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SLUMP SALE

SECTION 2(42C): DEFINITION

"Slump Sale" means

- the transfer
- of one or more undertakings
- as a result of the sale
- for a **lumpsum consideration**
- without values being assigned to the individual assets and liabilities in such sale.
- It has been provided that if the agreement for transfer of one or more undertakings
- determine the values of some assets or liabilities
- and it is provided in the agreement that the values are determined for the sole purposes of payment of stamp duty, registration fees or such similar taxes
- then this will not amount to assignment of values to individuals assets and liabilities.
- Normally, the agreement for transfer will specify the values of immovable properties for the payment of stamp duty and such specification of values does not amount to assignment of values.

SECTION 50B: SPECIAL PROVISION FOR COMPUTATION OF CAPITAL GAINS IN CASE OF SLUMP SALE

- Capital gains shall be **taxable** in the previous year in which the **slump sale is effected**.
- **Nature of capital gains** will depend on the **period of holding of the *undertaking*** transferred by way of slump sale. If the undertaking is held for more than 36 months immediately preceding the date of transfer, then the capital gains shall be long term. This is irrespective of the fact that the undertaking consist of certain assets which are short term capital assets.
- No profits under the head P/G/B/P shall arise in case of a slump sale even if stock is transferred in slump sale.
- The cost of acquisition and cost of improvement of the undertaking shall be the "net worth" of the undertaking.

- **The benefit of indexation shall not be available.**

- Capital Gains = "Slump sale consideration" **minus** "Net worth of the Undertaking or division"

- "Net worth" = Aggregate value of total assets of the undertaking or division transferred ***minus*** Value of liabilities of the undertaking or division transferred as appearing in its books of account.

- **Revaluation of assets shall not be considered while computing the "net worth", i.e., revaluation of assets shall be ignored for computing the "net worth", irrespective of the fact that revaluation is done in the current year or in past years.**

- For computing the "net worth", non depreciable assets are to be taken at their book values.

- For computing the "net worth", in case of depreciable assets, the written down value of such assets shall be computed as per section 43(6)(c)(i)(C).

- *Transferor can carry forward the **unabsorbed losses** and **unabsorbed depreciation** of the transferred undertaking.*

SECTION 43(6): WDV OF BLOCK OF ASSETS

Section 43(6) which defines the written down value of Block of assets has been amended. It has been provided in section 43(6)(c)(i)(C) that **the written down value of the transferor in case of slump sale shall be reduced by the following:**

Actual cost of the assets falling within that block transferred by way of slump sale as reduced by

Less: **depreciation actually allowed upto assessment year 1987-88 in respect of the asset transferred.**

Less: **depreciation that would have been allowable for assessment year 1988-89 and future assessment years as if the asset was the only asset in the block of assets.**

However, the above reduction shall be limited to the written down value of Block of assets.