Bharat's

CAPITAL GAINS

Under the Income-tax Act, 2025

Law, Practice & Litigation

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By

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Preface

For more than sixty years, capital gains in India had a settled home. It lived in the Income-tax Act, 1961, and an entire architecture of doctrine grew up around a familiar set of numbers — Section 45 for the charge, Section 47 for the transfers that escape it, Section 48 for the computation, Sections 49 and 55 for cost, and the long line of reinvestment reliefs that began at Section 54. A practitioner could find his way across that map in the dark.

Then the Income-tax Act, 2025 renumbered and recast the whole of it. In the months that followed, the question I was asked was almost never "what has changed?" It was quieter, and more anxious: *where has it gone — and does the old learning still hold?* This book is my attempt to answer both, in one place.

My premise is a simple one: for capital gains, the 2025 Act is far more a renumbering and a consolidation than a revolution. The charge survives in Section 67, the carve-outs in Section 70, the computation in Section 72, the reinvestment reliefs in Sections 82 to 89. The decided cases — from *Srinivasa Setty* and *Sunil Siddharthbhai* down through *Balbir Singh Maini*, *Vodafone* and the 2026 *Tiger Global* ruling — continue to apply, *mutatis mutandis*, save where the legislature has deliberately written in an override. So in every chapter I have held the new section and the old one side by side, and tried to show precisely where the continuity holds — and where it quietly breaks.

I have also tried, quite simply, to write the book I wanted on my own desk. One that moves in a single unbroken line: from the bare provision, to the statutory architecture, to the controlling case law, to worked illustrations with real numbers, and finally to the place where the Assessing Officer is most likely to strike. Where the Finance Act, 2026 has intervened — most visibly in the recast of the buy-back regime under Section 69 and in the rate provisions of Sections 196 to 198 — I have flagged the change and the date it takes effect, because in this field the date of the transaction so often decides the tax.

A word on the diagrams. Capital-gains analysis is, at the bottom, a sequence of decisions: Is there a capital asset? Is there a transfer? Is it lifted out by Section 70? In which year is it taxed? What is the cost? Which rate applies? Which exemption is available? That sequence asks to be drawn — and I have drawn it, in thirty flowcharts placed through the book to make each decision-path visible at a glance. They are meant to be read alongside the text, never instead of it.

A work of this kind is never truly finished; it is only handed over. I will be grateful to every reader who points out an error, an omission, or a better way of putting a thing, so that later editions can be made better still. Whatever is useful in these pages owes a great deal to the writers and the judges who built this subject before me. The mistakes that remain are my own.

6th July 2026 CA. (Dr.) AKASH GARG

Why this book belongs on your desk — not your shelf

A client calls. He's sold a flat, and he wants one number: how much tax.

You reach for the section you've quoted for twenty years — and you stop. Under the 2025 Act, what is it called now? Is the exemption still alive? Does *Ace Builders* still apply? Half an hour later you're three circulars deep, your junior is on the old numbers, the CBDT's own FAQ hasn't caught up — and the client is still waiting for a number you used to give in your sleep.

Multiply that one moment by every capital-gains matter on your desk this year. That is the real cost of the transition. Not in theory — in billable hours bled, in client confidence dented, in the quiet dread of quoting the wrong section in a return the department will read for the next six years.

Here is what no one has told you plainly: you have not lost your expertise. The Act renumbered capital gains — it did not reinvent it.

The charge survives. The exemptions survive. Sixty years of Supreme Court and High Court authority still wins your arguments — *mutatis mutandis* — exactly as before. The only thing that changed is the map. This book is that map — and it is the only one that puts both codes in your hand at once.

Open any page and you get:

Both numbers, side by side — "Section 72 of the 2025 Act/Section 48 of the 1961 Act" — so every case you've ever cited still works, and you see in one glance whether a provision is merely moved or actually changed.

The AO's playbook, exposed — every chapter ends at where the Assessing Officer will strike, and hands you the documentation to defend the claim before the notice ever arrives.

Real numbers, not narrative — worked illustrations you can lift straight into a computation, plus 30 decision-flowcharts that turn a tangled provision into a single Yes/No path.

The four desk tools you reach for daily — a complete 1961→2025 concordance, a Finance Act 2026 rate reckoner, a CGAS survival guide, and a cluster-wise case digest.

Now count the cost of not having it. One missed CGAS deposit — by a single day — and your client loses the entire exemption. Crores, gone on a date. One misquoted section in an appeal, and you lose something you can't bill back: the room's belief that you know this law cold. Against stakes like that, this book is the cheapest insurance you will buy all year.

So open it to the section you're working on tonight. Your old law, your new law, and the case that settles it — on the same page, in under a minute.

That is why this book belongs on your desk.

How to Use This Book

This book is built in eight Parts across twenty-six chapters — twenty-four principal chapters and two supplementary ones, 12A and 17A — following the natural order of a capital-gains enquiry: from charge, through computation, to exemption, rate, loss relief and procedure. If you are working a live problem, you can usually turn straight to the chapter you need. If you are new to the subject, you will find the Parts good to be read in sequence, each resting on the one before.

The dual-section convention. Throughout, every provision is cited in the form "Section 72 of the 2025 Act/Section 48 of the 1961 Act." The first reference is the operative law today; the second is the provision under which most of the reported case law was decided. This is the thread that lets you carry six decades of jurisprudence across to the new code with confidence — and see at a glance when a number has merely moved, and when its substance has truly changed.

How each chapter is built. Most chapters follow the same rhythm: a short synopsis; the statutory framework with the bare-Act extract; a scope-and-interpretation analysis anchored in the case law; worked illustrations on hypothetical figures; a litigation map of the points most often disputed; practitioner notes; and a set of key takeaways to close. The key-takeaways boxes are written to stand on their own — read them in a row and you have a rapid revision aid.

The flowcharts. Thirty flowcharts sit at the exact point in the text where their topic arises — the conversion-to-stock-in-trade chart in the year-of-taxability chapter, the cost-of-bonus-and-rights chart in the cost-of-acquisition chapter, and so on. The List of Figures after the Table of Contents shows where each one falls. Every chart distils a decision sequence; the conditions and exceptions live in the prose around it.

Finding your way. Use the Table of Contents for the chapter scheme and the List of Figures for the decision-charts. The Table of Cases and the list of Abbreviations sit together at the end of the book. Cross-references are given by chapter and paragraph, so a related point is never more than a moment away.

A note on the currency of the law. This edition states the position as amended by the Finance Act, 2026. Because rates, thresholds and monetary caps are revised often, always confirm the current figure against the latest Finance Act before relying on any rate or limit stated here.

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Capital Gains in One Sitting

The substance of the entire treatise, distilled into one continuous read — what the law actually says, with worked numbers, so that you finish it knowing how the tax really works.

This overview stands on its own. Read it from the first line to the last and you will hold the working substance of capital-gains taxation under the Income-tax Act, 2025 — what is taxed, how the gain is measured, how to make it shrink or vanish lawfully, what you finally pay, how to report it, and how to defend it. The chapters that follow carry the full detail, the complete figures and the case law; here is the law itself, in plain language, with small worked examples wherever a number makes the idea click.

The idea at the centre

Capital-gains tax is not a tax on owning. It is a tax on **parting with** something you own. An asset can multiply in value in your hands for decades and nothing is due; the charge arises only when you **transfer** it — sell, exchange, give it up. And when it arises, the taxable gain is, at heart, a single subtraction: the **money you received, minus what the asset cost you, minus what you spent improving it, minus the cost of selling.** If the result is negative, it is a capital loss — never taxed, and capable of being carried into future years to soften a later gain.

One distinction governs everything: **being charged is not the same as being taxed.** A sale can trigger the charge (Section 67, the old Section 45) and still bear no tax once an exemption applies. They are two stages, asked in order — first, is the gain charged; second, is the charged gain relieved. An exemption usually only **defers** the levy, so break its conditions later and the tax revives. Hold these as two separate questions and most of the fog clears.

A reassurance that runs through the book: for capital gains, the 2025 Act is overwhelmingly a **renumbering and consolidation**, not a new code. The charge moved from 45 to 67; computation from 48 to 72; the reinvestment reliefs from the famous 54-family to Sections 82–89; the rates from 111A, 112 and 112A to 196, 197 and 198. Decades of court rulings still apply, except where Parliament has deliberately written in an override. If you once half-understood the old law, you are only learning new room numbers.

When the tax wakes up

Four conditions must hold **together** for a gain to be charged: there must be a **capital asset**, a **transfer**, occurring in a **tax year**, producing a **gain**. Miss any one and the charge fails. The charging section now gathers eighteen sub-sections in a single place — the ordinary charge plus a battery of deeming rules: money received under an insurance policy, gains inside non-exempt unit-linked policies, the conversion of an investment into business stock, the first-in-first-out rule for dematerialised shares, the taxation of partnership reconstitution, compulsory acquisition, joint-development agreements and share buybacks. You do not need all eighteen by heart; you need to know that if your situation feels unusual, there is almost certainly a specific sub-section written for it.

A deep principle decides the hardest cases: where the Act gives no machinery to compute an asset's cost, the **charge itself collapses** (the *Srinivasa Setty* “integrated-code” rule). Parliament has reversed this for self-generated goodwill — now expressly costed at nil — but it survives elsewhere and remains a genuine defence when a gain simply cannot be computed in the way the law prescribes.

Is it even a capital asset?

“Capital asset” is defined as widely as language allows — property of any kind — and courts have stretched it to cover goodwill, tenancy rights, options, even domain names. Five categories are carved **out**: stock-in-trade; personal effects in actual use; **rural** agricultural land; and two narrow gold-instrument categories. These are exclusions, not exemptions — the capital-gains machinery never starts at all. But beware the trap inside “personal effects”: jewellery, paintings, archaeological collections and the like are **expressly kept inside** the net even when personal, so the silver kept for Diwali or the family's gold remains a capital asset.

Whether farmland escapes tax turns on a **population-and-distance** test — land beyond prescribed limits from a municipality, measured by straight-line aerial distance, can be rural and outside the net — and on proof of **actual cultivation**. A revenue record marked “agricultural” is necessary but never sufficient; the file must show crops, not just paper.

The single most litigated boundary in Indian direct tax is **capital asset versus stock-in-trade** — investor versus trader. The same shares yield gentle capital gains in an investor's hands and full-rate business income in a trader's. The line is drawn by **intention and conduct**: how often you deal, how long you hold, where the money came from, how you account for it. For listed shares held over twelve months, a longstanding circular (No. 6/2016) lets a taxpayer's consistent “investor” treatment stand — the strongest shield in any reclassification fight.

Virtual digital assets — crypto, NFTs — are expressly **inside** the net, but taxed on uniquely harsh terms set out later.

What counts as a transfer — and what does not

“Transfer” is among the widest words in the Act. It reaches not only sale and exchange but **relinquishment**, the **extinguishment of rights**, compulsory acquisition, the conversion of an investment into business stock, the contribution of an asset to a firm, and the **indirect transfer** of Indian assets dressed up as the sale of an offshore holding company. This breadth is where anti-avoidance doctrine and the general anti-avoidance rule first bite.

Against that breadth sits a deliberate list of transactions **not regarded as transfer**: gifts and inheritances; transfers between a holding company and its wholly-owned subsidiary; and a family of amalgamations, demergers and business conversions. These carve-outs are how ownership is rearranged within families and groups **without** a tax event — provided the conditions are met and, crucially, **kept** for the years that follow, because breaking them later can pull the gain back into charge.

Which year does the gain belong to?

Timing fixes both the rate regime and the interest exposure, so the Act pins down the **year of taxability** with care. Hand land to a builder under a **registered** joint-development agreement, and — if you are an individual or HUF — the gain is deferred to the year the **completion certificate** issues, not the year you signed [Section 67(14)–(16)]; an **unregistered** agreement is treated, after the *Balbir Singh Maini* ruling, as no transfer at all. Where a sale agreement is backed by substantial payment and delivery of possession, the transfer can be anchored to the **agreement date** (the *Sanjeev Lal* principle) — which can decide whether you fall before or after the 23 July 2024 rate line. On **compulsory acquisition**, the initial compensation is taxed in the year of receipt and any enhanced compensation in its own later year. On **conversion** of an investment into stock-in-trade, the market value at conversion is frozen as the deemed sale price, but the gain is taxed only when the converted stock is finally sold.

A worked number. You give your plot to a builder in 2025 under a **registered** development agreement, to receive four flats once the project is built. No capital-gains tax arises in 2025. It falls only in the year the **completion certificate** is issued — say 2028 — on the value of your share at that point. Sign the very same arrangement **unregistered**, and there is no taxable transfer at all until something more happens. The stamp paper, quite literally, moves the tax by years.

Short-term or long-term: the cheapest decision you will make

The law treats the patient owner far more kindly, which makes the **holding period** the most under-used planning tool an ordinary person owns. The thresholds are now clean: **twelve months** for listed shares and equity-fund units; **twenty-four months** for nearly everything else — property, gold, unlisted shares. The old thirty-six-month bucket is gone. For inherited or gifted assets the clock does not restart: you **inherit the previous owner's holding period**, so a flat your parent bought decades ago is long-term in your hands from day one.

A worked number. Priya buys listed shares for ₹6,00,000 and they rise to ₹9,00,000 — a ₹3,00,000 gain. Sell at **eleven months** (short-term) and she pays 20 per cent: ₹60,000. Sell at **thirteen months** (long-term) and the first ₹1,25,000 is tax-free, leaving ₹1,75,000 taxed at 12.5 per cent: ₹21,875. Two months of patience saves her ₹38,125 — for doing nothing at all.

Measuring the gain: the master formula

Computation is that single subtraction, refined in four directions.

The sale price the law may impose. You cannot simply write down a low figure. For land or buildings, if the **stamp-duty value** exceeds your stated price by more than a **10 per cent** tolerance, that higher value is **deemed** to be your sale consideration (Section 78, the old 50C). A sister rule can then tax the **buyer**

separately on the bargain element as income from other sources — so under-pricing a property quietly creates tax on **both** sides of the deal. You may challenge the stamp value through a valuation officer.

A worked number. You sell a plot for ₹50,00,000, but its stamp-duty value is ₹60,00,000 — a 20 per cent gap, beyond the 10 per cent cushion. The law treats your sale price as ₹60,00,000. If the plot cost you ₹35,00,000, you are taxed on a ₹25,00,000 gain, not ₹15,00,000 — and the buyer can be taxed on the ₹10,00,000 difference too. Had the stamp value been ₹54,00,000 (an 8 per cent gap), your declared ₹50,00,000 would have stood.

What it cost you. For purchased assets, the actual cost. For **inherited or gifted** assets, you step into the previous owner's cost. For assets owned a very long time, you may substitute the **fair market value as on 1 April 2001** for an ancient cost. For listed equity held since before **1 February 2018**, a separate grandfathering protects the value built up to that date. Used correctly, these substitutions are among the largest and quietest gain-reducers in the whole book.

A worked number. Your father bought land in 1985 for ₹2,00,000; you inherited it in 2015 and sell in 2026 for ₹90,00,000. Your holding period runs from **1985**, so it is long-term from the start. And instead of the ₹2,00,000 historic cost you may use the land's fair market value as on 1 April 2001 — say ₹12,00,000 (to be fixed by a registered valuer). That single substitution moves the taxable gain from ₹88,00,000 down to ₹78,00,000.

A worked number. You bought a listed share in 2012 for ₹100; its market value on 31 January 2018 was ₹400; you sell in 2026 for ₹600. The grandfathering lets you treat ₹400 as your cost — so only the ₹200 of gain that arose **after** January 2018 is taxed, not the full ₹500. The appreciation you earned before the rule began is protected.

Indexation and the great watershed. For years, inflation “indexation” lifted your cost and softened the gain. From **23 July 2024** that relief is largely withdrawn. It survives in one narrow but valuable case: a resident individual or HUF selling **land or a building acquired before that date** computes the tax **two ways** — 12.5 per cent without indexation, and 20 per cent with indexation — and pays the **lower**. The rule of thumb is absolute: always run both, because for long-held property the indexed route still often wins.

A worked number. A resident sells a flat for ₹1,10,00,000 that cost ₹30,00,000 long ago. Method A (no indexation): gain ₹80,00,000 at 12.5 per cent = ₹10,00,000. Method B (with indexation): suppose the official index lifts the cost to about ₹65,00,000, leaving a ₹45,00,000 gain at 20 per cent = ₹9,00,000. She pays the **lower** — ₹9,00,000 — and saves a lakh by checking both.

Improvements and selling costs. Genuine **capital** improvement — a new floor, a boundary wall, an added room — is added to cost, and each improvement is indexed from its **own** year; but routine repairs never count. Selling costs — brokerage, legal fees, the seller's stamp duty, valuation charges, even an NRI's travel to complete the sale — are deductible. The securities transaction tax is expressly **not** deductible, and interest already claimed elsewhere cannot be claimed again. A practical commandment governs all of it: **pay through banking channels, never cash, and keep every receipt** — the deduction lives or dies on the documentation.

A worked number. Over the years you spend ₹5,00,000 adding a room (2012) and ₹3,00,000 building a boundary wall (2018): both are **capital** improvements, added to your cost — and where indexation applies, each is indexed from its own year. But the ₹2,00,000 you spent repainting and fixing leaks is **revenue** — ordinary upkeep — and adds nothing to cost. The bills you keep for the first two save tax; the receipts for the third do not, however large.

A special kindness for depreciable assets. When a business sells a depreciated asset, the law deems the gain short-term for computation. Yet the courts (*Ace Builders*, *Dempo*) have held that if the asset was actually held long enough, its **long-term character survives for claiming exemptions** — a valuable, frequently-disputed point worth knowing if a factory building or plant is sold.

The assets that play by their own rules

A cluster of modern instruments and corporate events follow their own regimes, and getting the basket wrong is a common, expensive error.

Debt funds and market-linked debentures are, by statute, **always short-term and taxed at slab rates** — no indexation, no long-term reliefs, regardless of how long you held them. **Slump sale** — selling an entire business as a going concern for one lump sum — is computed on the undertaking's **net worth** (book values, with self-generated goodwill taken at nil), needs a mandatory accountant's certificate, and where net worth is negative the loss is added back to the gain rather than ignored.

On the corporate side, **company buybacks** have changed regime four times in a decade; from **1 April 2026** they are once again taxed in the **shareholder's** hands as capital gains, with an additional layer of tax on promoters. **Liquidation** proceeds are taxed to the shareholder after stripping out the dividend element. The **indirect-transfer** rule catches offshore deals that draw more than half their value — above a ₹10 crore floor — from Indian assets; and the 2026 **Tiger Global** ruling settled that a tax-residency certificate is necessary but **not sufficient** — genuine commercial substance, not paperwork, controls treaty relief, with avoidance-era grandfathering keyed to the date of investment.

A worked number. You receive ₹10,00,000 in a share buyback. If it completed on **30 September 2024**, it fell in the deemed-dividend regime — the whole ₹10,00,000 taxed at your slab rate, with no cost allowed. The same ₹10,00,000 received on or after **1 April 2026** is taxed instead as a **capital gain** — your cost is subtracted, the holding-period rate applies, and a promoter pays a little extra. The date the money actually reaches you, not the board resolution, decides which world you are in.

Income from a **REIT or InvIT** keeps its **character** as it flows to you — interest stays interest, rental stays rental, capital gain stays capital gain. The recurring, avoidable trap is the unit-holder who reports the entire distribution as “dividend” and then receives a mismatch notice; the trust's annual statement is the document to reconcile against, every year.

The reliefs that can wipe out the tax

This is the heart of practical planning. The reliefs are generous and built for ordinary families — but every one rewards foresight and punishes the last-minute.

Roll a gain into a home. Sell a **residential house** and reinvest the **gain** into another house, and the gain is exempt (Section 82). Sell almost **any other** long-term asset and reinvest the **entire net sale proceeds** into a house, and the same relief opens (Section 86 — which also forbids owning more than one other house). The difference between “gain” and “net proceeds” is where people slip.

A worked number. Sell your old house for ₹1,50,00,000 that cost ₹50,00,000 — a ₹1,00,00,000 long-term gain. Under Section 82 you need only put the **gain** (₹1,00,00,000) into a new house to exempt it entirely; the other ₹50,00,000 — your original capital back — is yours to keep and spend freely. Contrast Section 86 below, where, because the asset sold was **not** a house, the **whole** ₹1,50,00,000 would have had to be reinvested for full relief.

A worked number. You sell gold for ₹80,00,000 that cost ₹30,00,000 — a ₹50,00,000 long-term gain — and want the house relief under Section 86. To exempt the **whole** ₹50,00,000 you must put the **entire ₹80,00,000** into the new house. Invest only ₹40,00,000 and the exemption is proportionate — just ₹25,00,000 of the gain is spared, and the rest is taxed.

Both house reliefs are capped at **₹10 crore** — proof they are meant for real families, not mega-deals. A **once-in-a-lifetime** option lets a modest gain (up to ₹2 crore) be spread across **two** homes. “One residential house” has been read to include adjacent flats forming a single living unit; a purchase funded by your own gains but registered in a **spouse's** name can qualify; and where a builder delays, substantial payment within the window protects the claim. Even a development-authority allotment counts as “construction”.

The bond route. Long-term gains on land or buildings can be sheltered by investing up to **₹50 lakh** in specified government-backed bonds (REC, PFC, IRFC and the like) **within six months** of the sale, locked for **five years** (Section 85). Each co-owner gets a separate ₹50 lakh cap. It is also the natural mop-up for gains that overflow the ₹10 crore house cap — but the bonds must not be pledged or sold early, or the relief is clawed back.

Agricultural and business land. Farmland is handled in layers, and walking them in order saves tax. First, **rural** agricultural land is not a capital asset at all — no gain arises. Next, **urban** agricultural land that an individual or HUF cultivated for at least two years and that is **compulsorily acquired** is fully exempt. Land taken under the 2013 land-acquisition law is, by a separate route, broadly exempt outright — any land, any owner, no reinvestment. Only if none of these apply do you reach the rollover reliefs: reinvesting agricultural-land proceeds into new agricultural land is exempt and — uniquely among the reliefs — covers **both** short and long-term gains (Section 83); industrial undertakings shifting out of urban areas have their own rollover (Sections 87–88).

Compulsory acquisition: split the cheque. When the government takes your land, the money arrives in parts, and each part is taxed differently. The **principal** compensation is a capital gain in the year of receipt; any **enhanced** compensation is taxed in its own later year; the **solatium** (the statutory premium for forced acquisition) is exempt for an individual or HUF; and the **interest** is taxed as other income, but only after a 50 per cent standard deduction. Beware a popular myth here — there is no blanket rule that half of the whole compensation is tax-free; only the interest gets the 50 per cent, and the solatium its own exemption.

A worked number. Your land is acquired for ₹50,00,000 principal, ₹5,00,000 solatium and ₹8,00,000 interest. The ₹50,00,000 is a capital gain (eligible for the reinvestment reliefs); the ₹5,00,000 solatium is exempt; and of the ₹8,00,000 interest, only ₹4,00,000 is taxable after the 50 per cent deduction. Three different treatments, one cheque.

The deposit deadline that breaks hearts. If you cannot complete the reinvestment **before your return is due**, you must first park the unutilised gain in a **Capital Gains Account Scheme** deposit at a bank. Miss this by a single day and the exemption is lost — no appeal, no condonation — even if you buy the property a month later.

A worked number. You sell a flat in August 2026 with a large gain, planning to buy a new home, but the new purchase will only close in December. If the new home is not bought (or the money not deposited in a Capital Gains Account) **by the date your return is due**, the exemption is gone — the December purchase cannot rescue it. The fix is one line in a diary: **deposit first, file second.**

The strings attached. Every reinvestment relief carries a **lock-in** — typically three years on the new asset, five on the bonds, longer for some corporate reliefs. Sell too soon, pledge the bonds, or breach a covenant, and the exemption is **clawed back**: the earlier-exempt gain is taxed in the year of breach (and, in one corporate case, the original year is reopened). The discipline the book teaches is simple — claim at filing, then **defend across the lock-in's whole life** with an annual confirmation that no condition has been broken. Helpfully, an unutilised deposit left behind on the **death** of the taxpayer is not taxed in anyone's hands — it passes as part of the estate.

When a loss is a kind of asset

Losses are not wasted, but they travel only in fixed channels. A **short-term** capital loss can be set against **any** capital gain — short or long-term. A **long-term** loss can shelter **only** long-term gains. Capital losses can never touch salary, business profit or other income. Unused losses **carry forward for eight years** — but **only if the return was filed by the original due date**; a late return forfeits the carry-forward, though set-off **within** the same year survives even on a late return. Speculation losses run on a shorter four-year leash. And crypto losses are walled off entirely — no set-off against anything, no carry-forward.

A worked number. You have a ₹2,00,000 **short-term** loss and a ₹2,00,000 **long-term** gain on a property. The short-term loss can wipe out the long-term gain, saving 12.5 per cent — ₹25,000. Reverse the labels, though, and it fails: a **long-term** loss could not have sheltered a short-term gain. The category, not just the amount, decides the saving.

Because India has **no wash-sale rule**, deliberately booking a loss — or a tax-free gain — and repurchasing the same security at once is permitted, which turns disciplined year-end **harvesting** into a genuine, lawful tool.

A worked number. A portfolio sits on ₹5,00,000 of unrealised long-term equity gain. Sell it all in one year and ₹3,75,000 (above the annual ₹1,25,000 shield) is taxed at 12.5 per cent — ₹46,875. Instead, harvest ₹1,25,000 of gain each year for four years, repurchasing immediately: every slice sits inside the yearly tax-free shield, and the total tax is **zero**.

What you finally pay: the rates

The rate landscape reduces to **three baskets**. Listed equity sold **short-term** (with securities transaction tax paid) is taxed at **20 per cent** (Section 196). **General long-term** gains — property, gold, unlisted shares — are taxed at **12.5 per cent** (Section 197). Listed equity held **long-term** is taxed at **12.5 per cent, with the first ₹1.25 lakh of such gain each year entirely tax-free** (Section 198) — the shield that renews annually.

Three refinements carry the real weight. For resident individuals and families selling land or a building bought before 23 July 2024, the **lower-of-two** computation applies. A **surcharge cap** of 15 per cent keeps the effective rate on these gains gentle even at the highest incomes — long-term gains top out under 15 per cent all-in, against the roughly 40-per-cent-plus that ordinary short-term gains can attract for top earners. Transactions on an international-finance-centre exchange enjoy further relief. And, apart from everything else, **virtual digital assets are taxed at a flat 30 per cent**, with no deduction except cost, no set-off and no carry-forward — the single harshest rate in the Act.

A worked number. Buy one crypto-asset for ₹3,00,000 and sell for ₹5,00,000: the ₹2,00,000 gain is taxed flat at 30 per cent — ₹60,000 — with no ₹1.25 lakh shield and no expenses allowed. And if a second coin lost you ₹1,00,000 the same year, you still cannot net it: the ₹60,000 stands in full. Compare an identical ₹2,00,000 gain on long-term listed shares — sheltered by the annual shield, possibly **nil**.

One more kindness: where a resident's other income falls below the basic exemption limit, the unused slack first reduces the special-rate gain before the rate bites (marginal relief).

A worked number. For a top-bracket earner the surcharge cap is worth more than the headline rates suggest. An ordinary **short-term** non-equity gain can carry an all-in effective rate above 40 per cent once full surcharge and cess pile on; a **long-term** gain, with surcharge frozen at 15 per cent, stays under about 15 per cent all-in. For a wealthy seller, crossing into long-term is the difference between roughly a seventh and nearly half of the gain.

What happens when you sell — asset by asset

The same principles land differently on different assets. Here is the whole machine applied, in plain terms, to the things people actually sell.

Your house or a plot. Long-term after 24 months; taxed at 12.5 per cent, or — if bought before 23 July 2024 by a resident individual or HUF — at the **lower** of 12.5 per cent un-indexed and 20 per cent indexed. The big reliefs are the house rollover (Section 82) and the ₹50 lakh bonds (Section 85). The classic traps: the stamp-duty floor, and missing the deposit-account deadline.

Listed shares and equity mutual funds. Long-term after just 12 months; the first ₹1.25 lakh of long-term gain each year is free, the rest taxed at 12.5 per cent. Short-term (under 12 months) is 20 per cent. No reinvestment relief — but the annual shield, harvested deliberately, is the planning tool. Keep the investor-not-trader line clean.

Debt mutual funds and market-linked debentures. A nasty surprise for many: regardless of how long you hold them, the gain is **always short-term and taxed at your slab rate** — no 12.5 per cent, no indexation, no rollover relief. Treat them as fully taxable from day one when you plan.

Gold, jewellery and bullion (including gold funds and ETFs). Long-term after 24 months at 12.5 per cent. Physical gold and jewellery are capital assets even though they sit at home. The gain can be rolled into a house under Section 86 — but only if you reinvest the **whole** sale value, not merely the gain.

Unlisted shares and start-up ESOPs. Long-term after 24 months at 12.5 per cent; short-term at slab rates. Watch the deeming rule that can substitute a higher fair value as your sale price when unlisted shares change hands cheaply, and the separate point at which ESOPs are first taxed as salary — only the **later** rise is a capital gain.

Crypto and other virtual digital assets. A flat 30 per cent on the gain, no holding-period benefit, no shield, no expense except cost, and no setting losses off against anything — not even against another coin. The harshest treatment in the Act; plan for it before you trade, not after.

Agricultural land. Often outside the net entirely if it is genuinely rural; generous exemptions for urban farmland that is compulsorily acquired or taken under the 2013 law. But the file must prove real cultivation — a record marked "agricultural" is not enough on its own.

Inherited or gifted assets. Inheritance and gifts are not themselves taxed; the gain is tested only when **you** later sell. You take the previous owner's cost and holding period, and you may use the 1 April 2001 value for old assets — so the eventual tax is usually far smaller than the headline price suggests.

Who you are changes the answer: families, joint owners and NRIs

The third of the three questions — **who are you** — quietly reshapes the tax, and three situations come up constantly.

Joint owners are separate taxpayers. A property or portfolio in two names is **two** returns, each owner taxed on their share of the gain — and, valuably, each owner gets a **separate** ₹50 lakh bond limit and a **separate** ₹1.25 lakh annual equity shield. A couple who co-own can shelter twice as much, entirely lawfully, provided the ownership and the funding are genuine.

The HUF is its own person. A Hindu Undivided Family is a distinct taxpayer with its own basic exemption and its own annual shields. Holding some family assets in the HUF and some individually can multiply the small recurring reliefs — again, only where the ownership is real, not a paper arrangement.

Inheritance and gifts are not the taxable moment. Receiving an asset by will or as a gift from a relative is outside the net; the gain is tested only when **you** later sell it — on the previous owner's cost (including their improvements) and their holding clock, with the 1 April 2001 value available for old assets. This is why an inherited property so often carries a far smaller tax than its sale price suggests.

NRIs sell under special rules. A non-resident who bought Indian shares or debentures in foreign currency gets a special **foreign-currency computation** that neutralises mere rupee depreciation. But a non-resident seller faces tax deducted at source by the buyer — often on the gross price — which can lock up far more cash than the real tax. The remedy is to apply **in advance** for a lower-deduction certificate so the deduction tracks the actual gain. Treaty relief may reduce or remove Indian tax, but after the Tiger Global ruling it must be backed by genuine **substance**, not merely a residence certificate.

A worked number. An NRI sells an Indian flat for ₹1,00,00,000 on which the real long-term gain is only ₹15,00,000. Without planning, the buyer may deduct tax on a far larger base and tie up lakhs until a refund arrives. A lower-deduction certificate, obtained before closing, aligns the deduction to the ₹15,00,000 actual gain — the same tax, without the cash-flow trap.

A few myths worth killing

Half of capital-gains trouble comes from confident misbeliefs. The book quietly demolishes the common ones. **"All farmland is tax-free"** — no; only genuinely rural land escapes, and urban farmland is taxable unless a specific exemption applies. **"I can invest ₹50 lakh in bonds in this year and ₹50 lakh next year and exempt a crore"** — no; the cap is ₹50 lakh across the year of sale and the following year combined. **"Half of all land-acquisition money is exempt"** — no; only the interest gets a 50 per cent deduction, and the solatium its own exemption — the principal is fully a capital gain. **"Buyback proceeds are tax-free in my hands"** — not from 1 April 2026, when they become a taxable capital gain again. **"If I just don't show it, who will know?"** — the department's pre-filled statement already lists most large transactions; the mismatch finds you. And **"debt funds get the 12.5 per cent long-term rate"** — they do not; they are slab-taxed however long you hold.

Doing it on paper: reporting and procedure

A correct computation reported carelessly invites a dispute. Capital gains cannot be declared in the simplest return form; they need the proper schedule, reported transaction by transaction — and, for listed equity, scrip by scrip with each security's identifier. The most valuable habit in the entire book lives here: **reconcile your return against the tax department's pre-filled data (the Annual Information Statement) before you file.** Thirty minutes of matching prevents months of automated mismatch notices, and an unexplained gap can turn a limited query into a full scrutiny.

The deposit-account scheme has its own suite of forms and an absolute utilisation clock. When property changes hands, the buyer deducts tax at source — one per cent above a threshold value — and a seller whose real gain is small can apply **in advance** for a **lower-deduction certificate**, so the deduction tracks the true liability rather than the gross price. Where capital-gains tax is paid in the very next advance-tax instalment after the sale, a special relaxation can spare the usual interest for the shortfall — worth knowing for a large, late-in-the-year sale.

Two more procedural points catch people out. A **slump sale** requires a chartered accountant's certificate (the prescribed form) filed with the return — without it, the relief is vulnerable. And once your total assets cross a one-crore threshold, the return asks for a statement of assets and liabilities — a disclosure, not a tax, but one that must reconcile with everything else you have filed.

A worked number. You buy a flat for ₹80,00,000. As the **buyer**, you must deduct 1 per cent — ₹80,000 — and deposit it against the seller's account; the seller then claims it back against their tax. Forget to deduct and the liability lands on **you**, with interest. If the seller is an NRI, the deduction is instead at the full capital-gains rate on the gain — far larger — which is exactly why an NRI seller arranges a lower-deduction certificate first.

When the department disagrees

If a dispute arises, a small set of principles decides most of them. The burden first lies on the taxpayer to establish genuineness with documents; once that is discharged, it shifts to the Revenue, and **suspicion alone is never enough**. Legitimate tax planning is permitted — only artificial, substance-free arrangements are struck down. The general anti-avoidance rule is a heavy weapon: it needs senior approval, an approving-panel process, applies only above a ₹3 crore tax benefit, and dissolves more often than not under procedural scrutiny; investments made before 1 April 2017 are protected by date-based grandfathering.

In valuation fights, the officer may bring a government valuer, but a vital safeguard works as a **one-way ratchet**: that valuer can never push your sale value **above** the stamp-duty figure already on the table — the worst case is simply what was already proposed, which makes a reference all but risk-free for the taxpayer. Beyond the assessment lie ordinary rights of appeal (typically within thirty days), a stay of demand on paying the admitted tax, and rectification of obvious errors.

A worked number. The officer doubts the 1 April 2001 value you used and refers it to a departmental valuer. Because of the ratchet, even a hostile valuation cannot lift your taxable sale figure above the stamp-duty value the officer had already proposed — so asking for the reference can only help you, never hurt. Knowing this turns a frightening letter into a routine one.

But the deepest lesson of the book is a discipline, not a remedy: **the case is won at the time of the transaction, not at the time of the notice.** The invoice, the bank trail, the valuation report, the photographs and the agreements must be built when the asset is bought and sold — because by the time a query lands, the evidence either exists or it does not, and no argument can manufacture it afterwards.

How to actually decide

Distil the thousand pages to their marrow and a handful of habits protect almost anyone. Before selling anything that has grown in value, settle the **three questions** the whole subject turns on — **when** are you selling (which fixes the rate regime around the 23 July 2024 line), **what** are you selling (which fixes the holding period and the rate), and **who** are you (which fixes the reliefs you may claim). Test whether a little **patience** carries the asset into the cheaper long-term bracket. See whether a **reinvestment relief** fits — a home, the bonds, the annual equity shield — and diarise its deadlines, the deposit cut-off above all. And **open a documentation folder on the day you acquire**, not the day a notice arrives.

The Income-tax Act, 2025 is intimidating because it is **large**, not because it is **hostile**. Learn the levers set out here and you already understand more about capital gains than most people who will ever pay the tax. Then do the one thing no book can do for you: take your **actual numbers** to a qualified professional. This is the map; your adviser knows the ground; and the decisions, in the end, are yours to make well — and to keep more of what is rightfully yours.

A note for the reader: this is a plain-language distillation of the law as this book explains it, for the tax year it addresses, and is not individual tax or legal advice. The worked examples are illustrative and simplified — some figures (such as indexed costs and 2001 fair market values) are assumed for clarity and must be established from official indices and valuations in a real case. Rates, limits and provisions may change with future amendments and notifications. For any actual decision, verify the current law and consult a qualified professional with the specific facts of your case.

Capital Gains (Income-tax Act, 2025) — Bare Act Extracts: Section-wise Page Index

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Income-tax Act 1961 ↔ 2025
Capital Gains — Quick-Reference Mapping Table

Effective date: The Income-tax Act, 2025 came into force on 1 April 2026 — applicable from Tax Year 2026-27. For periods before that date, the Income-tax Act, 1961 continues to apply. Rates are fixed by the Finance Act, 2026.

1961 Act (Old Section)	2025 Act (New Section)	Subject Matter	Book Chapter
1. Definitions			
2(14)	**2(22)**	Capital Asset — now expressly includes Virtual Digital Assets	Chapter 2
2(29A)	**2(67)**	Long-Term Capital Asset	Chapter 2
2(42A)	**2(101)**	Short-Term Capital Asset — 24/ 12 months holding	Chapter 2
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2. Charging Architecture			
45	**67**	Chargeability of Capital Gains — the deeming provisions formerly in s.45(1A) to 45(5A) and s.9B are now consolidated into a single section 67 (eighteen sub-sections)	Chapters 1, 5
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46	**68**	Distribution of assets on liquidation — now on a capital-gains basis	Chapter 12
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3. Computation Engine			
47	**70**	Transactions not regarded as transfer	Chapter 4
47A	**71**	Withdrawal of exemption	Chapter 17
48	**72**	Mode of computation of capital gains	Chapter 6
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1961 Act (Old Section)	2025 Act (New Section)	Subject Matter	Book Chapter
55	**90**	Meaning of "adjusted", Cost of Improvement and Cost of Acquisition	Chapter 9
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50	**74**	Depreciable assets — computation	Chapter 11
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54D	**84**	Compulsory acquisition of land and buildings	Chapter 16
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54F	**86**	Investment in a residential house	Chapter 13
54G	**87**	Shifting of industrial undertaking from an urban area	Chapter 16

1961 Act (Old Section)	2025 Act (New Section)	Subject Matter	Book Chapter
54GA	**88**	Shifting of industrial undertaking to a Special Economic Zone (SEZ)	Chapter 16
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111A	**196**	Short-term gains on equity (STT-paid) — STCG at 20%	Chapter 18
112	**197**	Long-term gains — general (LTCG) at 12.5%; transitional choice for land/building: 20% with indexation or 12.5% without — whichever is more beneficial	Chapter 18
112A	**198**	Long-term gains on equity (STT-paid) — 12.5% above ₹1.25 lakh	Chapter 18
7. Other Relevant Provisions			
115UA / 115UB	**223**	Business Trust — REITs and InvITs	Chapter 12A
70–80 (Ch. VI)	**108–115, 121**	Set-off and carry-forward of losses	Chapter 17A
2nd proviso to s. 48 / CII	**Schedule II**	Indexation / Cost Inflation Index — now in Schedule II	Chapters 6, 8

Notes

1. Section 67 (2025) absorbs all sub-sections of the old section 45 — insurance compensation, conversion into stock-in-trade, introduction of an asset into a firm, reconstitution, and compulsory acquisition / JDA deeming provisions.
2. The entire body of case law under the 1961 Act (Supreme Court and High Court decisions) continues to apply mutatis mutandis to the 2025 Act, except where a specific legislative override has been introduced.
3. Indexation now sits in Schedule II (replacing the second proviso to section 48); for assets transferred on or after 23 July 2024, the rate is generally 12.5% without indexation.