (expenditure on transfer Rs.700). Find out the amount of capital gains chargeable to tax for the assessment year 2021 - 2022.

**Solution**

	A Ltd. Rs.	B Ltd. Rs.
Sale consideration	4,10,000	2,78,000
Less: Expenses on transfer	600	700
Less: Cost of acquisition (indexation benefit is not available in the case of debentures and bonds)	1,10,000	1,04,000
Long term capital gain	2,99,400	1,73,300

**Illustration 4**

X acquires a capital asset on April 1, 2002 for Rs.90,000. He converts the capital assets into stock - in - trade on April 1, 2007 (fair market value on the day of conversion Rs.2,00,000). The stock - in - trade is sold by X on March 10, 2021 for Rs.3,50,000. Determine the amount of chargeable profit indicating separately business income and capital gains. ( CII 02-03 : 105, CII 07-08:129)

**Solution**

	Rs.
Sale consideration	2,00,000
Less: Indexed cost of acquisition ( $\text{Rs.}90,000 \times 129 \div 105$ )	1,10,571
Long term capital gain chargeable to tax for the assessment year 2021 - 2022	89,429

Business income chargeable to tax for the assessment year 2021 - 2022 is Rs.1,50,000 (i.e. Rs.3,50,000 - Rs.2,00,000)

**Illustration 5**

On April 1, 2020, X (34 years) owns two house properties at Agra apart from investment in gold. During the previous year 2020 - 2021, X sells the following assets:

	Gold	Residential house property at Agra
Date of sale	July 10, 2020	June 15, 2020
Date of purchase	June 9, 2003	May 17, 2007
	Rs.	Rs.
Sale consideration	40,00,000	38,00,000
Cost of acquisition	10,00,000	7,00,000

Income of X from other sources (including property income) is Rs.11,00,000.

Assuming that X makes the following investments during the previous year 2020 - 2021, find out the tax liability of X for the assessment year 2021 - 2022:

- Purchase of a resident house property Rs.30,00,000
- Deposit in the public provident fund account Rs.1,20,000.

CII 03-04: 109 CII 07-08:129

**Solution**

	Residential house at Agra Rs.	Gold Rs.
Sale consideration	38,00,000	40,00,000
Less: Indexed cost of acquisition ( $\text{Rs.}7,00,000 \times 301 \div 129$ , $\text{Rs.}10,00,000 \times 301 \div 109$ )	1633333	2761468
Balance	2166667	1238532
Less: Exemption under section 54	2166667	-
Less: Exemption under section 54F ( $(\text{Rs.}30,00,000 - \text{Rs.}21,66,667) \div \text{Rs.}40,00,000 \times \text{Rs.}13,48,624$ )		280963
Long term capital gains	Nil	957569

Computation of income and tax liability

**Illustration 6**

X sells a residential house at Delhi (no other house is owned by him) on March 20, 2021 for Rs.22,50,000 (cost of acquisition in 2002 - 03 Rs.1,70,000). On July 31, 2021, he deposits Rs.4,00,000 in bank for purchase / construction of house property in future to claim exemption under section 54. On November 1, 2021, he purchases 20 bonds of Rs.200 each of National Highways Authority of India (not redeemable within 8 years) to claim exemption under section 54EC. Income of X from other sources for the previous year 2020 - 2021 is Rs.9,72,000. He completes construction of a residential house property on March 1, 2023 (total investment of Rs.2,70,000 is financed by withdrawing from deposit account). Assume that the income of X from other sources for the Assessment years 2022 - 2023 and 2023 - 2024 is Rs.15,92,000 and Rs.18,70,000 respectively, determine the taxable income for the assessment year 2021 - 2022, 2022 - 2023 and 2024 - 2025.

**Solution**

	Rs.
Sale consideration	22,50,000
Less: Indexed cost of acquisition (Rs.1,70,000 × 301 ÷ 105)	487,3,333
Balance	17,62,667
Less: Exemption under section 54	4,00,000
Less: Exemption under section 54EC (not available as investment is made after the expiry of 6 months from the date of transfer)	Nil
Long term capital gain	13,62,667
Income from other sources	9,72,000
Net income (rounded off)	23,34,667
Assessment year 2021 - 2022	
Long term capital gain	Nil
Income from other sources	15,92,000
Net income	15,92,000
Assessment year 2023 - 2024	
Deemed long term capital gain (amount not utilized in the deposit account up to March 19, 2024)	1,30,000
Income from other sources	18,70,000
	20,00,000

**Illustration 7**

During the previous year 2020 - 2021, X Ltd. sells the following assets:

	Date of sale	Sale proceeds Rs.	Date of purchase	Cost of acquisition Rs.

Rural agricultural land	June 15, 2020	34,00,000	March 1, 1982	2,00,000
Urban agricultural land	November 1, 2020	17,00,000	May 10, 2002	40,000
Shares (not listed)	January 15, 2021	1,62,000	January 10, 2015	62,700
Debentures (listed at Cochin Stock Exchange)	January 12, 2021	67,000	January 10, 2016	54,000

X Ltd. purchases the following assets:

Date of purchase	Assets	Amount invested Rs.
July 10, 2020	Agricultural land	5,00,000
August 1, 2020	Rural Electrification Corporation (REC)	3,00,000
November 10, 2020	Agricultural land	6,00,000
November 15, 2020	Residential house	77,00,000
July 14, 2021	Bonds of National Highways Authority of India (NHAI) (date of redemption July 20, 2020)	42,000

Determine the taxable income for the assessment year 2021 - 2022 on the assumption that income from business is Rs.42,00,000.

### Solution

Capital gain income of X Ltd. will be calculated as follows:

	Agricultural land in urban area Rs.	Non - listed shares Rs.	Listed debentures Rs.
Sale consideration	17,00,000	1,62,000	67,000
Less: Indexed cost of acquisition (Rs.40,000 × 301 ÷ 105, Rs.62,700 × 301 ÷ 240, in the case of debentures indexation benefit is not available)	1,14,667	78,636	54,000
Balance	15,85,333	83,363	13,000
Less: Exemption under section 54EC	Nil	Nil	Nil
Long term capital gain	15,85,333	83,363	13,000

Income computation:

	Rs.
Business income	42,00,000
Long term capital gains (Rs.15,85,333 + Rs.83,363 + Rs.13,000)	16,81,696
Net income (rounded off)	58,81,696

Note: Rural agricultural land situated in India is not a "capital assets". Assuming that agricultural land which is transferred on June 15, 2020 is situated in India, surplus arising on its transfer is not chargeable to tax. In the case of a company, exemption under section 54 and 54B are not available. REC bonds were purchased on August 1, 2020 and the agricultural land is transferred after August 1, 2020. Exemption under section 54EC is, therefore, not available on purchase of REC bonds. NHAI bonds were purchased on July 14, 2021. July 14, 2021 falls after 6 months from the transfer of urban agricultural land. Therefore, investment in NHAI bonds is not qualified for exemption in the case of agricultural land.