

TEST 7: CAPITAL GAIN

Illustration 1

The following buildings (rate of depreciation 10 per cent) are owned by a firm on April 1, 2021:

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

After April 1, 2021, the firm acquires the following assets:

Assets	Date of acquisition	Rate of depreciation	Cost price (Rs.)
Building D	April 10, 2021	10%	78,00,000
Building E	January 10, 2022	5%	90,00,000
Furniture	March 10, 2022	10%	1,20,000

On March 16, 2022, 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 2022 - 2023.

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, 2021:	
Rs.21,00,000 + Rs.6,00,000 + Rs.15,50,700 + any new acquisition within the block in the previous year 2021 - 2022: 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, 2022 for Rs.5,10,00,000. Find out the amount of long term capital gain for the assessment year 2022 - 2023.

Solution

	Rs.
Sale consideration	5,10,00,000
Less: Expenses on transfer	Nil
Less: Indexed cost of acquisition (Rs.42,00,000 × 317 ÷ 100)	1,33,14,000
Long term capital gain	3,76,86,000

Illustration 3

X purchases the following assets on March 10, 2016:

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

On June 10, 2017, he gifts debentures of B Ltd. to his son Y. X dies on April 3, 2019 and as per his will, debentures of A Ltd. are transferred to his son Y. On March 1, 2022, 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 2022 - 2023.

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, 2022 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 (Rs.90,000 × 129 ÷ 105)	1,10,571
Long term capital gain chargeable to tax for the assessment year 2022 - 2023	89,429

Business income chargeable to tax for the assessment year 2022 - 2023 is Rs.1,50,000 (i.e. Rs.3,50,000 - Rs.2,00,000)

Illustration 5

On April 1, 2021, X (34 years) owns two house properties at Agra apart from investment in gold. During the previous year 2021 - 2022, X sells the following assets:

	Gold	Residential house property at Agra
Date of sale	July 10, 2021	June 15, 2021
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 2021 - 2022, find out the tax liability of X for the assessment year 2022 - 2023:

- 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 21 - 22: 317

Solution

	Residential house at Agra Rs.	Gold Rs.
Sale consideration	38,00,000	40,00,000
Less: Indexed cost of acquisition (Rs.7,00,000 × 317 ÷ 129, Rs.10,00,000 × 317 ÷ 109)	17,20,155	29,08,257
Balance	20,79,845	10,91,743
Less: Exemption under section 54	20,79,845	-
Less: Exemption under section 54F ((Rs.30,00,000 - Rs.20,79,845) ÷ Rs.40,00,000 × Rs.10,91,743)		2,51,143
Long term capital gains	Nil	8,40,600

Computation of income and tax liability

	Rs.
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Income from house property	11,00,000
Long term capital gain	8,40,600
Gross total income	19,40,600
Less: Deduction under section 80C	1,20,000
Net income (rounded off)	18,02,600
Tax on net income (20% on 8,40,600 balance 9,62,000)	2,73,020
Add: Health and education cess	10,921
Tax payable (rounded off)	2,83,940

Illustration 6

X sells a residential house at Delhi (no other house is owned by him) on March 20, 2022 for Rs.22,50,000 (cost of acquisition in 2002 - 03 Rs.1,70,000). On July 31, 2022, 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, 2022, 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 2021 - 2022 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 2023 - 2024 and 2024 - 2025 is Rs.15,92,000 and Rs.18,70,000 respectively, determine the taxable income for the assessment year 2022 - 2023, 2023 - 2024 and 2024 - 2025.

Solution

	Rs.
Sale consideration	22,50,000
Less: Indexed cost of acquisition (Rs.1,70,000 x 317 ÷ 105)	5,13,238
Balance	17,36,762
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	13,36,762
Income from other sources	9,72,000
Net income (rounded off)	23,08,762
Assessment year 2023 - 2024	
Long term capital gain	Nil
Income from other sources	15,92,000
Net income	15,92,000
Assessment year 2024 - 2025	

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 2021 - 22, X Ltd. Sells the following assets:

	Date of sale	Sale proceeds Rs.	Date of purchase	Cost of acquisition Rs.
Rural agricultural land	June 15, 2021	34,00,000	March 1, 1982	2,00,000
Urban agricultural land	November 1, 2021	17,00,000	May 10, 2003	40,000
Shares (not listed)	January 15, 2022	1,62,000	January 10, 2015	62,700
Debentures (listed at cochin stock exchange)	January 12, 2022	67,000	January 10, 2016	54,000

X Ltd. Purchases the following assets:

Date of purchase	Assets	Amount invested Rs.
July 10, 2021	Agricultural land	5,00,000
August 1, 2021	Rural Electrification Corporation (REC)	3,00,000
November 10, 2021	Agricultural land	6,00,000
November 15, 2021	Residential house	77,00,000
July 14, 2022	Bonds of National Highway Authority of India (NHAI) (date of redemption July, 20 2027)	42,000

Determine the taxable income for the Assessment Year 2022 - 23 on the assumption that income from business is Rs. 42,00,000.

Solution

Capital gain income of X Ltd. Will be calculated as follows -

Period of holding			
Nature of Capital Gain			

	Agricultural land in urban area Rs.	Non-listed shares	Listed debentures
Sale consideration	17,00,000	1,62,000	67,000
Less: Indexed cost of acquisition (Rs. 40,000 × 317 ÷ 109, Rs. 62,700 × 317 ÷ 240, in the case of debentures indexation benefit is not available)	(116330)	82,816	54,000
Balance	15,83,670	79,874	13,000
Less: Exemption under section 54	Nil	Nil	Nil
Long term capital gain	15,83,670	79,874	13,000

Income computation

	Rs.
Business Income	42,00,000
Long term capital gains	16,76,544
Net Income (rounded off)	58,75,544