INCOME- TAX

CAPITAL GAIN

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Contents

1. Capital Asset:

Definition: According to Section 2(14), a capital asset means –

- Property of any kind held by the assessee, whether or not connected with his business or profession.
- Any security held by a Foreign Institutional Investor which has invested in such securities in accordance with the SEBI Regulation even held as stock-in-trade.

However, it does not include –

i. Any stock-in-trade, consumable store or raw material held for the purpose of business or profession; personal effect i.e. movable property held for personal use of the assessee or any member of his family, but it **does not include –**
   a) Jewellery;
   b) Archaeological collection;
   c) Drawing;
   d) Painting;
   e) Sculpture; or
   f) Any work of art.

ii. Rural agriculture land in India

iii. Gold deposit Bonds.

Rural Agriculture Lands:

- Agriculture land situated in an area having population of not less than ten thousand according to last preceding census, or
- Agriculture land situated in an area within such distance, measured aerially, in relation to the range of people according to the last preceding census as shown hereunder –

	Shortest aerial distance from the local limits of a municipality or cantonment board to in item (a)	Population according to the last preceding census of which the relevant figures have been published before the first day of the previous year.
(i)	≤ 2 Kilometres	>10,000 ≤ 1,00,000
(ii)	≤ 6 Kilometres	>1,00,000 ≤ 10,00,000
(iii)	≤ 8 Kilometres	>10,00,000

2. Short-term and long-term capital assets:

- **Short term capital asset** – A Capital Asset (Other than unlisted shares) which is held by the assessee for <u>not more than **36 months**</u> immediately preceding the date of its transfer is a short-term capital asset.

  In the case of **unlisted shares**, if held for not more than **24 months**, than it is a short-term capital asset.

- **Long-term capital asset** - A capital asset other than short term capital asset i.e. a capital asset which is held by the assessee for <u>more than 36 months</u> (24 months in case of unlisted shares).

In case of listed security, or a unit of an equity oriented fund or a unit of UTI, or Zero Coupon Bond will be consider as long term capital asset if they are held for more than 12 months immediately preceding the date of its transfer.

Determination of Period of holding:

	Capital Asset	Period of Holding
(i)	Shares held in company in liquidation.	Period up to the date of liquidation.
(ii)	Asset received on partition of HUF or as Gift or under a will or succession or inheritance etc.	Period for which asset was held by the previous owner shall be taken into account.
(iii)	Shares held in an amalgamated company in lieu of shares in the amalgamating company	Period shall be from the date of acquisition of shares in the amalgamating company.
(iv)	In case of shares or any other security where such right is renounced in favour of any other person	Period shall be calculated form the date of allotment of such shares or securities.
(v)	Financial asset allotted without payment	Period shall be calculated form the date of allotment.
(vi)	Shares in an Indian company, which become the property of assessee in the consideration of a demerger	Period of holding shall include the period for which the shares are held in demerged company by the assessee.
(vii)	In case of specified security or sweat equity shares allotted by the employer to his employees at free of cost or at concessional rate	Period shall be reckoned from the date of allotment or transfer of such shares or securities.

3. Transfer: What its means [Section 2(14)]:

As per section 2(47) of Income Tax Act, 1961, transfer in relation to a capital asset, includes –

i. The sale, exchange or relinquishment of the asset; or
ii. The extinguishment of any right therein; or
iii. The compulsory acquisition thereof under any law; or
iv. Conversion of a capital asset into stock-in-trade; or
v. The maturity or redemption of zero coupon bond; or
vi. Any transaction allowing of the possession of any immovable property to be taken or retained in part performance of a contract; or
vii. Any transaction which has the effect of transferring or enabling the enjoyment of, any immovable property.

4. Scope and year of chargeability [Section 45]:

✓ **Section 45(1) - General provision:**

Any profit or gain arise on transfer on transfer of any capital asset in previous year shall be chargeable to tax in that previous year in which such transfer took place.

- **Section 45(1A) – Receipts from insurance parties:**
  - Where any person receives any money or other assets under any insurance from an insurer
  - On account of damage to or destruction of any capital asset, as a result of flood, typhoon, hurricane, cyclone, earthquake, or any other convulsion of nature, accidental fire etc.,
  - Then any profit or gain arise from receipt of such money or other asset chargeable to tax in that previous year in which such transfer took place.
  - For this purpose, value of such money or fair market value of the other asset on the date of receipt shall be taken as full value of consideration.

- **Section 45(2) - Conversion or treatment of a capital asset as stock-in-trade:**
  - Profit or gain arise on transfer from conversion or treatment of a capital asset as stock-in-trade will be chargeable to income-tax as his income of previous year in which such stock-in-trade is sold or otherwise transferred by him.
  - For this purpose, fair market value on the date of conversion or treatment shall be deemed to be taken as full value of consideration.

- **Section 45(3) – Introduction of capital asset as capital contribution:**
  - Where a person transfer a capital asset to a firm, AOP or BOI;
  - In which he is already a partner/ member or is to become partner/ member by way of capital contribution or otherwise;
  - The profit or gain arise from transfer will be chargeable to tax as income of the previous year in which such transfer took place.
  - For this purpose, the value of the consideration will be the amount recorded in the books of account of the firm, AOP or BOI as the value of the capital asset.

- **Section 45(4) – Distribution of capital assets on a firm's dissolution:**
  - Profit or gain arising from transfer of capital assets by way of distribution of capital asset on the dissolution of a firm or AOP or BOI or otherwise shall be chargeable to tax as income of the firm etc. of the previous year in which such transfer took place.
  - For this purpose, the fair market value of the asset on the date of such transfer shall be full value of consideration.

- **Section 45(5) – compensation on compulsory acquisition:**

  In this case, the consideration for the transfer is determined by the central government. When central govt. pays the above compensation, capital gain may be arise. Such compensation shall be chargeable as income of the previous year in which such compensation is received.

  Enhance compensation –

  - If the court awards a compensation which is higher than the original compensation, the difference thereof will be chargeable to capital gain in the year in which the same is received from the government
  - For this purpose, cost of acquisition and cost of improvement shall be taken to be nil.

5. Capital gain on distribution of asset by companies in liquidation [Section 46]:

✓ **Section 46(1):**

- Where the asset of a company are distributed to its shareholders on its liquidation, such distribution shall not be regarded as transfer by the company for the purpose of section 45.
- However, liquidator sells the asset of the company resulting in a capital gain and distributes the fund so collected, the company will be liable to pay tax on such gains.

✓ **Section 46(2):**

- Any money or other asset received by a shareholder form company on its liquidation shall be chargeable to tax in the hands of shareholders.
- The portion of the distribution which is attributable to the accumulated profits of the company is to be treated as dividend income of the shareholder under section 2(22) (c)
- The same will be deducted from the amount received/ fair market value for the purpose of determining the consideration for computation of capital gains.

✓ **Section 46(3) – Capital gains tax on subsequent sale by shareholders:**

- If the shareholders, after the receipt of any such asset on liquidation of the company,
- And transfer it within the meaning of section 45 at a price which is in excess of his cost of acquisition determined in the manner aforesaid,
- Such excess becomes taxable in his hands under section 45.

6. Capital gains on buyback, etc. of shares [Section 46A]:

(1)	(2)	(3)
Taxability in the hands of the -	Buyback of unlisted shares by domestic companies	Buyback of shares other than shares referred to in column
Company	Subject to additional income-tax @**23.072%** (tax @20% + surcharge @12% + cess@3%)	Not subject to tax in the hands of the company.
Shareholder	Income arising to shareholders exempt under section 10(34A)	Income arising to shareholders taxable as capital gains under section 46A.

7. Transaction not regarded as transfer [Section 47]:

- Any distribution of capital asset on total or partial partition of HUF.
- Any transfer of capital asset under a gift or will or an irrevocable trust.
- Any transfer of capital asset by subsidiary company to its holding company or holding company to its subsidiary company provided that **Transferee Company** must be an Indian company. This exemption is not applicable in case where capital asset is transfer as stock-in-trade.

- Any transfer of a capital asset under the scheme of amalgamation by the amalgamating company to amalgamated company if the amalgamated company is an Indian company.
- Any transfer in a scheme of amalgamation of shares held in an Indian company by the amalgamating foreign company to the amalgamated foreign company.

  Conditions:

  - At least 25% of the shareholders of the amalgamating foreign company must continue to remain shareholders of amalgamated foreign company.
  - Such transfer should not attract capital gain in the country in which the amalgamating company incorporated.
- Any transfer by way of conversion of bonds, debenture, debenture stock, deposit certificate of a company, into shares or debenture of that company.
- Any transfer of a capital asset in a scheme of reverse mortgage under a scheme made and notified by the CG.
- Any transfer of any of following capital asset to the Government or to the University or the National Museum, National Art Gallary, National Archives or any other public museum or institution notified by the Central govt. –
  - Work of art
  - Archaeological, scientific or art collection
  - Book
  - Manuscript
  - Drawing
  - Painting
  - Photography or
  - Print
- Any transfer by way of conversion of Foreign Currency Exchangeable Bond into shares or Debentures of a company.

8. Mode of computation of capital gains [Section 48]:

- **Computation of long term capital gain –**

Gross sale consideration	----
Less: Expenditure incurred wholly or exclusively in connection with such transfer (for example – brokerage on sale etc.)	----
Net Sale consideration	----
Less: Indexed cost of acquisition or indexed coat of improvement	----
	----
Less: Exemption under sections 54/ 54B/ 54EC/ 54F/ 54G	----
Long term capital gain	----

Notes:

- Deduction on account of securities transaction tax paid will not be allowed.

- **Indexed cost of acquisition** =

$$Cost\ of\ acquisition \times \frac{CII\ for\ the\ year\ in\ which\ the\ Asset\ is\ transferred}{CII\ for\ the\ year\ in\ which\ the\ asset\ was\ first\ held\ by\ the\ assessee}$$
$$or$$
$$1981-82, whichever\ is\ later$$

- **Indexed cost of improvement =**

$$Cost\ of\ improvement \times \frac{CII\ for\ the\ year\ in\ which\ the\ asset\ is\ transferred}{CII\ for\ the\ year\ in\ which\ the\ improvement\ took\ place}$$

- The benefit of indexation will not apply to long term capital gains from transfer if bonds or debenture other than capital indexed bonds issued by the government.

➢ **Computation of short-term capital gains:**

Gross sale consideration	----
Less: Expenditure incurred wholly or exclusively in connection with such transfer (for example – brokerage on sale etc.)	----
Net Sale consideration	----
Less: Indexed cost of acquisition or indexed coat of improvement	----
	----
Less: Exemption under sections 54B/ 54D/ 54G	----
Long term capital gain	----

Shifting base year from 1981 to 2001 for computation of capital gains:

In order to revise the base year for computation of capital gains, it is proposed to amend section 55 of the Act so as to provide that the cost of acquisition of an asset acquired before 01.04.2001 shall be allowed to be taken as fair market value as on 1st April, 2001 and the cost of improvement shall include only those capital expenses which are incurred after 01.04.2001. Consequential amendment is also proposed in section 48 so as to align the provisions relating to cost inflation index to the proposed base year.

These amendments will take effect from 1st April, 2018 and will, accordingly, apply in relation to the assessment year 2018-19 and subsequent years.

9. Ascertainment of cost of acquisition in special circumstances [Section 49]:

- In the following cases, the cost of acquisition of the asset shall be deemed to be cost for which the previous owner acquired the asset as increased by the cost of any improvement of the asset incurred or born by the previous owner or the assessee ,as the case may be –
  - Where the capital asset become the property of the assessee:
  - On any distribution of asset on the total or partial partition of HUF;
  - Under a gift or will or a recoverable or an irrevocable trust;
  - By succession, inheritance or devaluation;

  - On any distribution of asset on the liquidation of a company;
  - Transfer by holding company to its 100% subsidiary company or by subsidiary company to its 100% holding company;
  - Transfer under a scheme of amalgamation by the amalgamating company to the Indian amalgamating company.
  - Any transfer in a scheme of amalgamation of shares held in an Indian company by the amalgamating foreign company to the amalgamated foreign company.
  - Transfer of capital asset or intangible asset by a private company or unlisted company to a LLP as a result of conversion of the company into LLP;
  - On succession of a firm or sole proprietorship concern by a company in a business carried out by it
  - By conversion by an individual of his separate property into a HUF property.
- Indexed cost of acquisition would be determined by taking CII for the year in which asset is first held by the assessee.

  Exception:

  As per the view express by the Bombay High Court in *CIT v. Manjula J. Shah 16 Taxman 42* that indexed cost of acquisition in case of gifted asset has to be computed with the reference to the year in which the previous year in which the previous owner first held the asset and not the year in which the assessee become the owner of the asset. If this view is consider, indexation benefit in respect of gifted asset would be available from the year in which asset was first acquired by the previous owner.

10. Cost of improvement [Section 55]:

- **Goodwill of business, etc.:**

  In relation to capital asset being good will of a business or a right to manufacture, produce or progress any article or thing, or right to carry business, the cost of improvement shall be taken to be nil.

- **Any other capital assets:**
  - Where the capital asset become the property of the previous owner or the assessee before 01-04-1981 , the cost of improvement means all expenditure of a capital nature incurred in making nay addition or alternation to the capital asset on or after the said date by the previous owner or the assessee
  - In any other case, cost of improvement means all expenditure of a capital nature incurred in making nay addition or alternation to the capital asset by the assessee after it become his property.
  - However, cost of improvement does not include any expenditure which is deductible in computing the income chargeable under the head “Income from other sources”, “Income from House Property”, or “Income from Business or Profession”.

11. Cost of acquisition [section 55]:

- **Goodwill of the business or a trademark or brand name associated with a business or a right to manufacture, produce or process any article or thing or to carry on any business, tenancy rights, stage carriage permit and loom hours –**

  In the case of above assets, if the assessee has purchased them from a previous owner, the cost of acquisition means the amount of the purchase price.

- **Self-generated asset:**

  In the case of self-generated assets, the cost of acquisition will be taken to be ***nil***.

- **Other assets:**

  In the following cases, cost of acquisition shall be the cost for which previous owner of the property acquired it:

  - Where the capital asset become the property of the assessee:
  - On any distribution of asset on the total or partial partition of HUF;
  - Under a gift or will or a recoverable or an irrevocable trust;
  - By succession, inheritance or devaluation;
  - On any distribution of asset on the liquidation of a company;
  - Under any such transfer referred to in sections 47(iv), (v), (via) or (viaa).
  - Where assessee is a HUF, by made referred to in section 64(2).

12. Computation of capital gains in case of depreciable asset [Section 50 & 50A]:

- Where the capital assets is transfer during the previous year for a consideration **exceed** the aggregate of following amount namely:

  Expenditure incurred wholly or exclusively in connection with such transfer;

  +

  WDV of the block of the asset at the beginning of the previous year;

  +

  The actual cost of the asset falling within the block of the assets acquired during the previous year.
- Such excess shall be deemed to be the capital gains arising from the transfer of short-term capital assets.
- In case where all the asset of a block is transferred and block ceases to exist, difference between the sale value of the asset and WDV of the block of asset will be deemed to be the capital gain arise on transfer of short term capital asset.

13. Capital gains in respect of slump sale [Section 50B]:

- Any profit or gain arising from the slump sale during the previous year shall be taxable as capital gain arising from transfer of long term capital asset and shall be deemed to be income of the previous year in which the transfer took place.
- **Short-term capital gains** – Any profit or gain arising from such transfer of one or more undertakings held by the assessee for not more than 36 months shall be deemed to be short-term capital gains.
- The net worth of the undertaking, shall be deemed to be the cost of acquisition or cost of improvement.
- **Net worth** = Total Asset of Division – liabilities of the division.

  Note: For this purpose, revaluation of assets shall be ignored.

14. Full value of consideration in certain cases [Section 50C]:

- Where the consideration received on transfer of a capital asset, being a land or building, is less than the valuation adopted by the Stamp Valuation authority , the valuation as adopted by the valuation authority will be consider as full value of consideration for the purpose of computation of capital gain arise on transfer of land or Building or Both.
- Where the assessee claims before the income tax assessing officer that value so adopted or assessed by the stamp valuation authority is exceeds the fair market value of the asset and appeal to appoint a valuation officer to ascertain the value of the property, then in such case if value ascertained by the valuation officer exceeds value so adopted or assessed by the stamp valuation authority, the value so adopted by stamp valuation authority shall be taken as full value of consideration.
- But if the value ascertained by the valuation officer is less than the stamp duty value, then value ascertained by the valuation officer shall be taken as full value of consideration.

15. In case where the consideration is not determinable [Section 50C]:

In this case fair market value on the date of transfer of capital asset shall be deemed to be full value of consideration.

16. Advance money received [Section 51]:

Sometimes due to break-down of negotiation for transfer of capital asset, the assessee may retained the advance money. This section provides the following tax treatment of such advance money forfeited –

- **If before 1-Apr-2014** – Any such sum of money forfeited will be deducted from the cost of acquisition for computing capital gains.
- **If on or after 1-Apr-2014** – Such sum shall be chargeable to ta under the head "Income from Other Sources", and negotiation do not result in transfer of capital asset and do not deducted from the cost of asset.

17. Exemption of Capital gains

A. Capital gains on sale of residential house [Section 54]:

- **Eligible assessees** – Individual & HUF

- **Conditions to be fulfilled -**
  - There should be transfer of residential house (Building or lands appurtenant thereto).
  - It must be long term capital asset.
  - Income from such house property should be chargeable under the head "Income from House Property"
  - One residential house in India should be -
    - Purchase within 1 year before or 2 year after the date of transfer (or)
    - Constructed within a period of 3 years after the date of transfer.

- **Quantum of Exemption –**

- If the cost of new residential house ≥ capital gains, entire capital (Short-term or Long-term) gain is exempt.
- If the cost of new residential house < capital gains, capital gains (Short-term or Long-term) to the extent of cost of new residential house is exempt.

- **Consequences of transfer of new asset before 3 years –**
  If new asset is transferred before 3 years form the date of its acquisition, then cost of asset will be reduce by capital gains exempted earlier for computing short-term capital gains.

B. Capital gain on transfer of agriculture land [Section 54B]:

- **Eligible assessees** – Individual & HUF

- **Conditions to be fulfilled -**
  - There should be transfer of urban agriculture land.
  - Such land must have been used for agriculture propose by the assessee, being an individual or his parents, or a HUF in the immediately preceding years.
  - He should purchase another agriculture land (urban or rural) within 2 years for the date of transfer.

- **Quantum of Exemption –**
  - If the cost of new agriculture land ≥ capital gains, entire capital gain (Short-term or Long-term) is exempt.
  - If the cost of new r agriculture land < capital gains, capital gains (Short-term or Long-term) to the extent of cost of new agriculture land is exempt.

- **Consequences of transfer of new agriculture land before 3 years –**
  - If new asset is transferred before 3 years form the date of its acquisition, then cost of asset will be reduce by capital gains exempted earlier for computing short-term capital gains.
  - However if the new agriculture is a rural agriculture land, there would be not capital gain on transfer of such land.

C. Capital gains on transfer by way of compulsory acquisition of land and building [Section 54D]:

- **Eligible assessees –** Any assessee

- **Conditions to be fulfilled -**
  - There must be compulsory acquisition of land and building forming part of an industrial undertaking.
  - The land and building should have been used by the assessee for the purpose of his business of the industrial undertaking in the 2 years immediately preceding the date of transfer.
  - The assessee must purchase any other land or building or constructed any building within 3 years from the date of transfer.

- **Quantum of Exemption –**

- If the cost of new agriculture land ≥ capital gains, entire capital (Short-term or Long-term) gain is exempt.
- If the cost of new r agriculture land < capital gains, capital gains (Short-term or Long-term) to the extent of cost of new agriculture land is exempt.

- **Consequences of transfer of new asset before 3 years –**
  If new asset is transferred before 3 years form the date of its acquisition, then cost of asset will be reduce by capital gains exempted earlier for computing short-term capital gains.

D. Capital gain not chargeable on investment in certain bonds [Section 54EC]:

- **Eligible assessees –** Any assessee

- **Conditions to be fulfilled -**
  - There should be transfer of a long term capital asset.
  - Such asset can also be a depreciable asset held for more than 36 months.
  - The capital gain arising from such transfer should be invested in eligible bonds redeemable after 3 years, of National Highway Authority of India (NHAI) or the Rural Electrification Corporation of India (RECL) within 6 months from the date of transfer.
  - The assessee should not transfer or convert or avail loan or advance on the security if such bonds for a period of years from the date of acquisition of such bonds.

- **Quantum of Exemption –**
  - Capital gain or amount invested in specified bonds, whichever is lower.
  - The maximum investment can be made up to ₹ 50 lakhs.

- **Violation of condition:**
  In case of transfer or conversion of such bonds or availing loan or advance on security of such bonds before expiry of 3 years, the capital gain exempted earlier shall be taxed as long-term capital gain in the year of violation of conditions.

In order to widen the scope of the section for sectors which may raise fund by issue of bonds eligible for exemption under section 54EC, it is proposed to amend section 54EC so as to provide that investment in any bond redeemable after three years which has been notified by the Central Government in this behalf shall also be eligible for exemption.

This amendment will take effect from 1st April, 2018 and will accordingly, apply in relation to the assessment year 2018-19 and subsequent years.

E. Exemption of long-term capital gain on investment in notified units of specified fund [Section 54EE]:

- **Objective:**
  For incentivising the start-up ecosystem in India, the 'start-up India Action Plan' envisages establishment of a fund of funds which intends to raise ₹2,500 crores annually for four years to finance the start-ups.

- **Conditions to be fulfilled -**
  - Investment of LTCG in units of specified fund.
  - Investment within 6 months from the date of transfer.
  - Units should not be transferred for a period of 3 years.

- **Quantum of Exemption –**
  - Capital gain or amount invested in notified units of specified funds, whichever is lower.
  - The maximum investment can be made up to ₹ 50 lakhs.

- **Violation of condition:**
  In case of transfer or conversion of such units or availing loan or advance on security of such units before expiry of 3 years, the capital gain exempted earlier shall be taxed as long-term capital gain in the year of violation of conditions.

F. Capital gain in cases of investment in residential house [Section 54F]:

- **Eligible assessees** – Individual & HUF.

- **Conditions to be fulfilled -**
  - There should be transfer of a long term capital asset not being a residential house.
  - Transfer of plot of land is also eligible for exemption.
  - One residential house in India should be -
    - Purchase within 1 year before or 2 year after the date of transfer (or)
    - Constructed within a period of 3 years after the date of transfer.
  - The assessee should not owned more than one residential house on the date of transfer
  - The assessee should not –
    - Purchase any other house within a period of one year or
    - Construct any other residential house within a period of 3 years

    From the date of transfer of original asset.

- **Quantum of Exemption –**
  - If the cost of new residential house ≥ Net sale consideration or original asset, entire capital gain is exempt.
  - If the cost of new residential house < Net sale consideration of original asset, only proportionate capital gain is exempt i.e.

$$LTCG \times \frac{\boldsymbol{Amount\ invested\ in\ new\ residential\ house}}{\boldsymbol{Net\ sale\ consideratiom}}$$

- **Consequences of transfer of new residential house before 3 years –**
  If new house is transferred before 3 years form the date of its acquisition, then capital gain exempted earlier would be taxable as long term capital gains.

G. Capital gain on shifting of industrial undertakings from urban area [Section 54G]:

- **Eligible assessees –** Any assessee.

- **Conditions to be fulfilled -**

- There should be shifting of industrial undertaking from urban area to any other area.
- There should be transfer of machinery, plant, building or land from urban area to other area due to shifting.
- The capital gain should be utilized for any of following purpose within 1 year before or 3 years after the date of transfer –
- Purchase of new plant and machinery
- Acquisition of building or land or construction of building
- Expense on shifting of the industrial undertaking from the urban area to other area
- Such other expenses as the central govt. may specify.

- **Quantum of Exemption –**
  - If the cost of new asset plus expenses incurred for the specified purpose ≥ capital gains, entire capital gain is exempt.
  - If the cost of new asset plus expenses incurred for the specified purpose < capital gains, capital gain to the extent of such cost and expenses is exempt.

- **Consequences of transfer of new asset before 3 years –**

  If new asset is transferred before 3 years form the date of its acquisition, then cost of asset will be reduce by capital gains exempted earlier for computing short-term capital gains.

H. Capital gain on shifting of industrial undertakings from urban area to any SEZ [Section 54GA]:

- **Eligible assessees –** Any assessee.

- **Conditions to be fulfilled -**
  - There should be shifting of industrial undertaking from urban area to any SEZ.
  - There should be transfer of machinery, plant, building or land from urban area to SEZ due to shifting.
  - The capital gain should be utilized for any of following purpose within 1 year before or 3 years after the date of transfer –
  - Purchase of new plant and machinery
  - Acquisition of building or land or construction of building
  - Expense on shifting of the industrial undertaking from the urban area to other area
  - Such other expenses as the central govt. may specify.

- **Quantum of Exemption –**
  - If the cost of new asset plus expenses incurred for the specified purpose ≥ capital gains, entire capital gain is exempt.
  - If the cost of new asset plus expenses incurred for the specified purpose < capital gains, capital gain to the extent of such cost and expenses is exempt.

- **Consequences of transfer of new asset before 3 years –**

  If new asset is transferred before 3 years form the date of its acquisition, then cost of asset will be reduce by capital gains exempted earlier for computing short-term capital gains.

18. Short-term capital gain tax in respect of equity shares/ units of an equity oriented fund [section 111A]:

- This section provides for a concessional rate of tax **@15** on the short-term capital gains on transfer of –
    - An equity share in a company or
    - A unit of an equity oriented mutual fund or
    - A unit of a business trust
- Such transaction should be chargeable to securities transaction tax.

19. Tax on long-term capital gains [Section 112A]:

Long-term capital gain shall be taxable **@20%.**

20. Exemption of long-term capital gains on sale of equity shares/ Units of an equity oriented funds [Section 10(38)]:

- This section exempt s long-term capital gains on transfer of equity shares of a company or unit of equity oriented fund or units of a business trust.
- This exemption is available only if such transaction is chargeable to securities transaction tax.

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