Capital Gain on Transfer of Shares & Equity Oriented Mutual Funds

The mode of taxing capital gain on shares and mutual funds are little different from other assets:

1. Long term capital assets :

   If an assessee hold shares / mutual funds for more than 12 months, it will be considered as long term asset.

2. Short term capital assets:

   If an assessee hold shares / mutual funds for not more than 12 months, it will be considered as short term asset. [Holding for a period of 12 months will be taken as short term].

Tax aspects of capital gain

1. Long term capital gain on transfer of shares and mutual funds are exempt from tax under sec 10 [38].

2. Short Term Capital Gain on transfer of shares and mutual funds are taxable @15% under section 111 A.

The above provisions are applicable when such transactions are subject to Securities Transaction Taxes. In other words, sale should be effected through a recognised stock exchanges / mutual funds to get the above exemption / scheme.

Important points to be noted:-

1. Short term capital gain on transfer of shares/mutual funds as mentioned above is taxed at a flat rate of 15%.

2. Short Term Capital Loss on transfer of Shares / Mutual Funds can be set off against any other short term / long term capital gains.

3. Even though the long term capital gain on transfer of shares / mutual funds are exempt u/s 10 [38], the details are to be furnished with the relevant Income Tax Return.

4. As the Long Term Capital Gains are exempt from Tax, Long term capital Losses can not be set off nor can be carry forwarded.

5. Period of holding is taken from the date of purchase and the date of sale will be taken as 1 day prior to the actual sale.

6. If the shares / mutual funds are purchased on different dates at different prices, it will be assumed as the shares which are purchased first are sold first. The cost of acquisition shall be ascertained on FIFO basis.

7. Securities Transaction Tax paid on purchase / sale of shares will not form a part of cost purchase nor as an expense of transfer.

8. Cost of acquisition of bonus shares will be taken at Nil.

9. Sale of Futures and Options are taxable under the head ' Capital Gain' or 'Business or Profession' depending on case to case basis.

<u>Computation of Capital Gain</u>

Sale value	xxxx
Less Cost of acquisition	xxxx
Less Cost of Improvement	xxxx
Less Expenses on Transfer	xxxx

Capital Gain [balance]	**xxxx**
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Example:-

1. Mr. X is having a Short Term Capital Gain of Rs. 275,000/- on account of sale of shares for the p/y 2012-13 . He does not have any other Income. Calculate his tax liability for the a/y 13-14.

Solution :-

Total income	= 2,75,000/-
Less basic exemption	= 2,00,000/-
Balance Income	= 75,000/-
Tax @ 15%	= 11,250/-
Cess 3%	= 337.5
Total Tax liability	= 11,560/- [Rounded to nearest Rs. 10].

2. Mr. X is having a Short Term Capital Gain of Rs. 50,000/- on account of sale of shares for the p/y 2012-13 . His income from other source is Rs. 2,25,000/-. Calculate his tax liability for the a/y 13-14.

Solution :-

Total income	= 2,75,000/-
Less basic exemption	= 2,00,000/-
Balance Income	= 75,000/-
Tax on ordinary income @ 10%	= 2500/-

[Total ordinary income Rs. 2,25,000 minus exemption Rs. 2,00,000, balance ordinary income = 25,000/-]

Tax on STCG @ 15%	= 7500/-
Total Tax	= 10,000/-
Cess 3%	= 300/-
Total Tax liability	**= 10300/-**

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