



## **EXEMPTION TO CAPITAL GAINS ON TRANSFER OF AGRICULTURAL LAND**

### **Introduction**

A farmer wants to shift his agricultural land for certain reason and hence he sold his old agricultural land and from the sale proceeds he purchased another agricultural land. In this case the objective of the seller was not to earn income by sale of old land but was to acquire another land. If in this case, the seller was liable to pay income-tax on capital gains arising on sale of old land, then it would be a hardship on him.

Section 54B gives relief from such a hardship. Section 54B gives relief to a taxpayer who sells his agricultural land and from the sale proceeds he acquires another agricultural land. The detailed provisions in this regard are discussed in this part.

### **Basic conditions**

Following conditions should be satisfied to claim the benefit of section 54B.

- The benefit of section 54B is available only to an individual or a HUF
- The asset transferred should be agricultural land. The land may be a long-term capital asset or short-term capital asset.
- The agricultural land should be used by the individual or his parents for agricultural purpose at least for a period of two years immediately preceding the date of transfer. In case of HUF the land should be used by any member of HUF.
- Within a period of two years from the date of transfer of old land the taxpayer should acquire another agricultural land. In case of compulsory acquisition the period of acquisition of new agricultural land will be determined from the date of receipt of compensation. However, as per section 10(37), no capital gain would be chargeable to tax in case of an individual or HUF if agricultural land is compulsorily acquired under any law and the consideration of which is approved by the Central Government or RBI and received on or after 01-04-2004.

### **Illustration**

Mr. Raja purchased an agricultural land in April, 2010. Since the date of purchase, the land was being used for agricultural purpose. The land was sold in March, 2015 for Rs. 8,40,000. Capital gain arising on sale of land amounted to Rs. 1,00,000. Can he claim the benefit of section 54B by purchasing another agricultural land?

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Exemption under section 54B can be claimed in respect of capital gains arising on transfer of capital asset, being agricultural land (may be long-term or short-term).

This benefit is available only to an individual or a HUF. The land should be used for agricultural purpose at least for two years. In this case, all the conditions of section 54B were satisfied and, hence, Mr. Raja can claim the benefit of section 54B by purchasing





another agricultural land within the time-limit specified under section 54B.

### Illustration

Mr. Kamal purchased an agricultural land in April, 2012. Since the date of purchase, the land was being used for agricultural purpose. The land was sold in May, 2014 for Rs. 18,40,000. Capital gain arising on sale of land amounted to Rs. 2,00,000. Can he claim the benefit of section 54B by purchasing another agricultural land?

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Exemption under section 54B can be claimed in respect of capital gains arising on transfer of capital asset, being agricultural land (may be long-term or short-term). This benefit is available only to an individual or HUF.

The land should be used for agricultural purpose for at least two years. In this case, all the conditions of section 54B are satisfied and, hence, Mr. Kamal can claim the benefit of section 54B by purchasing another agricultural land within the time-limit specified under section 54B.

### Illustration

Raja HUF purchased an agricultural land in June, 2012. Since the date of purchase, the land was being used for agricultural purpose. The land was sold in December, 2014 for Rs. 28,40,000. Capital gain arising on sale of land amounted to Rs. 8,00,000. Can the HUF claim the benefit of section 54B by purchasing another agricultural land?

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Exemption under section 54B can be claimed in respect of capital gains arising on transfer of capital asset, being agricultural land (may be long-term or short-term). This benefit is available only to an individual or HUF. The land should be used for agricultural purpose for at least two years. In this case all the conditions of section 54B are satisfied and, hence, Raja HUF can claim the benefit of section 54B by purchasing another agricultural land within the time-limit specified under section 54B.

### Illustration

Mr. Kumar purchased gold in April, 2010 and sold the same in March, 2015 for Rs. 8,40,000. Capital gain arising on sale of gold amounted to Rs. 1,00,000. Can he claim the benefit of section 54B by purchasing agricultural land from the capital gain of Rs. 1,00,000?

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Exemption under section 54B can be claimed in respect of capital gains arising on transfer of a capital asset, being agricultural land (may be long-term or short-term). In this case the capital asset is gold, i.e., other than agricultural land and, hence, the benefit of section 54B is not available.





### Amount of exemption

Exemption under section 54B will be lower of the following:

- Amount of capital gains arising on transfer of agricultural land; or
- Investment in new agricultural land [including the amount deposited in Capital Gains Deposit Account Scheme (discussed later)].

### Illustration

Mr. Raja purchased an agricultural land in April, 2010. Since the date of purchase, the land was being used for agricultural purpose.

The land was sold in March, 2015 for Rs. 8,40,000. Capital gain arising on sale of land amounted to Rs. 1,00,000. Out of the sale proceeds of old land, he purchased another agricultural land for Rs. 3,00,000 (purchased in April, 2015). What will be the amount of exemption under section 54B which can be claimed by Mr. Raja?

\*\*

Exemption under section 54B can be claimed in respect of capital gains arising on transfer of capital asset, being agricultural land. Exemption under section 54B will be lower of following :

- Amount of capital gains arising on transfer of agricultural land; or
- Investment in new agricultural land

Considering the above provisions, the exemption in this case will be lower of the following amount :

- Amount of capital gain arising on transfer of agricultural land, i.e., Rs. 1,00,000 or
- Amount of investment in new agricultural land, i.e., Rs. 3,00,000

Thus, exemption will be Rs. 1,00,000. Taxable capital gain will come to *Nil* (entire gain will be exempt).

### Illustration

Mr. Kaushal purchased an agricultural land in April, 2010. Since the date of purchase, the land was being used for agricultural purpose. The land was sold in March, 2015 for Rs. 18,40,000. Capital gain arising on sale of land amounted to Rs. 4,00,000. Out of the sale proceeds of old land, he purchased another agricultural land for Rs. 3,00,000 (in May, 2015). What will be the amount of exemption under section 54B which can be claimed by Mr. Kaushal?

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Exemption under section 54B can be claimed in respect of capital gains arising on transfer of capital asset, being agricultural land. Exemption under section 54B will be lower of following :

- Amount of capital gains arising on transfer of agricultural land, or



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- Investment in new agricultural land

Considering the above provisions, the exemption in this case will be lower of the following amount :

- Amount of capital gain arising on transfer of agricultural land, i.e., Rs. 4,00,000 or
- Amount of investment in new agricultural land, i.e., Rs. 3,00,000

Thus, exemption will be Rs. 3,00,000. Taxable capital gain will come to Rs. 1,00,000 (i.e., Rs. 4,00,000 less Rs. 3,00,000).

### Consequences if the new land is transferred

Exemption under section 54B is available in respect of rollover of capital gains arising on transfer of agricultural land into another agricultural land. However, to keep a check on misutilisation of this benefit a restriction is inserted in section 54B. The restriction is in the form of prohibition of sale of the new agricultural land.

If a taxpayer purchases new agricultural land to claim exemption under section 54B and subsequently he transfers the new agricultural land within a period of 3 years from the date of its acquisition, then the benefit granted under section 54B will be withdrawn. The ultimate impact of the restriction is as follows:

- The restriction will be attracted if, after claiming exemption under section 54B, the new agricultural land is sold within a period of 3 years from the date of its purchase.
- If the agricultural land is sold within a period of 3 years from the date of its purchase, then at the time of computation of capital gain arising on transfer of the new land, the amount of capital gain claimed as exemption under section 54B will be deducted from the cost of acquisition of the new agricultural land.

### Illustration

Mr. Rajat sold his agricultural land in April, 2013 for Rs. 25,20,000. Since past 10 years the land was used for agricultural purpose. Long-term capital gain arising on transfer of the land amounted to Rs. 8,40,000. In December, 2013 he purchased another agricultural land worth Rs. 10,00,000. The new land was, however, sold in April, 2014 for Rs. 12,00,000. What will be amount of taxable capital gains in the hands of Mr. Rajat for the financial years 2013-14 and 2014-15?

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### Computation of capital gains for the financial year 2013-14

| Particulars                                            | Rs.      |
|--------------------------------------------------------|----------|
| Long-term capital gain arising on transfer of old land | 8,40,000 |
| Less: Exemption under section 54B (*)                  | 8,40,000 |
| Taxable Long-Term Capital Gains                        | Nil      |



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(\*) Exemption under section 54B will be lower of following :

- Amount of capital gains arising on transfer of agricultural land, or
- Investment in new agricultural land

Considering the above provisions, the exemption in this case will be lower of the following amount :

- Amount of capital gain arising on transfer of agricultural land, i.e., Rs. 8,40,000 or
- Amount of investment in new agricultural land, i.e., Rs. 10,00,000

Thus, exemption will be Rs. 8,40,000.

### Computation of capital gains for the year 2014-15

If a taxpayer purchases another agricultural land and claims exemption under section 54B and subsequently he transfers the new agricultural land within a period of 3 years from the date of its acquisition, then the benefit granted earlier under section 54B will be withdrawn. The computation in this case will be as follows :

| Particulars                                                                                                                    | Rs.        |
|--------------------------------------------------------------------------------------------------------------------------------|------------|
| Full value of consideration (i.e., Sales value of new agriculturalland)                                                        | 12,00,000  |
| <i>Less:</i> Expenditure incurred wholly and exclusively in connection with transfer of capital asset (e.g., brokerage, etc.). | <i>Nil</i> |
| Net sale consideration                                                                                                         | 12,00,000  |
| <i>Less:</i> Cost of acquisition (*)                                                                                           | 1,60,000   |
| Short- term capital gains on sale of new agricultural land                                                                     | 10,40,000  |

(\*) If the agricultural land is sold before a period of 3 years from the date of its purchase, then at the time of computation of capital gain arising on transfer of the new agricultural land, the amount of capital gain claimed as exempt under section 54B will be deducted from the cost of acquisition of the new agricultural land. Applying this provisions the cost of acquisition of new land will be computed as follows :

| Particulars                                              | Rs.       |
|----------------------------------------------------------|-----------|
| Cost of acquisition of new land                          | 10,00,000 |
| <i>Less:</i> Exemption claimed earlier under section 54B | 8,40,000  |
| Cost of new land to be used while computing capital gain | 1,60,000  |



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### Illustration

Mr. Aakash sold his agricultural land in April, 2013 for Rs. 25,20,000. Since past 10 years the land was used for agricultural purpose. Long-term capital gain arising on transfer of the land amounted to Rs. 8,40,000. In December, 2013 he purchased another agricultural land worth Rs. 5,00,000.

The new land was sold in April, 2014 for Rs. 12,00,000. What will be amount of taxable capital gains in the hands of Mr. Aakash for the financial years 2013-14 and 2014-15?

### Computation of capital gains for the financial year 2013-14

| Particulars                                            | Rs.      |
|--------------------------------------------------------|----------|
| Long-term capital gain arising on transfer of old land | 8,40,000 |
| Less: Exemption under section 54B (*)                  | 5,00,000 |
| Taxable Long-Term Capital Gains                        | 3,40,000 |

(\*) Exemption under section 54B will be lower of following :

- Amount of capital gains arising on transfer of agricultural land; or
- Investment in new agricultural land

Considering the above provisions, the exemption in this case will be lower of the following amount :

- Amount of capital gain arising on transfer of agricultural land, i.e., Rs. 8,40,000 or
- Amount of investment in new agricultural land, i.e., Rs. 5,00,000

Thus, exemption will be Rs. 5,00,000.

### Computation of capital gains for the financial year 2014-15

If a taxpayer purchases agricultural land and claims exemption under section 54B and subsequently transfers the new agricultural land within a period of 3 years from the date of its acquisition, then the benefit granted earlier under section 54B will be withdrawn. The computation in this case will be as follows :

| Particulars                                                                                                             | Rs.       |
|-------------------------------------------------------------------------------------------------------------------------|-----------|
| Full value of consideration (i.e., Sales value of new land)                                                             | 12,00,000 |
| Less: Expenditure incurred wholly and exclusively in connection with transfer of capital asset (e.g., brokerage, etc.). | Nil       |
| Net sale consideration                                                                                                  | 12,00,000 |





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|                                                                  |           |
|------------------------------------------------------------------|-----------|
| Less: Cost of acquisition (*)                                    | Nil       |
| <b>Short-term capital gains on sale of new agricultural land</b> | 12,00,000 |

(\*) If the new land is sold before a period of 3 years from the date of its purchase, then at the time of computation of capital gain arising on transfer of the new land, the amount of capital gain claimed as exempt under section 54B will be deducted from the cost of acquisition of the new land. Applying this provision, the cost of acquisition of new land will be computed as follows :

| Particulars                                              | Rs.      |
|----------------------------------------------------------|----------|
| Cost of acquisition of new land                          | 5,00,000 |
| Less: Exemption claimed earlier under section 54B        | 5,00,000 |
| Cost of new land to be used while computing capital gain | Nil      |

### Capital Gain Deposit Account Scheme

To claim exemption under section 54B, the taxpayer should purchase another agricultural land within a period of two years from the date of transfer of old land.

If till the date of filing the return of income the capital gain arising on transfer of the old land is not utilised (in whole or in part) for purchase of another agricultural land, then the benefit of exemption can be availed by depositing the unutilised amount in Capital Gains Deposit Account Scheme in any branch of public sector bank, in accordance with Capital Gains Deposit Accounts Scheme, 1988 (hereafter referred as Capital Gains Account Scheme). The new land can be purchased by withdrawing the amount from the said account within the specified time-limit of 2 years.

### Illustration

Mr. Raj had purchased an agricultural land in April, 2010. Since the day of its purchase, the land was being used for agricultural purpose. This land was sold on 25th March, 2015 for Rs. 8,40,000. Capital gain arising on sale of land amounted to Rs. 2,00,000. He wants to claim exemption under section 54B. By what time he should purchase another agricultural land?

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To claim exemption under section 54B, the taxpayer should purchase another agricultural land within a period of two years from the date of transfer of old land. In this case the old land was transferred on 25th March, 2015, hence, he has to purchase another land within a period of 2 years from 25th March, 2015 i.e. on or before 24<sup>th</sup> March, 2017.



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The old land was transferred in the year 2014-15 and the due date of filing the return of income of the year 2014-15 is 31st July 2015. If Mr. Raj cannot purchase another land by 31st July, 2015, then he has to deposit Rs. 2,00,000 in Capital Gains Account Scheme. By depositing Rs. 2,00,000 in the Capital Gains Account Scheme he can claim exemption of Rs. 2,00,000 under section 54B. However, merely depositing in the Capital Gains Account Scheme would not be sufficient. After deposit in the scheme he has to utilise this fund to purchase new agricultural land within the specified period of 2 years i.e. on or before 24<sup>th</sup> March, 2017.

**Illustration**

Mr. Raj had purchased an agricultural land in April, 2010. Since the day of its purchase, the land was being used for agricultural purpose. This land was sold on 25th March, 2015 for Rs. 18,40,000. Capital gain arising on sale of land amounted to Rs. 4,00,000. He could not purchase another agricultural land by 31st July, 2015, however, in July, 2015 he deposited Rs. 4,00,000 in Capital Gains Account Scheme. Will he be entitled to claim any exemption under section 54B?

\*\*

To claim exemption under section 54B, the taxpayer should purchase another agricultural land within a period of two years from the date of transfer of old land. In this case the old land was transferred on 25th March, 2015, hence, he has to purchase another land within a period of 2 years from 25th March, 2015, i.e., on or before 24<sup>th</sup> March, 2017.

The old land was transferred in the year 2014-15 and the due date of filing the return of income of the year 2014-15 is 31st July 2015. If Mr. Raj cannot purchase another land by 31st July, 2015, then he has to deposit Rs. 4,00,000 in Capital Gains Account Scheme. By depositing Rs. 4,00,000 in the Capital Gains Account Scheme he can claim exemption of Rs. 4,00,000 under section 54B. In this case he has deposited Rs. 4,00,000 in the Capital Gains Account Scheme and, hence, he can claim exemption of Rs. 4,00,000 under section 54B.

However, merely depositing in the Capital Gains Account Scheme would not be sufficient. After deposit in the scheme he has to utilise this fund to purchase new agricultural land within the specified period of 2 years, i.e., on or before 24<sup>th</sup> March, 2017.

**Illustration**

Mr. Kamal had purchased an agricultural land in April, 2010. Since the day of its purchase, the land was being used for agricultural purpose. This land was sold on 25th March, 2015 for Rs. 18,40,000. Capital gain arising on sale of land amounted to Rs. 4,00,000. He could not purchase another agricultural land by 31st July, 2015, however, in July, 2015 he deposited Rs. 3,00,000 in Capital Gains Account Scheme. Will he be entitled to claim any exemption under section 54B?

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To claim exemption under section 54B, the taxpayer should purchase another agricultural land within a period of two years from the date of transfer of old land. In this case the old land was transferred on 25th March, 2015, hence, he has to purchase another land within a period of 2 years from the date of transfer.

The old land was transferred in the year 2014-15 and the due date of filing the return of income of the year 2014-15 is 31st July 2015. If Mr. Kamal cannot purchase another land by 31st July 2015, then he has to deposit Rs. 4,00,000 in Capital Gains Account Scheme.

By depositing Rs. 4,00,000 in the Capital Gains Account Scheme he can claim exemption of Rs. 4,00,000 under section 54B. In this case, he has deposited Rs. 3,00,000 in the Capital Gains Account Scheme and, hence, he can claim exemption of Rs. 3,00,000 under section 54B.

However, merely depositing in the Capital Gains Account Scheme would not be sufficient. After deposit in the scheme he has to utilise this fund to purchase new agricultural land within the specified period of 2 years.

#### **Non-utilisation of amount deposited in Capital Gain Deposit Account Scheme**

If the amount deposited in the Capital Gains Account Scheme in respect of which the taxpayer has claimed exemption is not utilised within the specified period for purchase of another agricultural land, then the unutilised amount (for which exemption is claimed) will be taxed as income by way of long-term capital gains or short-term capital gain (depending upon the nature of original capital gain) for the previous year in which the specified period of 2 years gets over.

#### **Illustration**

Mr. Ramlal had purchased an agricultural land in April, 2010. Since the day of purchase the land was used for agricultural purpose. The land was sold on 25th March, 2015 for Rs. 25,20,000. Capital gain arising on sale of land amounted to Rs. 5,00,000.

He could not purchase another agricultural land by 31st July, 2015, however, in July, 2015 he deposited Rs. 5,00,000 in Capital Gains Account Scheme. He did not purchase any agricultural land till 24th March, 2017. Will he be entitled to claim any exemption under section 54B? If yes, can the exemption granted be revoked subsequently?

\*\*

To claim exemption under section 54B, the taxpayer should purchase another agricultural land within a period of two years from the date of transfer of old land. In this case, the old land was transferred on 25th March, 2015, hence, he has to purchase another land within a period of 2 years from 25th March, 2015, i.e., on or before 24th March, 2017.

The old land was transferred in the year 2014-15 and the due date of filing the return of income of the year 2014-15 is 31st July 2015. If Mr. Ramlal cannot purchase another agricultural land by 31st July 2015, then he has to deposit Rs. 5,00,000 in Capital Gains Account Scheme.



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By depositing Rs. 5,00,000 in the Capital Gains Account Scheme he can claim exemption of Rs. 5,00,000 under section 54B. In this case he has deposited Rs. 5,00,000 in the Capital Gains Account Scheme and, hence, he can claim exemption of Rs. 5,00,000 under section 54B. In other words, exemption under section 54B for the year 2014-15 will be Rs. 5,00,000.

He has to utilise the funds deposited in the scheme to purchase another agricultural land within the specified period of 2 years. If he does not purchase the land within a period of 2 years, then the amount (for which exemption is claimed) will be taxed as income by way of long-term capital gains or short-term capital gain (depending upon the nature of the original capital gain) for the previous year in which the specified period of 2 years gets over.

In this case the period of 2 years gets over on 24th March, 2017. Mr. Ramlal has not purchased any agricultural land till 24th March, 2017, hence, the exemption of Rs. 5,00,000 allowed in the year 2014-15 will be revoked and will be taxed as income by way of long-term capital gains for the year 2016-17.

### Illustration

Mr. Khushal had purchased an agricultural land in April, 2010. Since the day of purchase the land was used for agricultural purpose. The land was sold on 25th March, 2015 for Rs. 25,20,000. Capital gain arising on sale of land amounted to Rs. 5,00,000.

He could not purchase another agricultural land by 31st July, 2015, however, in July, 2015 he deposited Rs. 5,00,000 in Capital Gains Account Scheme. In January, 2017 he withdrew Rs. 4,00,000 from the Capital Gains Account Scheme and purchased agricultural land. Thereafter, he did not purchase any agricultural land till 24th March, 2017. Will he be entitled to claim any exemption under section 54B? If yes, will the exemption granted be revoked subsequently?

\*\*

To claim exemption under section 54B, the taxpayer should purchase another agricultural land within a period of two years from the date of transfer of old land. In this case the old land was transferred on 25th March, 2015, hence, he has to purchase another land within a period of 2 years from the date of transfer, i.e., on or before 24th March, 2017.

The old land was transferred in the year 2014-15 and the due date of filing the return of income of the year 2014-15 is 31st July 2015. If Mr. Khushal cannot purchase another agricultural land by 31st July, 2015, then he has to deposit Rs. 5,00,000 in Capital Gains Account Scheme. By depositing Rs. 5,00,000 in the Capital Gains Account Scheme he can claim exemption of Rs. 5,00,000 under section 54B.

In this case he has deposited Rs. 5,00,000 in the Capital Gains Account Scheme and, hence, he can claim exemption of Rs. 5,00,000 under section 54B. In other words, exemption under section 54B for the year 2014-15 will be Rs. 5,00,000.

He has to utilise the amount deposited in the scheme (i.e., Rs. 5,00,000) to purchase agricultural land within the specified period of 2 years. If he does not purchase the





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agricultural land within a period of 2 years, then the unutilised amount will be taxed as income by way of long-term capital gains or short-term capital gain (depending upon the nature of original capital gain) for the previous year in which the specified period of 2 years expires.

In this case the period of 2 years expires on 24th March, 2017. Hence, Mr. Khushal has to purchase a land for Rs. 5,00,000 upto 24th March, 2017. He has purchased agricultural land worth Rs. 4,00,000 in January, 2017 and he has not utilized the remaining portion to purchase any agricultural land till 24<sup>th</sup> March, 2017. Thus, the unutilised amount of Rs. 1,00,000 will be taxed as income by way of long-term capital gains of the year of expiry of the specified period, i.e., 2016-17.

### Illustration

Mr. Raju had purchased an agricultural land in April, 2010. Since the day of purchase the land was used for agricultural purpose. This land was sold on 25th March, 2015 for Rs. 18,40,000. Capital gain arising on sale of land amounted to Rs. 3,00,000. He could not purchase another agricultural land by 31st July, 2015, however, in July, 2015 he deposited Rs. 5,00,000 in Capital Gains Account Scheme. He did not purchase any agricultural land till 24th March, 2017. Will he be entitled to claim any exemption under section 54B? If yes, will the exemption granted be revoked?

\*\*

To claim exemption under section 54B, the taxpayer should purchase another agricultural land within a period of two years from the date of transfer of old land. In this case the old land was transferred on 25th March, 2015, hence, he has to purchase another land within a period of 2 years from the date of transfer, i.e., on or before 24th March, 2016.

The old land was transferred in the year 2014-15 and the due date of filing the return of income of the year 2014-15 is 31st July, 2015. If Mr. Raju cannot purchase another agricultural land by 31st July, 2015, then he has to deposit Rs. 3,00,000 in Capital Gains Account Scheme. By depositing Rs. 3,00,000 in the Capital Gains Account Scheme he can claim exemption of Rs. 3,00,000 under section 54B. In this case, he has deposited more amount, i.e., Rs. 5,00,000 in the Capital Gains Account Scheme, however, he will be entitled to claim exemption only of Rs. 3,00,000. In other words, exemption under section 54B for the year 2014-15 will be Rs. 3,00,000.

He has to utilise the funds deposited in the scheme to purchase another agricultural land within the specified period of 2 years. If he does not purchase another agricultural land within a period of 2 years, then the amount (for which exemption is claimed) will be taxed as income by way of long-term capital gains or short-term capital gain (depending upon the nature of original capital gain) for the previous year in which the specified period of 2 years gets over.

In this case, the period of 2 years gets over on 24th March, 2017. Mr. Raju has not purchased any agricultural land till 24th March, 2017, hence, the exemption of Rs. 3,00,000 allowed in the year 2014-15 will be revoked and will be taxed as income by way of long-term capital gains for the year 2016-17.





### Illustration

Mr. Vipul had purchased an agricultural land in April, 2010. Since the day of purchase the land was used for agricultural purpose. This land was sold on 25th March, 2015 for Rs. 28,40,000. Capital gain arising on sale of land amounted to Rs. 6,00,000. He could not purchase another agricultural land by 31st July, 2015, however, in July, 2015 he deposited Rs. 6,00,000 in Capital Gains Account Scheme. In March, 2016 he withdrew Rs. 6,00,000 from the scheme and purchased a car from the said amount. Will he be entitled to claim any exemption under section 54B? If yes, will the exemption granted be revoked subsequently?

\*\*

To claim exemption under section 54B, the taxpayer should purchase another agricultural land within a period of two years from the date of transfer of old land. In this case the old land was transferred on 25th March, 2015, hence, he has to purchase another land within a period of 2 years from the date of transfer, i.e., on or before 24th March, 2017.

The old land was transferred in the year 2014-15 and the due date of filing the return of income of the year 2014-15 is 31st July, 2015. If Mr. Vipul cannot purchase another agricultural land by 31st July, 2015, then he has to deposit Rs. 6,00,000 in Capital Gains Account Scheme. By depositing Rs. 6,00,000 in the Capital Gains Account Scheme he can claim exemption of Rs. 6,00,000 under section 54B. In this case he has deposited Rs. 6,00,000 in the Capital Gains Account Scheme and, hence, will be entitled to claim exemption only of Rs. 6,00,000. In other words, exemption under section 54B for the year 2014-15 will be Rs. 6,00,000.

He has to utilise the funds deposited in the scheme to purchase another agricultural land within the specified period of 2 years. The amount withdrawn from the scheme should be used to purchase of agricultural land. If the amount withdrawn from the scheme is used for any other purpose then it will be charged to tax as income by way of long-term capital gain or short-term capital gain (depending upon the nature of original capital gain) of the year of withdrawal.

In this case Mr. Vipul has withdrawn Rs. 6,00,000 from the scheme. Thus, he should purchase agricultural land worth Rs. 6,00,000 in the year of withdrawal. However, he had utilised the said amount to purchase a car and, hence, Rs. 6,00,000 will be charged to tax as income by way of long-term capital gains of the year of withdrawal, i.e., year 2015-16.





## MCQ ON EXEMPTION TO CAPITAL GAINS ON TRANSFER OF AGRICULTURAL LAND

**Q1.** Section \_\_\_\_\_ gives relief to a taxpayer who sells his agricultural land and from the sale proceeds he acquires another agricultural land.

- (a) 54 (b) 54B  
(c) 54EC (d) 54F

**Correct answer : (b)**

**Justification of correct answer :**

Section 54B gives relief to a taxpayer who sells his agricultural land and acquires another agricultural land from the sale proceeds.

Thus, option (b) is the correct option.

**Q2.** The benefit of section 54B is available to all the persons except to an individual and a HUF.

- (a) True (b) False

**Correct answer : (b)**

**Justification of correct answer :**

The benefit of section 54B is available only to an individual or a HUF.

Thus, the statement given in the question is false and hence, option (b) is the correct option.

**Q3.** To avail the benefit of section 54B, the assets transferred should be \_\_\_\_\_.

- (a) A residential house property (b) A non-agricultural land  
(c) An agricultural land (d) Bonds of National Highways Authority of India

**Correct answer : (c)**

**Justification of correct answer :**

To avail the benefit of section 54B, the assets transferred should be an agricultural land.

Thus, option (c) is the correct option.

**Q4.** The agricultural land should be used by the individual or his parents for agricultural purpose at least for a period of \_\_\_\_\_ immediately preceding the date of transfer.

- (a) 2 years (b) 5 years  
(c) 7 years (d) 10 years

**Correct answer : (a)**

**Justification of correct answer :**

The agricultural land should be used by the individual or his parents for agricultural purpose at least for a period of two years immediately preceding the date of transfer.

Thus, option (a) is the correct option.

**Q5.** To avail the benefit of section 54B, the taxpayer should acquire another agricultural land within a period of 3 years from the date of transfer of old agricultural land.





(a) True

(b) False

**Correct answer : (b)**

**Justification of correct answer :**

To avail the benefit of section 54B, the taxpayer should acquire another agricultural land within a period of two years from the date of transfer of old agricultural land.

Thus, the statement given in the question is false and hence, option (b) is the correct option.

**Q6.** Exemption under section 54B will be lower of the following :

- Amount of capital gains arising on transfer of agricultural land; or
- Investment in new agricultural land [including the amount deposited in Capital Gains Deposit Account Scheme]

(a) True

(b) False

**Correct answer : (a)**

**Justification of correct answer :**

Exemption under section 54B will be lower of the following :

- Amount of capital gains arising on transfer of agricultural land; or
- Investment in new agricultural land [including the amount deposited in Capital Gains Deposit Account Scheme]

Thus, the statement given in the question is true and hence, option (a) is the correct option.

**Q7.** If a taxpayer purchases new agricultural land to claim exemption under section 54B and subsequently he transfers the new agricultural land within a period of \_\_\_\_\_ from the date of its acquisition, then the benefit granted under section 54B will be withdrawn.

(a) 3 years

(b) 5 years

(c) 10 years

(d) 12 years

**Correct answer : (a)**

**Justification of correct answer :**

If a taxpayer purchases new agricultural land to claim exemption under section 54B and subsequently he transfers the new agricultural land within a period of 3 years from the date of its acquisition, then the benefit granted under section 54B will be withdrawn.

Thus, option (a) is the correct option.

**Q8.** If till the date of filing the return of income, the capital gain arising on transfer of the old land is not utilised (in whole or in part) for purchase of another agricultural land, then the benefit of exemption can be availed by depositing the unutilised amount in \_\_\_\_\_ in any branch of public sector bank.

(a) Current account

(b) Saving account

(c) Capital Gains Deposit Account Scheme (d) Loan account





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**Correct answer : (c)**

**Justification of correct answer :**

If till the date of filing the return of income, the capital gain arising on transfer of the old land is not utilised (in whole or in part) for purchase of another agricultural land, then the benefit of exemption can be availed by depositing the unutilised amount in Capital Gains Deposit Account Scheme in any branch of public sector bank, in accordance with Capital Gains Deposit Accounts Scheme, 1988 (hereafter referred as Capital Gains Account Scheme).

Thus, option (c) is the correct option.

**Q9.** After the expiry of specified period of 2 years, the unutilised amount remained in the Capital Gains Account Scheme will be taxed as income by way of long-term capital gains or short-term capital gains (depending upon the nature of original capital gain) for the previous year in which the specified period of 2 years gets over.

(a) True

(b) False

**Correct answer : (a)**

**Justification of correct answer :**

After the expiry of specified period of 2 years, the unutilised amount remained in the Capital Gains Account Scheme will be taxed as income by way of long-term capital gains or short-term capital gains (depending upon the nature of original capital gain) for the previous year in which the specified period of 2 years gets over.

Thus, the statement given in the question is true and hence, option (a) is the correct option.

