INCOME UNDER THE HEAD
CAPITAL GAINS

Including
EXAMINATION QUESTIONS

INCOME UNDER THE HEAD
CAPITAL GAINS

SECTION 45 TO 55A

PARTICULARS	SECTIONS
Meaning of capital asset	**2(14)**
Transfer of capital assets	**45(1)**
Capital gains in case of insurance claims	**45(1A)**
Transfer of capital assets into stock-in-trade	**45(2)**
Transfer of securities by a depository	**45(2A)**
Profits or gains arising from the transfer of a capital asset by a person to a firm or Association of person or Body of individual	**45(3)**
Profits or gains arising from the transfer of a capital asset by way of distribution of capital assets on the dissolution of a firm or Association of person or Body of individual	**45(4)**
Transfer of a capital asset by way of compulsory acquisition	**45(5)**
Capital gains on distribution of assets by companies in liquidation	**46**
Capital gains on purchase by company of its own shares or other specified securities	**46A**
Transactions not regarded as transfer	**47**
Cost with reference to certain modes of acquisition	**49**
Special provision for computation of capital gains in case of depreciable assets	**50**

Special provision for cost of acquisition in case of power generating units	**50A**
Special provision for computation of capital gains in case of slump sale	**50B**
Special provision for full value of consideration in certain cases	**50C**
Fair market value deemed to be full value of consideration in certain cases	**50D**
Advance money received	**51**
Exemption from capital gains on transfer of property used for residence	**54**
Exemption from capital gain on transfer of land used for agricultural purposes	**54B**
Exemption from capital gains on compulsory acquisition of lands and buildings of industrial undertaking.	**54D**
Exemption from capital gain on transfer of any capital asset	**54EC**
Exemption from capital gain on transfer of long term capital assets except residential house	**54F**
Exemption from capital gains on transfer of assets in case of shifting of industrial undertaking from urban area	**54G**
Exemption of capital gains on transfer of assets in cases of shifting of industrial undertaking from urban area to any Special Economic Zone	**54GA**
Capital gain on transfer of residential property not to be charged in certain cases	**54GB**
Determination of time period in case of compulsory acquisition of capital asset	**54H**
Meaning of "cost of improvement"	**55(1)**
Meaning of "cost of acquisition"	**55(2)/55(3)**
Reference to valuation officer	**55A**
Computation of tax on long term capital gains	**112**
Computation of tax on short term capital gains in certain cases	**111A**
Exemption from long term capital gains on transfer of foreign exchange asset in case of non-resident Indians	**115F**
What is transfer	**2(47)**
Fair market value defined	**2(22B)**
Long-term capital asset	**2(29A)**
Long-term capital gain	**2(29B)**
Short-term capital asset	**2(42A)**
Short-term capital gain	**2(42B)**
Slump sale defined	**2(42C)**
Capital gains on compulsory acquisition of agricultural land	**10(37)**
Capital gains on transfer of equity shares or units	**10(38)**

THEORY QUESTION

Q1. [V. Imp.] Explain the meaning of capital asset under Income Tax Act?
Q2. Differentiate short term capital asset and long term capital asset.
Q3. [Imp.] Write a note on mode of computation of capital gains.
Q4. Write a note on computation of capital gains in case of insurance claims.
Q5. [Imp.] Write a note on computation of capital gains in case of conversion of capital assets into stock-in-trade.
Q6. Write a note on computation of capital gains in case of transfer of capital asset by a depository.
Q7. Write a note on computation of capital gains in case of transfer of a capital asset by a person to a Firm, Association of person or Body of individual.
Q8. Write a note on computation of capital gains in case of transfer of a capital asset by way of distribution of capital asset on the dissolution of a firm etc.
Q9. [V. Imp.] Write a note on computation of capital gains on compulsory acquisition of a capital asset.
Q10. Write a note on capital gains on distribution of assets by a company on liquidation.
Q11. Write a note on capital gains in case of own shares or other specified securities purchased by

company.

Q12. [V. Imp.] Write a note on transactions not regarded as transfer.

Q13. Write a note on cost with reference to certain modes of acquisition.

Q14. Explain reverse mortgage.

Q15. Write a note on capital gains in case of depreciable assets.

Q16. Write a note on computation of capital gain in case of slump sale covered under section 50B.

Q17. [Imp.] Write a note on full value of consideration in certain cases.

Q18. Write a note on fair market value deemed to be full value of consideration in certain cases covered under section 50D

Q19. [V. Imp.] Write a note on advance money or forfeiture of advance money under section 51.

Q20. [V. Imp.] Write a note on exemption under section 54.

Q21. [V. Imp.] Write a note on exemption under section 54B.

Q22. Write a note on exemption under section 54D.

Q23. [V. Imp.] Write a note on exemption under section 54EC.

Q24. [V. Imp.] Write a note on exemption under section 54F.

Q25. Write a note on exemption under section 54G.

Q26. Write a note on exemption under section 54GA.

Q27. Write a note on exemption under section 54GB.

Q28. Write a note on computation of capital gains in case of transfer of shares.

Q29. Write a note on computation of capital gains on conversion of debentures etc. into shares.

Q30. [V. Imp.] Write a note on computation of capital gains on the transfer of shares or the units of Mutual fund on which securities transaction tax has been paid.

Q31. [Imp.] Write a note on reference to valuation officer.

Q32. Write a note on cost of improvement.

Q33. Write a note on cost of acquisition.

Q34. Write a note on determining of the period of holding of a capital asset. Section 2(42A).

Q35. What types of transactions are included in the term ‘transfer’ in relation to a capital asset?

Q36. Write a note on taxability of Long Term Capital Gains.

Q37. Write short note on special provisions for full value of consideration in certain cases, in the context of capital gains liability.

Q38. Write a note on set off and carry forward of loss under the head capital gains.

Question 1.[V. Imp.]: Explain the meaning of Capital Asset under Income Tax Act?
Answer:
Chargeability of capital Gains   Section 45(1)
Any profits or gains arising from the transfer of a capital asset effected in the previous year shall be deemed to be the income of the previous year in which the transfer took place.

Meaning of Capital Asset
Capital assets   Section 2(14)
"Capital asset" means property of any kind held by an assessee, whether or not connected with his business or profession, accordingly, capital assets shall include any **land, building, precious metals, precious stones, plant and machinery, furniture and fixtures, goodwill, tenancy rights, loom hours, route permits** etc., but does not include—

Explanation.—For the removal of doubts, it is hereby clarified that "property" includes and shall be deemed to have always included any rights in or in relation to an Indian company, including rights of management or control or any other rights whatsoever.

1. Stock in trade
Any stock-in-trade, consumable stores or raw materials held for the purposes of his business or profession shall not be considered to be capital asset.
Example
If a dealer of Maruti cars has sold ten motor cars and there is a gain of `1,00,000, it will be considered to be income under the head business/profession and not under the head Capital Gains.

2. Personal movable effects
Personal effects, that is to say, movable property (including wearing apparel and furniture) held for personal use by the assessee or any member of his family dependent on him, but excludes—
(a) jewellery;
(b) archaeological collections;
(c) drawings;

(d) paintings;
(e) sculptures; or
(f) any work of art.

“Jewellery” includes—
(a) ornaments made of gold, silver, platinum or any other precious metal or any alloy containing one or more of such precious metals, whether or not containing any precious or semi-precious stone, and whether or not worked or sewn into any wearing apparel;

(b) precious or semi-precious stones, whether or not set in any furniture, utensil or other article or worked or sewn into any wearing apparel.

Accordingly, items of personal use like **household furniture, utensils, TV, fridge, sofa, personal motor car etc. shall not be considered to be Capital Assets,** and any amount received on their sale shall be considered to be a capital receipt not chargeable to tax under any head.

Example
(i) Mr. Neeraj Kumar purchased one motor car for his personal use and subsequently it was sold by him, in this case it will not be considered to be capital asset.

(ii) Mr. Abhishek Bhasin purchased one fridge for his personal use but subsequently it was sold by him, it will not be considered to be capital asset.

(iii) Mr. Aman Sehgal purchased silver utensils for his personal use and subsequently these utensils were sold by him, it will not be considered to be capital asset because silver utensils can not be considered to be jewellery and further they are the items of personal use, as per the decision in **CIT v. Benarshilal Kataruka**

Whether capital gain arise on the sale of silver utensils.
In CIT v. Benarshilal Kataruka, during the previous year relevant year to assessment year 1977-78, the assessee sold 49.521 kgs. of silver utensils which were in the form of thalis, katoris, tumblers, etc. The assessee contended that the silver utensils were for personal use and they were not capital assets within the meaning of section 2(14) of the Income Tax Act, 1961 and thus the profit on sale of these utensils was not liable to capital gains tax. The ITO rejected the assessee’s claim that the silver utensils were ‘personal effects’

The high court held that silver utensils, consisted of thalis, katoris, tumblers, etc. which are meant for personal use although they may not be used daily. Whether silver utensils constitute personal effects depend not merely on the financial status of the assessee. The main factor in deciding whether an article constitute personal effect is the nature of the article. Therefore, in the present case, silver utensils constitute personal affects and no capital gains will arise on the sale of silver utensils.

Whether capital gain arise on the sale of gold/silver coins.
H.H. Maharaja Rana Hemant Singh Ji
In this case the assessee sold 4825 gold sovereigns, 7,90,440 old silver rupee coins and silver bars weighing 2,54,174 tolas and claimed that no capital gains arose as the aforesaid items fell outside the definition of capital assets. The assessee claimed that these articles formed personal effects as they were used by the assessee and his family for personal use as it was evident that they were used for the purpose of Mahalaxmi Puja and other religious festivals in the family. His contention was rejected by the appellate authorities and the High Court. The Supreme Court also decided the case against the assessee as according to it, these articles did not constitute ‘personal effects’. The Court held that only those effects can be legitimately be said to be personal which pertain to the assessee’s person. In other words, an intimate connection between the effect and the person of the assessee must be shown to exist to render them ‘personal effects’. The Court said that the silver bars or bullion can by no stretch of imagination be deemed to be “effects” meant for

personal use. According to the Supreme Court, the gold sovereigns, silver coins and silver bar have been used for puja of the deities as a matter of pride or ornamentation but it is difficult to understand how such use can be characterized as personal use. Therefore, the capital gains are taxable in the present case.

H.H. Maharani Usha Devi v CIT (1982) 133 ITR 43 (MP)
Even if personal effects were occasionally used as and when dinners were arranged for the family and guests, it will still be a personal effect and occasional use shall not be taken into consideration.

If any person has movable items in his business or profession, these items shall be considered to be capital assets

Example
Mr. Mukesh Aggarwal has one motor car in the use of his business and subsequently this motor car was sold by him, it will be considered to be capital asset and capital gains shall be computed.

If personal effects are immovable, they will be considered to be capital assets. e.g. A house meant for assessee’s own residence shall be considered to be capital asset.

3. Agricultural land
Agricultural land in India in rural area shall not be considered to be capital asset. If the land is in the urban area, it will be considered to be capital asset.

Example
Mr. Mohit Arora has agricultural land in the rural area which was purchased by him for `5,00,000 and it was sold by him for `11,00,000, in this case capital gain shall not be computed, but if the land is in Delhi, in this case capital gains shall be computed.

If the land is in rural area in India but it is within 8 Km. from any urban municipality and the Government has notified it to be urban land, it will be considered to be a capital asset.

❖ If the agricultural land is in rural area outside India, it will be considered to be capital asset or in other words agricultural land situated outside India is capital asset in all cases.

Example
(i) Mr. Vipul Jha has agricultural land in the rural area in India which was sold by him, in this case there are no capital gains.

(ii) Mr. Mukesh Aggarwal has one agricultural land in urban area in India which was sold by him, in this case capital gains shall be computed.

(iii) Mr. Yogesh Tayal has agricultural land in rural area which is six kms away from Delhi municipality and the Government has notified it to be urban area, in this case it will be considered to be capital asset.

(iv) Mr. Sunny Mishra who is resident and ordinarily resident has sold one agricultural land in rural area in Nepal, in this case it will be considered to be capital asset because the land is not situated in India.

4. Gold Deposit Bonds
Gold Deposit Bonds issued under the Gold Deposit Scheme, 1999 notified by the Central Government.

5. Special Bearer Bonds, 1991
Special Bearer Bonds, 1991, issued by the Central Government.

Question 2: Differentiate Short Term Capital Asset and Long Term Capital Asset.
Answer:
Short Term Capital Asset/Long Term Capital Asset

Section 2(42A)

"Short-term capital asset" means a capital asset held by an assessee for not more than thirty-six months.
Provided that in the following cases the period shall be twelve months instead of thirty-six months.

(i) A share held in a company (whether listed or not);

(ii) A unit of the Unit Trust of India or a unit of a Mutual Fund specified under section 10(23D) (whether listed or not).

(iii) A zero coupon bond.

(iv) Any other security listed in a recognised stock exchange in India.

Zero coupon bond **Section 2(48)**
"Zero coupon bond" means a bond—
(a) issued by notified company.
(b) in respect of which no benefit is received before maturity or redemption.
(c) which the Central Government may, by notification in the Official Gazette, specify in this behalf.

Section 2(29A)

"Long-term capital asset" means a capital asset which is not a short-term capital asset.

Section 2(42B)

"Short-term capital gain" means capital gain arising from the transfer of a short-term capital asset.

Section 2(29B)

"Long-term capital gain" means capital gain arising from the transfer of a long-term capital asset.

Question 3 [Imp.]: Write a note on mode of computation of Capital Gains.
Answer:
Computation of Capital Gains **Section 48**

- **Short term capital gains**

Short term capital gain shall be computed in the manner given below:

Full Value of Consideration	xxx
Less:	
- Cost of Acquisition	xxx
- Cost of Improvement	xxx
- Selling Expenses	xxx
Short Term Capital Gain	xxx

- **Long term capital gain** **Second Proviso to Section 48**

In case of long term capital gains, instead of cost of acquisition and cost of improvement, indexed cost of acquisition and indexed cost of improvement shall be taken into consideration.

❖ **"Indexed cost of acquisition"** means the cost adjusted as per cost inflation index i.e.

Indexed Cost of acquisition =

$$\text{Cost of acquisition} \times \frac{\text{Index of the year in which the asset was transferred}}{\text{Index of the year in which the asset was purchased}}$$

❖ **"Indexed cost of any improvement"** means the cost adjusted as per cost inflation index i.e.

<u>Indexed Cost of improvement</u> =

Cost of improvement x $\dfrac{\textbf{Index of the year in which the asset was transferred}}{\textbf{Index of the year in which cost was incurred}}$

- **<u>Asset purchased before 01.04.1981</u>**

If any capital asset has been purchased or constructed before 01.04.1981, in that case cost shall be considered to be the cost incurred or fair market value of the asset as on 01.04.1981 whichever is higher and further indexed of 1981-82 shall be used instead of the index of the earlier year.

- **Indexation is not applicable in case of bonds or debentures except capital indexed bonds.**

<u>Cost Inflation Index</u>

Financial year	*Cost Inflation Index*
1981-1982	**100**
1982-1983	**109**
1983-1984	**116**
1984-1985	**125**
1985-1986	**133**
1986-1987	**140**
1987-1988	**150**
1988-1989	**161**
1989-1990	**172**
1990-1991	**182**
1991-1992	**199**
1992-1993	**223**
1993-1994	**244**
1994-1995	**259**
1995-1996	**281**
1996-1997	**305**
1997-1998	**331**
1998-1999	**351**
1999-2000	**389**
2000-2001	**406**
2001-2002	**426**
2002-2003	**447**
2003-2004	**463**
2004-2005	**480**
2005-2006	**497**
2006-2007	**519**
2007-2008	**551**
2008-2009	**582**
2009-2010	**632**
2010-2011	**711**
2011-2012	**785**
2012-2013	**852**

<u>Illustration 1.</u> Compute capital gains in the following situations for the assessment year 2013-14:

Asset	Gold	Land	Residential House	Personal Music System
Date of purchase	01.07.1978	01.04.1980	01.07.2004	01.05.2003
Cost price	4,00,000	6,00,000	8,00,000	25,000
Cost of improvement	30,000	2,00,000	4,00,000	Nil
Year of improvement	1979-80	1980-81	2005-06	2006-07
Fair market value on 01.04.1981	3,90,000	6,50,000	N.A.	N.A.
Date of Sale	01.01.2013	01.01.2013	01.01.2013	01.01.2013
Full value of consideration	35,00,000	40,00,000	20,00,000	20,000

Solution: `

Gold

Full value of consideration	35,00,000.00
Less: Indexed cost of acquisition	
= 4,00,000 / Index of 81-82 x Index of 12-13	
= 4,00,000 / 100 x 852 = 34,08,000	34,08,000.00
Long term capital gain	92,000.00

Land

Full value of consideration	40,00,000.00
Less: Indexed cost of acquisition	
= 6,50,000 / Index of 81-82 x Index of 12-13	
= 6,50,000 / 100 x 852 = 55,38,000	55,38,000.00
Long term capital loss	15,38,000.00

Residential House

Full value of consideration	20,00,000.00
Less: Indexed cost of acquisition	
= 8,00,000 / Index of 04-05 x Index of 12-13	
= 8,00,000 / 480 x 852 = 14,20,000	14,20,000.00
Less: Indexed cost of improvement	
= 4,00,000 / Index of 05-06 x Index of 12-13	
= 4,00,000 / 497 x 852 = 6,85,714.29	6,85,714.29
Long term capital loss	1,05,714.29

Personal Music System

It is not an asset as per section 2(14)

Illustration 2: Mr. Himanshu Bansal purchased one house on 01.07.1982 for `3,50,000. He constructed its first floor on 01.10.1991 by incurring `4,00,000 and constructed its second floor on 01.10.2000 by incurring `6,00,000 and third floor on 01.10.2001 by incurring `7,00,000. Finally, sold the building on 01.01.2013 for `75,00,000 and selling expenses were 2% of the sale price.

Compute tax liability of the assessee for the assessment year 2013-14.

Solution: `

Computation of Capital Gains

Full value of consideration	75,00,000.00
Less: Indexed cost of acquisition	
= 3,50,000 / Index of 82-83 x Index of 12-13	
= 3,50,000 / 109 x 852 = `27,35,779.82	27,35,779.82

Less: Indexed cost of improvement Cost of constructing first floor = 4,00,000 / Index of 91-92 x Index of 12-13 = 4,00,000 / 199 x 852 = `17,12,562.81	17,12,562.81
Less: Indexed cost of improvement Cost of constructing second floor = 6,00,000 / Index of 00-01 x Index of 12-13 = 6,00,000 / 406 x 852 = `12,59,113.30	12,59,113.30
Less: Indexed cost of improvement Cost of constructing third floor = 7,00,000 / Index of 01-02 x Index of 12-13 = 7,00,000 / 426 x 852 = `14,00,000	14,00,000.00
Less: Selling Expenses = 2% of `75,00,000 = `1,50,000	1,50,000.00
Long Term Capital Gain	2,42,544.07
Income under the head Capital Gain (LTCG)	2,42,544.07
Gross Total Income	2,42,544.07
Less: Deduction u/s 80C to 80U	Nil
Total Income (Rounded off u/s 288A)	2,42,540.00

Computation of Tax Liability

{Since there is no normal income, so as per section 112 deficiency of `2,00,000 shall be allowed from LTCG and balance income shall be taxed at flat rate of 20%}

Tax on `42,540 (2,42,540 – 2,00,000) @ 20%	8,508.00
Add: Education cess @ 2%	170.16
Add: SHEC @ 1%	85.08
Tax Liability	8,763.24
Rounded off u/s 288B	8,760.00

<u>Illustration 3:</u> Mr. X purchased one house property on 01.07.1972 for `3,00,000 and incurred `1,00,000 on its improvement in 1975-76 and its market value as on 01.04.1981 was `7,00,000 and he incurred `5,00,000 on its improvement in 1992-93 and sold the house on 01.11.2012 for `92,00,000.

He purchase one building on 01.04.2012 for `50,00,000 and it was let out @ `2,00,000 p.m. to XYZ Ltd. and XYZ Ltd. has deducted tax at source.

Mr. X has paid Municipal Tax of `20,000 p.m.

Compute Income Tax Liability/Payable for Assessment Year 2013-14 and also amount of tax deducted at source by XYZ Ltd. (Ignore the provision of service tax)

<u>Solution:</u>

	`
Computation of income from Capital Gain	
Full value of consideration	92,00,000.00
Less: Indexed Cost of acquisition = 7,00,000/Index of 81-82 x Index of 12-13 = 7,00,000/100 x 852 = `59,64,000	59,64,000.00
Less: Indexed cost of Improvement = 5,00,000/Index of 92-93 x Index of 12-13	

= 5,00,000/223 x 852 = `19,10,313.90	19,10,313.90
Long Term Capital Gain	13,25,686.10

Computation of income under head House Property

Gross Annual Value (2,00,000 x 12)	24,00,000.00
Less: Municipal Tax (20,000 x 12)	2,40,000.00
Net Annual Value	21,60,000.00
Less: 30% of NAV u/s 24(a)	6,48,000.00
Less: Interest on capital borrowed u/s 24(b)	Nil
Income under the head House Property	15,12,000.00

Computation of Gross Total Income

Income under the head House Property	15,12,000.00
Income from Long Term Capital Gain	13,25,686.10
Gross Total Income	28,37,686.10
Less: Deduction u/s 80C to 80U	Nil
Total Income	28,37,686.10
Normal Income	15,12,000.00
LTCG	13,25,686.10
Rounded off u/s 288A	13,25,690.00

Computation of Tax Liability

Tax on LTCG `13,25,690 @ 20%	2,65,138.00
Tax on normal income `15,12,000 at slab rate	2,83,600.00
Tax before education cess	5,48,738.00
Add: EC @ 2%	10,974.76
Add: SHEC @ 1%	5,487.38
Tax liability	5,65,200.14
Less: TDS	2,40,000.00
Tax payable	3,25,200.14
Rounded off u/s 288B	3,25,200.00

Calculation of Tax Deducted at Source

TDS u/s 194-I		
Rental Value (`2,00,000 x 12)	24,00,000.00	
TDS @ 10%		2,40,000.00

Computation of Capital Gains in Special Cases

- **Capital gains in case of insurance claims Section 45(1A)**
- **Capital gains in case of conversion of capital assets into stock-in-trade Section 45(2)**
- **Capital gains in case of transfer of capital asset by a depository Section 45(2A)**
- **Capital gains in case of transfer of a capital asset by a person to a Firm, Association of person or Body of individual Section 45(3)**
- **Capital gains in case of transfer of a capital asset by way of distribution on the dissolution of a firm etc. Section 45(4)**
- **Computation of capital gains on compulsory acquisition of a capital asset Section 45(5)**
- **Distribution of assets by a company on liquidation Section 46**
- **Capital gains in case of own shares or other specified securities purchased by company Section 46A**

Question 4: Write a note on computation of capital gains in case of Insurance Claims.
Answer:
<u>Capital Gains in case of Insurance Claims</u> <u>Section 45(1A)</u>
If any person receives any money under an insurance claim on account of damage or destruction of, any capital asset, because of—

(i) flood, typhoon, hurricane, cyclone, earthquake or other conclusion of nature or
(ii) riot or civil disturbance or
(iii) accidental fire or explosion or
(iv) action by an enemy or action taken in combating an enemy (whether with or without a declaration of war),
then, any profits arising from receipt of such money shall be chargeable to income-tax under the head "Capital gains" and shall be deemed to be the income of such person of the previous year in which **<u>such money or other asset was received</u>** and the amount so received shall be deemed to be the full value of the consideration.

Example
ABC Ltd. has one plant and machinery on 01.04.2012 with written down value `20,00,000 the asset is destroyed due to natural calamity and the company has received insurance claim of `21,00,000, in this case there will be short term capital gain of `1,00,000.

Question 5 [Imp.]: Write a note on computation of capital gains in case of conversion of capital assets into Stock-In-Trade.
Answer:
<u>Capital Gains in case of conversion of capital assets into Stock-In-Trade</u> <u>Section 45(2)</u>
The profits or gains arising from the transfer by way of conversion by the owner of a capital asset into stock-in-trade of a business carried on by him shall be chargeable to income-tax as his income of the previous year in which such stock-in-trade is sold or otherwise transferred by him and, for the purposes of section 48, the fair market value of the asset on the date of such conversion or treatment shall be deemed to be the full value of the consideration.

Section 45(2) is applicable only if the asset has been converted into stock-in-trade w.e.f. **<u>01.04.1984 onwards</u>**. If the conversion is prior to 01.04.1984, no capital gains shall be computed as per Supreme Court decision in **<u>Bai Shirinbai K. Kooka v. CIT (1962)(SC).</u>**

<u>Section 2(22B) "Fair Market Value",</u> in relation to a capital asset, means—the price that the capital asset would ordinarily fetch on sale in the open market on the relevant date.

<u>Illustration 4:</u> Mr. Rohit Paul purchased Gold on 01.10.1971 for `2,00,000 and its fair market value on 01.04.1981 is `3,00,000 and he converted it into stock-in-trade on 01.10.1988 and market value of the gold on the date of conversion was `11,00,000 and subsequently half of the stock-in-trade was sold on 01.10.2012 for `6,50,000 and balance half was sold on 01.10.2013 for `7,50,000.

Compute his total income for various years.

<u>Solution:</u> `
Computation of Capital Gains under section 45(2)

Full value of consideration	11,00,000
Less: Indexed cost of acquisition	
= 3,00,000 / Index of 81-82 x Index of 88-89	

= 3,00,000 / 100 x 161 = `4,83,000	4,83,000	
Long Term Capital Gain		6,17,000

Assessment year 2013-14

Long Term Capital Gain (1/2 of `6,17,000)	3,08,500	
Business Income		
(`6,50,000-`5,50,000)		1,00,000
Total Income		4,08,500

Assessment year 2014-15

Long Term Capital Gain (1/2 of `6,17,000)	3,08,500	
Business Income		
(`7,50,000-`5,50,000)		2,00,000
Total Income		5,08,500

Question 6: Write a note on computation of capital gains in case of transfer of capital asset by a Depository.
Answer:
<u>Capital gains in case of transfer of capital asset by a depository</u> <u>Section 45(2A)</u>
Where any person has had at any time during previous year any beneficial interest in any securities, then, any profits or gains arising from transfer made by the depository or participant of such beneficial interest in respect of securities shall be chargeable to income-tax as the income of the beneficial owner of the previous year in which such transfer took place and shall not be regarded as income of the depository who is deemed to be the registered owner of securities by virtue of section 10(1) of the Depositories Act, 1996, and the cost of acquisition and the period of holding of any securities shall be determined on the basis of the **<u>first-in-first-out method</u>**.

Question 7: Write a note on computation of capital gains in case of transfer of a capital asset by a Person to a Firm, Association of Person or Body of Individual.
Answer:
<u>Capital gains in case of transfer of a capital asset by a person to a Firm, Association of Person or Body of Individual</u> <u>Section 45(3)</u>
The profits or gains arising from the transfer of a capital asset by a person to a firm or other association of persons or body of individuals in which he is or becomes a partner or member, by way of capital contribution or otherwise, shall be chargeable to tax as his income of the previous year in which such transfer takes place and the **<u>amount recorded in the books of account</u>** of the firm, association or body as the value of the capital asset shall be deemed to be the full value of the consideration received or accruing as a result of the transfer of the capital asset.

<u>Illustration 5:</u> Mr. Ankit Soni and Mr. Tushar Arora are two partners of a firm X & Co. On 01.01.2013, Mr. Rupesh Dahiya joins the firm and brings shares in a company as his capital contribution. Fair market value of these shares on 01.01.2013 is `86,000 whereas amount credited in Mr. Rupesh Dahiya's account in the firm is `1,10,000. Assuming that cost of acquisition in 1986-87 of these shares was `48,000, find out the amount of chargeable capital gain for the assessment year 2013-14 in the hands of Mr. Rupesh Dahiya.

<u>Solution:</u>

Computation of Capital Gains

	`
Full value of consideration	1,10,000.00
Less: Indexed cost of acquisition	
= 48,000 / Index of 86-87 x Index of 12-13	
= 48,000 / 140 x 852 = `2,92,114.29	2,92,114.29
Long Term Capital Loss	(1,82,114.29)

Question 8: Write a note on computation of capital gains in case of transfer of a capital asset by way of distribution of capital asset on the dissolution of a firm etc.
Answer:
Capital gains in case of transfer of a capital asset by way of distribution on the dissolution of a firm etc. Section 45(4)
The profits or gains arising from the transfer of a capital asset by way of distribution of capital assets on the dissolution of a firm or other association of persons or body of individuals or otherwise, shall be chargeable to tax as the income of the firm, association or body, of the previous year in which the said transfer takes place and the **fair market value** of the asset on the date of such transfer shall be deemed to be the full value of the consideration received as a result of the transfer.

Illustration 6: One partnership firm has purchased one building on 01.10.1995 for `5,00,000 and dissolution has taken place on 01.10.2012 and this building was transferred to one of the partner in settlement of his claim of `25,00,000, though the market value was `35,00,000.
Compute capital gains for assessment year 2013-14 and also its tax liability.

Solution:

	`
Computation of Capital Gains	
Full value of consideration	35,00,000.00
Less: Indexed cost of acquisition	
= 5,00,000 / Index of 95-96 x Index of 12-13	
= 5,00,000 / 281 x 852 = `15,16,014.23	15,16,014.23
Long Term Capital Gain	19,83,985.77
Rounded off u/s 288A	19,83,990.00

Computation of Tax Liability	
Tax on `19,83,990 @ 20% u/s 112	3,96,798.00
Add: Education cess @ 2%	7,935.96
Add: SHEC @ 1%	3,967.98
Tax Liability	4,08,701.94
Rounded off u/s 288B	4,08,700.00

Question 9 [V. Imp.]: Write a note on computation of capital gains on compulsory acquisition of a Capital Asset.
Answer:
Computation of capital gains on compulsory acquisition of a capital asset Section 45(5)
If any capital asset has been acquired compulsorily by the Government or other similar agency, capital gains shall be computed in the year in which the asset was acquired but capital gains so computed shall be taxable in the year in which the compensation or the part of compensation is first received.

Enhanced Compensation
If the compensation is enhanced by the Court, Tribunal etc., such enhanced compensation shall be the capital gains of the year in which the enhanced compensation is received. The cost of acquisition and the cost of improvement shall be taken to be nil.

Reduced Compensation
If the compensation is reduced subsequently by any Court etc., in such cases capital gains shall be re-computed taking into consideration such reduced compensation.

Death of the Transferor
It is possible that the transferor may die before he receives the enhanced compensation. In that case, the enhanced compensation or consideration will be chargeable to tax in the hands of the person who receives the same.

Illustration 7: Mr. Ajay Kumar (Date of birth 01.10.1946) has purchased one house on 01.04.1975 for `4,00,000 and incurred `2,00,000 on its improvement on 01.10.1978. Its market value on 01.04.1981 was `3,00,000. This house was acquired by the Government on 01.10.2000 and the compensation fixed was `35,00,000 and the Government has paid half of the compensation on 01.10.2012 and balance half on 01.10.2013.

The assessee has filed an appeal for increasing the compensation and the court has given decision on 31.03.2014 directing the Government to pay additional compensation of `5,00,000.

The Government has paid half of the amount on 01.04.2015 and balance half on 01.04.2016.

He has invested `72,000 in NSC in previous year 2012-13.

Compute assessee's tax liability for the assessment year 2013-14 and also capital gains for various years.

Solution:

Computation of Capital Gains under section 45(5)

Capital gain shall be computed in the year in which the asset was acquired by the Government i.e. in the previous year 2000-01 and shall be taxed in the year in which the first payment has been received by the assessee i.e. in the previous year 2012-13

	`
Full value of consideration	35,00,000.00
Less: Indexed cost of acquisition	
= 4,00,000 / Index of 81-82 x Index of 00-01	
= 4,00,000 / 100 x 406 = `16,24,000	16,24,000.00
Long Term Capital Gain	18,76,000.00
Income under the head Capital Gain (LTCG)	18,76,000.00
Gross Total Income	18,76,000.00
Less: Deduction u/s 80C	Nil
{Deduction under section 80C is not allowed from LTCG}	
Total Income	18,76,000.00

Computation of Tax Liability

{Since normal income is nil, as per section 112 deficiency of `2,50,000 shall be allowed from long term capital gains and balance income shall be taxed at flat rate of 20%}

Tax on `16,26,000 (`18,76,000 – `2,50,000) @ 20%	3,25,200.00
Add: Education cess @ 2%	6,504.00
Add: SHEC @ 1%	3,252.00
Tax Liability	3,34,956.00
Rounded off u/s 288B	3,34,960.00

Computation of Capital Gain for the previous year 2015-16

Long Term Capital Gain	2,50,000.00

Computation of Capital Gain for the previous year 2016-17

Long Term Capital Gain	2,50,000.00

Illustration 8: Mrs. X purchased one house on 01.07.1977 for `2,00,000 and incurred `1,00,000 on its improvement in 1978-79 and its market value as on 01.04.1981 is `2,50,000. She incurred `2,00,000 on its improvement in 1991-92 and the house was acquired by the Government on 01.07.2009 and compensation fixed is `60,00,000 and half of the amount was paid by the Government on 01.01.2013 and balance half on

01.01.2014. She has also received interest of ` 2,00,000 in previous year 2012-13 from the Government for delay in payment of compensation.

Income under the head Business/Profession `20,03,990.

Compute tax liability of Mr. X for the Assessment Year 2013-14.

Solution:

Computation of income under the head Capital Gains

Capital gain shall be computed in the year in which the asset was acquired by the Government i.e. in the previous year 2009-10 and shall be taxed in the year in which the first payment has been received by the assessee i.e. in the previous year 2012-13

	`
Full value of consideration	60,00,000.00
Less: Indexed cost of acquisition	
= 2,50,000/Index of 81-82 x Index of 09-10	
= 2,50,000/100 x 632	15,80,000.00
Less: Indexed cost of improvement	
= 2,00,000/ Index of 91-92 x Index of 09-10	
= 2,00,000/199 x 632	6,35,175.87
Long Term Capital Gain	37,84,824.13

Computation of income under the head Other Sources

Interest income	2,00,000.00
Less: Deduction u/s 57 @ 50%	1,00,000.00
Income under the head Other Sources	1,00,000.00

Computation of income under the head Business/Profession

Income under the head Business Profession	20,03,990.00

Computation of Gross Total Income

Income under the head Business Profession	20,03,990.00
Income from long term capital gains	37,84,824.13
Income under the head Other Sources	1,00,000.00
Gross Total Income	58,88,814.13
Less: Deduction u/s 80C to 80U	Nil
Total Income	58,88,814.13
LTCG	37,84,824.13
Rounded off u/s 288A	37,84,820.00
Normal income	21,03,990.00

Computation of Tax Liability

Tax on LTCG `37,84,820 @ 20% u/s 112	7,56,964.00
Tax on `21,03,990 at slab rate	4,61,197.00
Tax before education cess	12,18,161.00
Add: Education Cess @ 2%	24,363.22
Add: SHEC @1%	12,181.61
Tax Liability	12,54,705.83
Rounded off u/s 288B	12,54,710.00

Question 10: Write a note on capital gains on distribution of assets by a company on Liquidation.

Answer:

<u>Capital Gains on distribution of assets by companies in Liquidation</u> <u>Section 46</u>

Notwithstanding anything contained in section 45, where the assets of a company are distributed to its shareholders on its liquidation, such distribution shall not be regarded as a transfer by the company for the purposes of section 45.

Where a shareholder on the liquidation of a company receives any money or other assets from the company, he shall be chargeable to income-tax under the head "Capital gains", in respect of the money so received or the market value of the other assets on the date of distribution, as reduced by the amount assessed as dividend within the meaning of sub-clause (*c*) of clause (*22*) of section 2 and the sum so arrived at shall be deemed to be the full value of the consideration for the purposes of section 48.

(Already discussed under the head Other Sources under section 2(22)(c))

<u>Illustration 9:</u> ABC Ltd. has issued one-lakh shares of `10 each and the company goes into liquidation on 01.10.2012 and distributable asset of the company are valued at `8 lakh. The company's accumulated profits on the date of liquidation are `3.5 lakhs which are included in `8 lakhs. Mr. Karan Manchanda has purchased 100 shares in this company on 01.10.1978 for ` 10 each and market value of the shares on 01.04.1981 is `12 per share.

Compute dividends in the hands of Mr. Karan Manchanda and also capital gains.

<u>Solution:</u>

	`
Share of Mr. Karan Manchanda in the distributable profits	
8,00,000 x 100/1,00,000	800
Accumulated profits	3,50,000
Proportionate share of Mr. Karan Manchanda	350
Dividends in the hands of Mr. Karan Manchanda as per sec 2(22)(c)	350

Computation of capital gains as per section 46

Full value of consideration	450
Less: Indexed cost of acquisition	
= (12 x 100) / Index of 81-82 x Index of 12-13	
= 1,200/100 x 852 = 10,224	10,224
Long-term capital loss	(9,774)

<u>Illustration 10:</u> Ms. Bhanumathi purchased 10,000 equity shares of Vimil Co. Pvt. Ltd. on 28.02.2005 for `1,20,000. The company was wound up on 31.07.2012. The following is the summarized financial position of the company as on 31.07.2012:

Liability	`	Assets	`
70,000 Equity shares	7,00,000	Agricultural lands	43,00,000
General reserve	40,00,000	Cash at bank	7,00,000
Provision for taxation	3,00,000		
	50,00,000		**50,00,000**

The tax liability (towards dividend distribution tax) was ascertained at `3,50,000, after considering refund due to the company. The remaining assets were distributed to the shareholders in the proportion of their shareholding. The market value of 6 acres of agricultural land (in an urban area) as on 31.07.2012 is `11,00,000 per acre.

The agricultural land received above was sold by Ms. Bhanumathi on 28.02.2013 for `16,00,000.

Discuss the tax consequences in the hands of the company and Ms. Bhanumathi.
Cost inflation indices are:

Financial year	Index number
2004-05	480
2012-13	852

Solution:

The company has distributed assets to its shareholders at the time of liquidation is not regarded as a transfer under section 46(1).

Computation of capital gains of Ms. Bhanumathi

Capital gain on transfer of shares

	`
Net distributable amount (`7,00,000 + 66,00,000 – 3,50,000)	69,50,000.00
Proportionate amount of Bhanumathi 1/7th x 69,50,000	9,92,857.14
Accumulated profits 40,00,000 – (3,50,000 – 3,00,000)	39,50,000.00
Proportionate share of Bhanumathi 1/7th x 39,50,000	5,64,285.71
Hence deemed dividend under section 2(22)(c) shall be	5,64,285.71
However dividends shall be exempt from income tax under section 10(34)	
Full value of consideration (9,92,857.14 – 5,64,285.71)	4,28,571.43
Less: Indexed cost of acquisition = 1,20,000 / Index of 04-05 x Index of 12-13 = 1,20,000/ 480 x 852 = 2,13,000	2,13,000.00
Long term capital gain	2,15,571.43
Capital gain on transfer of agricultural land	
Full value of consideration	16,00,000.00
Less: Cost of acquisition (market value)	9,42,857.14
Short term capital gain	6,57,142.86

Question 11: Write a note on capital gains in case of own shares or other specified securities purchased by company.

Answer:

<u>Capital Gains in case of own shares or other specified securities purchased by Company</u> <u>Section 46A</u>

If any company has re-purchased its shares or other securities, in such cases capital gains shall be computed in the hands of its holder and for this purpose consideration paid by the company shall be considered to be full value of consideration.

Example

Mr. Satnam Singh purchased 100 preference shares of ABC Ltd. on 01.10.1995 @ `10 per share and subsequently these shares were re-purchased by the company on 01.10.2012 @ `75 per share, in this case capital gains in the hands of Mr. Satnam Singh shall be computed in the manner give below:

	`
Full value of consideration (100 x 75)	7,500.00
Less: Indexed cost of acquisition = 1,000 / Index of 95-96 x Index of 12-13 = 1,000/281 x 852 = `3,032.03	3,032.03
Long term capital gains	4,467.97

Where a shareholder or a holder of other specified securities receives any consideration from any company for purchase of its own shares or other specified securities held by such shareholder or holder of other specified securities, then, subject to the provisions of section 48, the **<u>difference between the cost of acquisition and the value of consideration</u>** received by the shareholder or the holder of other specified securities, shall be deemed to be the capital gains arising to such shareholder or the holder of other specified securities, in the year in which such shares or other specified securities were purchased by the company.

Question 12 [V. Imp.]: Write a note on transactions not regarded as transfer.
Answer:
<u>Transactions not regarded as transfer</u> <u>Section 47</u>
The following transactions will not be considered as transfer and therefore, no capital gains will arise:-

(1) Any distribution of capital assets on the **<u>total or partial partition of a Hindu Undivided Family</u>**.

(2) Any transfer of a capital asset under a **<u>gift or will or an irrevocable trust</u>**.

(3) Any transfer of a capital asset by **<u>a company to its</u>** **<u>subsidiary company</u>**, if—
(a) the holding company or its nominees hold the whole of the share capital of the subsidiary company, and
(b) the subsidiary company is an Indian company.

(4) Any transfer of a capital asset by **<u>a subsidiary company to the holding company</u>**, if—
(a) the whole of the share capital of the subsidiary company is held by the holding company, and
(b) the holding company is an Indian company.

(5) Any transfer, in a scheme of amalgamation, of a capital asset by the **<u>amalgamating company to the amalgamated company</u>** if the **<u>amalgamated company is an Indian company</u>**.

(6) Any transfer, in a demerger, of a capital asset by the **<u>demerged company to the resulting company</u>**, if the **<u>resulting company is an Indian company</u>**.

(7) Any transfer of shares in the **<u>amalgamating company by a shareholder</u>**, in a scheme of amalgamation, if—
(a) the transfer is made in consideration of the allotment to him of shares in the amalgamated company except where the shareholders itself is the amalgamated company, and
(b) the amalgamated company is an Indian company.

(8) Any transfer of a capital asset, being **<u>any work of art, archaeological, scientific or art collection</u>**, **<u>book, manuscript, drawing, painting, photograph or print</u>**, to the Government or a University or the National Museum, National Art Gallery, National Archives or any such other public museum or institution as may be notified by the Central Government.

(9) Any transfer by way of **<u>conversion of bonds or debentures, debenture-stock or deposit certificates</u>** etc. of a company into shares or debentures of that company.

(10) Any transfer of a capital asset by a **<u>firm to a company as a result of succession</u>** of the firm by a company.

Provided that—

(a) all the assets and liabilities of the firm or of the association of persons or body of individuals become the assets and liabilities of the company.

(b) all the partners of the firm immediately before the succession become the shareholders of the company in the same proportion in which their capital accounts stood.

(c) the partners of the firm do not receive any consideration other than by way of allotment of shares in the company.

(d) the aggregate of the shareholding in the company of the partners of the firm is not less than fifty per cent of the total voting power in the company and their shareholding continues to be as such for a period of five years from the date of the succession.

(11) Any transfer of a capital asset in a **transaction of reverse mortgage** under a scheme made and notified by the Central Government

(12) If a sole proprietary concern is succeeded by a company in the business carried on by it as a result of which the **sole proprietary concern sells or otherwise transfers any capital asset or intangible asset to the company**.

Provided that—

(a) all the assets and liabilities of the sole proprietary concern should become the assets and liabilities of the company.

(b) the shareholding of the sole proprietor in the company is not less than fifty per cent of the total voting power and it should be maintained for a minimum period of five years from the date of the succession and

(c) the sole proprietor does not receive any consideration or benefit, in any manner, other than by way of allotment of shares in the company.

(13) Any transfer of a capital asset or intangible asset by **a private company or unlisted public company to a limited liability partnership** as a result of conversion of the company into a limited liability partnership.

Provided that—

(a) all the assets and liabilities of the company immediately before the conversion become the assets and liabilities of the limited liability partnership;

(b) all the shareholders of the company immediately before the conversion become the partners of the limited liability partnership and their capital contribution and profit sharing ratio in the limited liability partnership are in the same proportion as their shareholding in the company on the date of conversion;

(c) the shareholders of the company do not receive any consideration or benefit, directly or indirectly, in any form or manner, other than by way of share in profit and capital contribution in the limited liability partnership;

(d) the aggregate of the profit sharing ratio of the shareholders of the company in the limited liability partnership shall not be less than fifty per cent. at any time during the period of five years from the date of conversion;

(e) the total sales, turnover or gross receipts in business of the company in any of the three previous years preceding the previous year in which the conversion takes place does not exceed sixty lakh rupees; and

(f) no amount is paid, either directly or indirectly, to any partner out of balance of accumulated profit standing in the accounts of the company on the date of conversion for a period of three years from the date of conversion.

Question 13. Write a note on cost with reference to certain modes of Acquisition.
Answer:
Cost with reference to certain modes of acquisition Section 49
Cost of acquisition in case of transfer of a capital asset through the transaction of section 47 Section 49(1)
If any person has received an asset through a transaction of section 47, cost of acquisition and the cost of improvement shall be the cost of acquisition/cost of improvement of the previous owner who has transferred the asset through the transaction of section 47 and such transactions are as given below:

1. If any capital asset became the property of the assessee on **partition of a Hindu Undivided Family.**

2. If any capital asset became the property of the assessee under a **gift or will.**

3. If any capital asset became the property of the assessee on any **distribution of assets on the liquidation of a company.** (If the assessee has been assessed to capital gains under section 46 on the basis of market value, in that case, cost of acquisition shall be the market value)

4. If any capital asset became the property of the assessee on any **transfer of a capital asset by a company to its subsidiary company.**

5. If any capital asset became the property of the assessee on any **transfer of a capital asset by a subsidiary company to the holding company**.

6. If any capital asset became the property of the assessee, in a scheme of **amalgamation.**

Cost of acquisition in case of conversion of debentures etc. into shares Section 49(2A)
Where the capital asset, being a share or debenture in a company, became the property of the assessee in consideration of a transfer by way of **conversion of bonds or debentures**, debentures stock or deposit certificates, the cost of acquisition of the asset to the assessee shall be deemed to be that part of the cost of debenture, debenture-stock or deposit certificates in relation to which such asset is acquired by the assessee.

Cost of acquisition in case of shares/debentures received under Employees Stock Option Plan Section 49(2AA)
If the employer has issued sweat equity shares to the employees, in such cases as per section 17(2)(vi), market value of the shares shall be taxable in the hands of the employee.
If the same shares have been sold by the employees subsequently, the cost of acquisition of the shares shall be the market value of the shares which was taken into consideration for the purpose of perquisite value under the head salary.
(It will be discussed under the head Salary).

Cost of acquisition in case of assets received as gift Section 49(4) (applicable w.e.f 01.10.2009)
If any individual or HUF has received gift in kind and it was taxable under section 56, in such cases, at the time of sale, cost of acquisition of such asset shall be the value which has been taken into consideration for the purpose of computing taxable amount of gift.

Example
Mr. Aman Gupta purchased one house property on 01.07.1992 and it was gifted to Mr. Karan Khanna on 01.11.2012 and value for the purpose of charging stamp duty was `5,00,000 and subsequently the house property was sold by Mr. Karan Khanna on 01.01.2013 for `25,00,000, in this case tax liability shall be computed in the manner given below:
`

Income under the head Other Sources	5,00,000.00
(Being the amount of gift under section 56)	

Income under the head capital gain

Full value of consideration	25,00,000.00
Less: Cost of acquisition	5,00,000.00
Short term capital gain	20,00,000.00
Gross Total Income	25,00,000.00
Less: Deduction u/s 80C to 80U	Nil
Total Income	25,00,000.00

Computation of Tax Liability

Tax on `25,00,000 at slab rate	5,80,000.00
Add: Education cess @ 2%	11,600.00
Add: SHEC @ 1%	5,800.00
Tax Liability	5,97,400.00

<u>Illustration 11:</u> Mr. Pankaj Goenka purchased one house on 01.10.1961 for `2,00,000 and incurred `1,00,000 on its improvement on 01.10.1971. Its fair market value on 01.04.1981 is `3,50,000.

Mr. Pankaj Goenka expired on 01.10.2012 and the house was inherited by his son Mr. Nitesh Nirmal and value for the purpose of charging stamp duty was `10,00,000.

Mr. Nitesh Nirmal has sold the house on 01.11.2012 for `35,00,000.

Compute tax liability of Mr. Nitesh Nirmal for the assessment year 2013-14.

<u>Solution:</u>

Computation of Capital Gains

	`
Full value of consideration	35,00,000.00
Less: Indexed cost of acquisition	
= 3,50,000 / 100 x 852 = `29,82,000	29,82,000.00
Long Term Capital Gain	5,18,000.00
Income under the head Capital Gain	5,18,000.00
Gross Total Income	5,18,000.00
Less: Deduction u/s 80C to 80U	Nil
Total Income	5,18,000.00

Computation of Tax Liability

{Since normal income is nil, as per section 112 deficiency of `2,00,000 shall be allowed from long term capital gain and balance income shall be taxed at flat rate of 20%}

Tax on `3,18,000 (`5,18,000 – `2,00,000) @ 20%	63,600.00
Add: Education cess @ 2%	1,272.00
Add: SHEC @ 1%	636.00
Tax Liability	65,508.00
Rounded off u/s 288B	65,510.00

<u>Illustration 12:</u> Mr. X purchased one house on 01.10.1992 for `2,00,000 and incurred ` 5,00,000 on its improvement in F.Y. 1999-2000 and Mr. X gifted the house on 01.10.2012 to his friend Mr. Y when its value for the purpose of charging stamp duty was `10,00,000.

Mr. Y sold the house on 01.01.2013 for `42,00,000.

Compute his tax liability.

Solution:

	`
Income under the head Other Sources	10,00,000.00
Computation of Capital Gains	
Full value of consideration	42,00,000.00
Less: Cost of acquisition	10,00,000.00
Short Term Capital Gain	32,00,000.00
Income under the head Capital Gain	32,00,000.00
Gross Total Income	42,00,000.00
Less: Deduction u/s 80C to 80U	Nil
Total Income	42,00,000.00
Computation of Tax Liability	
Tax on `42,00,000 at slab rate	10,90,000.00
Add: Education cess @ 2%	21,800.00
Add: SHEC @ 1%	10,900.00
Tax Liability	11,22,700.00

(b) Presume Mr. Y is son of Mr. X.

Solution:

	`
Computation of Capital Gains	
Full value of consideration	42,00,000.00
Less: Indexed cost of acquisition = 2,00,000 / 223 x 852 = `7,64,125.56	7,64,125.56
Less: Indexed cost of improvement = 5,00,000 / 389 x 852 = `10,95,115.68	10,95,115.68
Long Term Capital Gain	23,40,758.76
Income under the head Capital Gain	23,40,758.76
Gross Total Income	23,40,758.76
Less: Deduction u/s 80C to 80U	Nil
Total Income (Rounded off u/s 288A)	23,40,760.00

Computation of Tax Liability

{Since normal income is nil, as per section 112 deficiency of `2,00,000 shall be allowed from long term capital gain and balance income shall be taxed at flat rate of 20%}

Tax on `21,40,760 (`23,40,760 – `2,00,000) @ 20%	4,28,152.00
Add: Education cess @ 2%	8,563.04
Add: SHEC @ 1%	4,281.52
Tax Liability	4,40,996.56
Rounded off u/s 288B	4,41,000.00

(c) Presume Mr. Y is son of Mr. X and house was gifted on 01.11.2009 and value for the purpose of charging stamp duty was `32,00,000.

Solution:

	`
Computation of Capital Gains	
Full value of consideration	42,00,000.00
Less: Indexed cost of acquisition = 2,00,000 / 223 x 852 = `7,64,125.56	7,64,125.56

Less: Indexed cost of improvement	
= 5,00,000 / 389 x 852 = `10,95,115.68	10,95,115.68
Long Term Capital Gain	23,40,758.76
Income under the head Capital Gain	23,40,758.76
Gross Total Income	23,40,758.76
Less: Deduction u/s 80C to 80U	Nil
Total Income (Rounded off u/s 288A)	23,40,760.00

Computation of Tax Liability

{Since normal income is nil, as per section 112 deficiency of `2,00,000 shall be allowed from long term capital gain and balance income shall be taxed at flat rate of 20%}

Tax on `21,40,760 (`23,40,760 – `2,00,000) @ 20%	4,28,152.00
Add: Education cess @ 2%	8,563.04
Add: SHEC @ 1%	4,281.52
Tax Liability	4,40,996.56
Rounded off u/s 288B	4,41,000.00

(d) Presume in part (c) Mr. Y is friend of Mr. X.

<u>Solution:</u> `

Computation of Capital Gains

Full value of consideration	42,00,000.00
Less: Cost of acquisition	32,00,000.00
Short Term Capital Gain	10,00,000.00
Gross Total Income	10,00,000.00
Less: Deduction u/s 80C to 80U	Nil
Total Income	10,00,000.00

Computation of Tax Liability

Tax on `10,00,000 at slab rate	1,30,000.00
Add: Education cess @ 2%	2,600.00
Add: SHEC @ 1%	1,300.00
Tax Liability	1,33,900.00

Question 14: Explain Reverse Mortgage.

Answer:

As per section 47, reverse mortgage shall not be considered to be transfer for the purpose of capital gain.

Under reverse mortgage, an individual can mortgage his house property to the bank and the bank shall grant a loan against the security of house property and such loan shall be given in monthly installments and the amount so received shall not be considered to be income of the mortgagor under section 10(43).

After the death of the mortgagor the bank shall have right to sell off the property and shall adjust loan and interest and shall compute capital gains for the deceased person and shall pay tax to the government.

The purpose of the scheme is to make available regular amount to the persons who do not have regular income but are the owners of the house property.

In general, the mortgagor repay the loan in installments but in this case mortgagee i.e. bank is paying installment to the mortgagor and hence it is called reverse mortgage.

Question 15: write a note on capital gains in case of Depreciable Assets.
Answer:
<u>Capital gains in case of Depreciable Assets</u> <u>Section 50</u>
If any person has transferred depreciable asset, gain or loss shall always be short term and indexation shall not be applicable and capital gains shall be computed in the manner given below:

Full value of consideration
Less:
(i) Written down value of the asset in the beginning of the year
(ii) Selling expenses
Short Term Capital Gains

The excess so obtained shall be considered to be short term capital gains.
Example
ABC Ltd. has one plant and machinery on 01.04.2012 with w.d.v `6,00,000 and it was acquired by the company on 01.04.1997 and the plant was sold on 01.01.2013 for `11,00,000 and selling expenses are `30,000, in this case, capital gains shall be computed in the manner given below:

	`
Full value of consideration	11,00,000
Less:	
(i) Written down value of the asset in the beginning of the year	6,00,000
(ii) Selling expenses	30,000
Short Term Capital Gains	4,70,000

Question 16: Write a note on computation of capital gain in case of slump sale covered under section 50B.
Answer:
<u>Special provision for computation of capital gains in case of Slump Sale</u> <u>Section 50B</u>
<u>Section 2(42C)—"Slump sale"</u> means the transfer of one or more undertakings as a result of the sale for a lump sum consideration without values being assigned to the individual assets and liabilities in such sales.

If any person has transferred the entire unit or part of the unit for a lump sum consideration, it will be called slump sale and capital gain shall be computed for the entire unit instead of individual asset and cost of acquisition shall be the net worth of the unit or the division.

If a unit or division was held by the assessee for not more than 36 months immediately preceding the date of its transfer, capital gain shall be considered to be short term and if the period is more than 36 months, capital gain shall be considered to be long term and **<u>indexation is not applicable.</u>**

<u>"Net worth"</u> shall be the aggregate value of total assets of the undertaking or division as reduced by the value of liabilities of such undertaking or division as appearing in its books of account:
Any change in the value of assets on account of revaluation of assets shall be ignored for the purposes of computing the net worth.

Every assessee, in the case of slump sale, shall furnish in the prescribed form alongwith the return of income, a report of a Chartered Accountant indicating the computation of the net worth of the undertaking or division and certifying that the net worth of the undertaking or division, has been correctly arrived at.
Example
ABC Ltd. has sold one of its division on 01.10.2012 for `35,00,000 and its net worth on 01.10.2012 was `20,00,000 and it was setup in 1993, in this case there is long term capital gain of `15,00,000.

<u>Illustration 13:</u> Mr. A is a proprietor of Kamal Enterprises having 2 units started on 01.04.2006. He transferred on 01.04.2012 his unit 1 by way of slump sale for a total consideration of `45 Lacs. The expenses is incurred for this transfer were `65,000/-. His Balance Sheet as on 31.03.2012 is as under:

Liabilities	**Total** `	**Assets**	**Unit 1** `	**Unit 2** `	**Total** `
Own Capital	21,00,000	Building	15,00,000	4,00,000	19,00,000
Revaluation Reserve (for building of unit 1)	6,00,000	Machinery	5,00,000	2,00,000	7,00,000
Bank Loan (70% for unit 1)	4,00,000	Debtors	3,00,000	70,000	3,70,000
Trade creditors (25% for unit 1)	3,10,000	Other assets	3,50,000	90,000	4,40,000
Total	**34,10,000**	**Total**	**26,50,000**	**7,60,000**	**34,10,000**

Other information:

(i) Revaluation reserve is created by revising upward the value of the building of unit 1.

(ii) No individual value of any asset is considered in the transfer deed.

Compute the capital gain for the assessment year 2013-14.

Solution:

Computation of capital gains on slump sale of Unit 1

Particulars	`
Sale value	45,00,000
Less: Expenses on sale	65,000
Less: Net worth (See Note (i) below)	16,92,500
Long term capital gain	27,42,500

Note (i) : Computation of net worth of Unit 1 of Kamal Enterprises

Particulars	`
Building (excluding `6 lakhs on account of revaluation)	9,00,000
Machinery	5,00,000
Debtors	3,00,000
Other assets	3,50,000
Total assets	20,50,000
Less:	
Bank Loan	(2,80,000)
Creditors	(77,500)
Net worth	**16,92,500**

Question 17 [Imp.]: Write a note on full value of consideration in certain cases.

Answer:

Special provision for full value of consideration in certain cases Section 50C

If the consideration received by an assessee as a result of transfer of land or building is less than the value adopted by the stamp valuation authority of the State Government, in that case the value so adopted shall be considered to be full value of consideration and capital gains shall be computed accordingly.

If any assessee claims that the value adopted by stamp valuation authority exceeds the fair market value of the property on the date of transfer of the asset, Assessing Officer may refer the valuation of the capital asset to a valuation officer and the value determined by the valuation officer shall be taken into consideration but if the value determined by the valuation officer is exceeding the value determined by stamp valuation authority, in that case, value determined by stamp valuation authority shall be taken into consideration.

Example

Mr. Vishal Jain has one plot of 200 sq. yards which has been sold by him and he claims that it was sold at a rate of `1,000 per sq. yard but for the purpose of stamp valuation, value is considered to be `5,000 per sq. yard. In this case full value of consideration for the purpose of section 48 shall be `5,000 per sq yard and if the assessee claims that fair market value is less than `5,000 per sq. yard, Assessing Officer may refer the matter to the valuation officer.

Illustration 14: Mr. X who transferred his land and building on 10.02.2013, furnishes the following information:

(i) Net consideration received `35,00,000.

(ii) Value adopted by stamp valuation authority, which was contested by Mr. X `50,00,000.

(iii) value ascertained by Valuation Officer on reference by the Assessing Officer `52,00,000.

(iv) This land was distributed to Mr. X on the partial partition of his HUF on 01.04.1981. Fair market value of the land as on 01.04.1981 was `1,60,000.

(v) A residential building was constructed on the above land by Mr. X at a cost of `3,50,000 (construction completed on 01.12.2002) during the financial year 2002-03.

(vi) Brought forward short-term capital loss (incurred on sale of shares during the financial year 2010-11) `80,000.

What should be the maximum amount to be invested by Mr. X in NHAI / RECL bonds so as to be exempt from clutches of capital gain tax?

Solution:

Computation of Capital Gains of Mr. X for the Assessment Year 2013-14

	`
Full value of consideration	50,00,000.00
Less: Indexed cost of acquisition	
Indexed cost of land (1,60,000 / 100 x 852)	13,63,200.00
Indexed cost of building (3,50,000 / 447 x 852)	6,67,114.09
Long term capital gain	29,69,685.91
Less: Brought forward short term capital loss set off	80,000.00
Long term capital gain	28,89,685.91
Amount to be invested in NHAI / RECL bonds (28,89,685.91 – 2,00,000)	26,89,685.91

Since income upto `2,00,000 is exempt from income tax hence amount can be invested upto `26,89,685.91 instead of `28,89,685.91.

Question 18. Write a note on fair market value deemed to be full value of consideration in certain cases covered under section 50D

Answer:

Fair market value deemed to be full value of consideration in certain cases Section 50D

Where the consideration received or accruing as a result of the transfer of a capital asset by an assessee is not ascertainable or cannot be determined, then, for the purpose of computing income chargeable to tax as capital gains, the fair market value of the said asset on the date of transfer shall be deemed to be the full value of the consideration received or accruing as a result of such transfer.

Question 19 [V. Imp.]: Write a note on advance money or forfeiture of advance money under Section 51.

Answer:

Advance money/forfeiture of advance money Section 51

If any capital asset was subject of negotiation for sale and any advance money was received under an agreement to sell but subsequently the buyer has refused to purchase the asset and advance money was forfeited, in such cases, cost of acquisition shall be reduced by the amount so forfeited.

If any such advance money was forfeited by a person who has transferred the capital asset through the transaction of section 47, in such cases, there will not be any adjustment for the money so forfeited.

Illustration 15: Mr. Dhruv Aggarwal purchased one building on 01.10.1982 for `5,00,000. He entered into an agreement on 01.10.1987 to sell this building and advance money of `25,000 was received but subsequently the buyer backed out and the advance money was forfeited. This building was sold on 01.01.2013 to some other person for `45,00,000.

Compute total income in the hands of Mr. Dhruv Aggarwal for the assessment year 2013-14.

Solution:

Computation of Capital Gains

	`
Full value of consideration	45,00,000.00
Less: Indexed cost of acquisition	
= Cost of acquisition as per section 51 (` 5,00,000 – `25,000)	
= 4,75,000 / Index of 82-83 x Index of 12-13	
= 4,75,000 / 109 x 852 = `37,12,844.04	37,12,844.04
Long Term Capital Gain	7,87,155.96
Gross Total Income	7,87,155.96
Less: Deduction u/s 80C to 80U	Nil
Total Income (rounded off u/s 288A)	7,87,160.00

Illustration 16: Mr. Jeevan Chauhan purchased one house on 01.10.1982 for ` 3,00,000. He entered into an agreement to sell the house on 01.10.1988 for ` 7,00,000 and advance money of `25,000 was received but the buyer has backed out and the advance money was forfeited. Mr. Jeevan Chuahan has expired on 01.10.1995 and the asset was inherited by his son Mr. Baldev Chauhan who has further entered into agreement to sell this house on 01.10.1998 and advance money of ` 30,000 was received but the buyer backed out and the advance money was forfeited. Finally the house was sold on 01.01.2013 for `27,00,000.

Compute capital gain and tax liability for assessment year 2013-14.

Solution:

	`
Full value of consideration	27,00,000.00
Less: Indexed cost of acquisition	
= `2,70,000 (3,00,000–30,000)/ Index of 82-83 x Index of 12-13	
= ` 2,70,000 / 109 x 852 = `21,10,458.72	21,10,458.72
Long Term Capital Gain	5,89,541.28
Income under the head Capital Gains	5,89,541.28
Gross Total Income	5,89,541.28
Less: Deduction u/s 80C to 80U	Nil
Total Income (rounded off u/s 288A)	5,89,540.00

Computation of tax liability

Tax on long term capital gain `3,89,540 (5,89,540 – 2,00,000) @ 20% u/s 112	77,908.00
Add: Education cess @ 2%	1,558.16
Add: SHEC @ 1%	779.08
Tax Liability	80,245.24

Rounded off u/s 288B 80,250.00

Question 20 [V. Imp.]: Write a note on exemption under section 54.
Answer:
<u>Profit on sale of property used for residence</u>   <u>Section 54</u>

1. <u>Assessee:</u> The assessee should be **<u>individual</u>** or a **<u>Hindu Undivided Family</u>**. (i.e. exemption is not allowed to firm, company, association of person or body of individual etc.)

2. <u>Asset:</u> Capital asset transferred should be **<u>buildings or lands appurtenant thereto</u>**, being a **<u>residential house</u>**, the income of which is chargeable under the head "Income from house property".

3. <u>Type of capital gain:</u> Capital gain should be **<u>long term</u>**.

4. <u>Investment:</u> The assessee has within a period of **<u>one year before or two years after the</u>** date on which the transfer took place **<u>purchased</u>**, or has within **<u>a period of three years after</u>** that date constructed, a residential house.

5. <u>Amount of exemption:</u> Exemption shall be allowed to be the extent of investment.

6. <u>Withdrawal of exemption:</u> The house so purchased/constructed **<u>must not be transferred within a period of three years</u>** otherwise exemption given shall be withdrawn and for this purpose while computing capital gains, its cost of acquisition shall be reduced by the amount of the exemption earlier allowed.

7. <u>Capital gains account Scheme 1988:</u> The amount of capital gain has to be utilised till the last date of furnishing of return of income otherwise amount should be deposited in capital gains account scheme 1988 and proof of such deposit should be enclosed with the return of income. Subsequently the amount should be withdrawn from this scheme and should be utilised for the specified purpose otherwise it will be considered to be long term capital gain of the year in which the prescribed period has expired.

<u>Circular No. 743, dated May 6, 1996</u>
If the assessee dies before the expiry of stipulated period (for purchasing the new asset) and later on the unutilized amount is refunded to the legal heirs, the Board is of opinion that in such cases the said amount cannot be taxed in the hands of the deceased. This amount is not taxable in the hands of legal heirs also as the unutilized portion of the deposit does not partake the character of income in their hands but is only a part of the estate devolving upon them.

8. <u>Extension of time for acquiring new asset or depositing or investing amount of capital gain section 54H:</u> If the asset has been acquired compulsorily by the Government, period of investment shall be determined from the date of payment instead of the date of compulsory acquisition.

<u>CLARIFICATION FROM ICAI</u>
Exemption under section 54 can be claimed for purchase or construction of one residential house. However, in *D. Ananda Basappa v. CIT (2009)*, it held that where the assessee purchases two residential flats adjacent to each other, with the intention of using the same as a single residential unit, exemption under section 54 is allowable in respect of investment in both the flats, by treating the same as a single residential unit.

Similarly, the Karnataka High Court, applying the rationale of the above ruling in *CIT v. K.G. Rukminiamma (2011)*, held that where the assessee entered into a joint development agreement with a builder, whereby the property owned by the assessee was given to the builder, who agreed to construct 8 flats therein and hand over 4 flats to the assessee and bear the entire cost of construction, the assessee would be entitled to exemption under section 54 in respect of investment in all the 4 flats, by treating the same as a single residential unit.

Illustration 17: Mr. Parakh Gupta purchased one residential house on 01.04.1982 for `5,00,000. This house was acquired compulsorily by the Government on 01.10.2001 and compensation of `35,00,000 was fixed by the government but the amount was paid by the Government on 01.03.2013. The assessee has purchased one residential house on 01.01.2013 for `2,00,000 and the house was sold by him on 01.01.2014 for `4,00,000.

Compute his tax liability for the assessment year 2013-14 and also capital gains for the various years.

Solution:

Computation of capital gains under section 45(5)

Capital gain shall be computed in the year in which the asset was acquired i.e. in the previous year 2001-02 and shall be taxed in the year in which the first payment has been received i.e. in the previous year 2012-13

	`
Full value of consideration	35,00,000.00
Less: Indexed cost of acquisition	
= 5,00,000 / 109 x 426 = `19,54,128.44	19,54,128.44
Long Term Capital Gains	15,45,871.56
Less: Exemption u/s 54	2,00,000.00
Long Term Capital Gains	13,45,871.56
Income under the head Capital Gain (LTCG)	13,45,871.56
Gross Total Income	13,45,871.56
Less: Deduction u/s 80C to 80U	Nil
Total Income (rounded off u/s 288A)	13,45,870.00

Computation of Tax Liability

{Since normal income is nil, as per section 112 deficiency of `2,00,000 shall be allowed from long term capital gain and balance income shall be taxed at flat rate of 20%}

Tax on `11,45,870 (`13,45,870 – `2,00,000) @ 20%	2,29,174.00
Add: Education cess @ 2%	4,583.48
Add: SHEC @ 1%	2,291.74
Tax Liability	2,36,049.22
Rounded off u/s 288B	2,36,050.00

Computation of Capital Gain for the assessment year 2014-15

Capital gain on sale of House

Full value of consideration	4,00,000.00
Less: Cost of acquisition (`2,00,000 – `2,00,000)	Nil
Short Term Capital Gain	4,00,000.00
Hence Short Term Capital Gain for assessment year 2014-15	4,00,000.00

(b) Presume the house was purchased on 01.09.2013 instead of 01.01.2013.

Solution:

Computation of capital gains under section 45(5)

Capital gain shall be computed in the year in which the asset was acquired i.e. in the previous year 2001-02 and shall be taxed in the year in which the first payment has been received i.e. in the previous year 2012-13

	`
Full value of consideration	35,00,000.00
Less: Indexed cost of acquisition	
= 5,00,000 / 109 x 426 = `19,54,128.44	19,54,128.44
Long Term Capital Gains	15,45,871.56
Income under the head Capital Gain (LTCG)	15,45,871.56

Gross Total Income	15,45,871.56
Less: Deduction u/s 80C to 80U	Nil
Total Income (rounded off u/s 288A)	15,45,870.00

Computation of Tax Liability

{Since normal income is nil, as per section 112 deficiency of `2,00,000 shall be allowed from long term capital gain and balance income shall be taxed at flat rate of 20%}

Tax on `13,45,870 (`15,45,870 – `2,00,000) @ 20%	2,69,174.00
Add: Education cess @ 2%	5,383.48
Add: SHEC @ 1%	2,691.74
Tax Liability	2,77,249.22
Rounded off u/s 288B	2,77,250.00

Note: Exemption under section 54 is not allowed as the house was purchased after the last date of filing of return of income (i.e. 31st July 2013)

Computation of Capital Gain for the assessment year 2014-15

Capital gain on sale of House

Full value of consideration	4,00,000.00
Less: Cost of acquisition	2,00,000.00
Short Term Capital Gain	2,00,000.00
Hence Short Term Capital Gain for assessment year 2014-15	2,00,000.00

Illustration 18: Mr. X purchased one house on 01.04.1981 for `2,00,000 and sold the house on 01.07.2012 for `70,00,000 and purchased one house on 01.09.2012 for ` 12,00,000 and it was sold by him on 01.01.2013 for `15,00,000.

He is aged 82 years.

Compute his income and tax liability for assessment year 2013-14.

Solution:

Computation of income under the head Capital Gains

	`
Full value of consideration	70,00,000.00
Less: Indexed cost of acquisition	
= 2,00,000 / Index of 81-82 / Index of 12-13	
= 2,00,000 / 100 x 852 = `17,04,000	17,04,000.00
Long Term Capital Gains	52,96,000.00

The assessee has the option either not to avail exemption under section 54 or to avail exemption under section 54 and also it will be withdrawn

Option I Exemption is not availed:

Long Term Capital Gain	52,96,000.00

Sale of house purchased on 01.09.2012

Full value of consideration	15,00,000.00
Less: Cost of acquisition	12,00,000.00
Short term capital gain	3,00,000.00

Income under the head Capital Gains	55,96,000.00
Gross Total Income	55,96,000.00
Less: Deduction u/s 80C to 80U	Nil
Total Income	55,96,000.00

Computation of Tax Liability

Tax on LTCG `50,96,000 (`52,96,000 – `2,00,000) @ 20%	10,19,200.00	
Tax on `3,00,000 at slab rate		Nil
Add: Education cess @ 2%		20,384.00
Add: SHEC @ 1%		10,192.00
Tax Liability		10,49,776.00
Rounded off u/s 288B		10,49,780.00

<u>Option II Exemption is availed</u>

Long Term Capital Gain	52,96,000.00
Less: Exemption u/s 54	12,00,000.00
Long Term Capital Gain	40,96,000.00

<u>Sale of house purchased on 01.09.2012</u>

Full value of consideration	15,00,000.00
Less: Cost of acquisition (12,00,000 – 12,00,000)	Nil
Short term capital gain	15,00,000.00

Income under the head Capital Gains	55,96,000.00
Gross Total Income	55,96,000.00
Less: Deduction u/s 80C to 80U	Nil
Total Income	55,96,000.00

Computation of Tax Liability

Tax on LTCG `40,96,000 @ 20%		8,19,200.00
Tax on `15,00,000 at slab rate	2,50,000.00	
Tax before education cess		10,69,200.00
Add: Education cess @ 2%		21,384.00
Add: SHEC @ 1%		10,692.00
Tax Liability		11,01,276.00
Rounded off u/s 288B		11,01,280.00

Hence assessee should opt Option-I.

Question 21 [V. Imp.]: Write a note on exemption under section 54B.
Answer:
<u>Capital gain on transfer of land used for agricultural purposes not to be charged in certain cases Section 54B</u>

1. <u>Assessee:</u> The assessee should be **<u>individual</u>** or a **<u>Hindu Undivided Family</u>**. (i.e. exemption is not allowed to firm, company, association of person or body of individual etc.)

2. <u>Asset:</u> The asset transferred should be **<u>land</u>** which, in **<u>the two years immediately</u>** preceding the date on which the transfer took place, was being used by the **<u>assessee or a parent</u>** of his for **<u>agricultural purposes</u>**.

3. <u>Type of capital gain:</u> It may be **<u>short term or long term.</u>**

4. <u>Investment:</u> The assessee has, within a period of two years after that date, purchased any other land for being used for agricultural purposes.

5. <u>Amount of exemption:</u> Exemption allowed shall be equal to the amount invested.

6. <u>Withdrawal of exemption:</u> The land so **<u>purchased must not be transferred within a period of three years</u>** otherwise exemption given shall be withdrawn and for this purpose while computing capital gains on the transfer of new asset, its cost of acquisition shall be reduced by the amount of the exemption earlier allowed.

7. <u>Capital gains account Scheme 1988:</u> The amount of capital gain has to be utilised till the last date of furnishing of return of income otherwise amount should be deposited in capital gains account scheme 1988 and proof of such deposit should be enclosed with the return of income and subsequently the amount should be withdrawn from this scheme and should be utilised for the specified purpose otherwise it will be considered to be capital gain of the year in which the prescribed period has expired.

<u>Capital gains in case of compulsory acquisition of agricultural land</u>   <u>Section 10(37)</u>

If any individual or Hindu Undivided Family has agricultural land and this land was being used by him for agricultural purposes for a period of at least 2 years when it was acquired by the government, in this case capital gains shall be exempt from income tax.

<u>Illustration 19:</u> Mr. Rajat Tandon purchased agricultural land on 01.10.1982 for `3,00,000 and it was being used for agricultural purposes by him. It was sold on 01.01.2013 for `50,00,000. The assessee has purchased one agricultural land in the rural area on 10.01.2013 for `10,00,000 and this land was sold by him on 11.02.2013 for `11,00,000 and has invested `30,000 in National Saving Certificate.

He is aged about 86 years.

Compute his tax liability for assessment year 2013-14.

(b) Presume the land was purchased in the urban area instead of rural area.

<u>Solution (a):</u>

Computation of Capital Gains

	`
Full value of consideration	50,00,000.00
Less: Indexed cost of acquisition	
= 3,00,000 / 109 x 852 = `23,44,954.13	23,44,954.13
Long Term Capital Gain	26,55,045.87
Less: Exemption u/s 54B	10,00,000.00
Long Term Capital Gain	16,55,045.87
Income under the head Capital Gain (LTCG)	16,55,045.87
Gross Total Income	16,55,045.87
Less: Deduction u/s 80C	Nil
{Deduction u/s 80C is not allowed from LTCG}	
Total Income	16,55,045.87
Rounded off u/s 288A	16,55,050.00

Computation of Tax Liability

{Since normal income is nil, as per section 112 deficiency of `5,00,000 shall be allowed from long term capital gain and balance income shall be taxed at flat rate of 20%}

Tax on `11,55,050 (` 16,55,050 – `5,00,000) @ 20%	2,31,010.00
Add: Education cess @ 2%	4,620.20
Add: SHEC @ 1%	2,310.10

Tax Liability	2,37,940.30
Rounded off u/s 288B	2,37,940.00

Note: If land is purchased in rural area, exemption is allowed under section 54B but on its sale exemption is not withdrawn.

<u>Solution (b):</u> `

Computation of Capital Gains

Full value of consideration	50,00,000.00
Less: Indexed cost of acquisition	
= 3,00,000 / 109 x 852 = `23,44,954.13	23,44,954.13
Long Term Capital Gain	26,55,045.87

The assessee has the option either not to avail exemption under section 54B or to avail exemption under section 54B.

Option I Exemption is not availed:

Long Term Capital Gain	26,55,045.87

<u>Urban agricultural land</u>

Full value of consideration	11,00,000.00
Less: Cost of acquisition	10,00,000.00
Short Term Capital Gain	1,00,000.00
Income under the head Capital Gains	27,55,045.87
Gross Total Income	27,55,045.87
Less: Deduction u/s 80C {NSC}	30,000.00
Total Income	27,25,045.87
Rounded off u/s 288A	27,25,050.00

Computation of tax liability

Tax on long term capital gain `22,25,050 (26,55,050 – 4,30,000) @ 20%	4,45,010.00
Tax on `70,000 at slab rate	Nil
Add: Education cess @ 2%	8,900.20
Add: SHEC @ 1%	4,450.10
Tax Liability	4,58,360.30
Rounded off u/s 288B	4,58,360.00

Option II Exemption is availed:

Long Term Capital Gain	26,55,045.87
Less: Exemption u/s 54B	10,00,000.00
Long Term Capital Gain	16,55,045.87

<u>Urban agricultural land</u>

Full value of consideration	11,00,000.00
Less: Cost of acquisition (10,00,000 – 10,00,000)	Nil
Short Term Capital Gain	11,00,000.00
Income under the head Capital Gains	27,55,045.87
Gross Total Income	27,55,045.87
Less: Deduction u/s 80C {NSC}	30,000.00
Total Income	27,25,045.87
Rounded off u/s 288A	27,25,050.00

Computation of tax liability

Tax on long term capital gain `16,55,050 @ 20%	3,31,010.00
Tax on `10,70,000 at slab rate	1,21,000.00
Tax before education cess	4,52,010.00
Add: Education cess @ 2%	9,040.20
Add: SHEC @ 1%	4,520.10
Tax Liability	4,65,570.30
Rounded off u/s 288B	4,65,570.00

Hence the assessee should opt for option–I and his tax liability shall be 4,58,360

Question 22: Write a note on exemption under section 54D.
Answer:
Capital gain on compulsory acquisition of lands and buildings not to be charged in certain cases Section 54D

1. Assessee: Exemption is allowed to **all the assessee.**

2. Asset: The asset should be **land or building** forming part of **an industrial undertaking** belonging to the assessee which, in the **two years immediately** preceding the date on which the transfer took place, was being used by the assessee for the purposes of the **business** of the said **undertaking** and further there should **be compulsory acquisition.**

3. Type of capital gain: It can be **short term or long term.**

4. Investment: The assessee has within a period of **three years after** that date **purchased** any other **land or building or any right in any other land or building** or **constructed** any other **building** for the purposes of **shifting** or **re-establishing** the said **undertaking** or **setting up another industrial undertaking.**

5. Amount of exemption: Exemption allowed is equal to investment.

6. Withdrawal of exemption: The land or building so purchased/constructed **must not be transferred within a period of three years** otherwise exemption given shall be withdrawn and for this purpose while computing capital gains on the transfer of new asset, its cost of acquisition shall be reduced by the amount of the exemption earlier allowed.

7. Capital gains account Scheme 1988: The amount of capital gain has to be utilised till the last date of furnishing of return of income otherwise amount should be deposited in capital gains account scheme 1988 and proof of such deposit should be enclosed with the return of income. Subsequently the amount should be withdrawn from this scheme and should be utilised for the specified purpose otherwise it will be considered to be capital gain of the year in which the prescribed period has expired.

Illustration 20: Mr. Utsav Batra has one industrial undertaking in Wazirpur industrial area and the building which is being used for industrial purposes was purchased on 01.10.1987. Since then it was being used for industrial purpose and was purchased for `23,00,000 and its w.d.v. as on 01.04.2006 is `10,38,000. This building was acquired by the Government on 01.01.2007 and compensation fixed was `25,00,000. Entire payment was released by the Government on 01.07.2012. The assessee has purchased one building for the purpose of industrial undertaking in Bawana Industrial Area on 01.01.2013 for `6,00,000.

Compute his tax liability for assessment year 2013-14.

Solution: `

Computation of Capital Gains under section 45(5)

Capital gains shall be computed in the year of compulsory acquisition i.e. in the previous year 2006-07

Full value of consideration	25,00,000.00
Less: W.d.v of the building	10,38,000.00
Short Term Capital Gain	14,62,000.00

Computation of capital gains and tax liability for the assessment year 2013-14

Capital gain shall be taxed in the year in which payment has been given by the Government i.e. in the previous year 2012-13

Short Term Capital Gain	14,62,000.00
Less: Exemption u/s 54D	6,00,000.00
Short Term Capital Gain	8,62,000.00
Income under the head Capital Gain (STCG)	8,62,000.00
Gross Total Income	8,62,000.00
Less: Deduction u/s 80C to 80U	Nil
Total Income	8,62,000.00

Computation of Tax Liability

Tax on `8,62,000 at slab rate	1,02,400.00
Add: Education cess @ 2%	2,048.00
Add: SHEC @ 1%	1,024.00
Tax Liability	1,05,472.00
Rounded off u/s 288B	1,05,470.00

Question 23 [V. Imp.]: Write a note on exemption under section 54EC.
Answer:
Capital gain not to be charged on investment in certain bonds Section 54EC

1. Assessee: Exemption is allowed to **all the assessee.**

2. Asset: The assessee can transfer **any capital asset.**

3. Type of capital gain: It should be only **long term capital gain.**

4. Investment: The assessee has, at any time within a period of **six months after** the date of such transfer, invested the **whole or any part** of capital gains in the **long-term specified asset**.

"Long-term specified asset" means any **bond redeemable after three years**, issued by,—

(i) National Highways Authority of India

(ii) Rural Electrification Corporation Limited

5. Amount of exemption: Exemption shall be allowed to the extent of the investment. Maximum investment allowed in a financial year to a particular assessee cannot exceed `50 lakhs.

6. Withdrawal of exemption: If the long term specified asset is transferred or converted into cash within a period of 3 years, exemption earlier allowed shall be considered to be long term capital gains of the year in which such asset was transferred or converted into cash.

Converting into cash means taking a loan on the security of the specified asset.

7. Capital gains account scheme 1988: Capital gain account scheme shall not apply.

8. Extension of time for acquiring new asset or depositing or investing amount of capital gain section 54H: If the asset has been acquired compulsorily by the Government, period of investment shall be determined from the date of payment instead of the date of compulsory acquisition.

Illustration 21: Mr. Gaurav Kumar purchased agricultural land in the urban area on 01.04.1981 for `2,00,000. It was being used for agricultural purposes since then and was sold by the assessee on 01.07.2012 for `30,00,000.

He made following investments:

(i) Bonds of National Bank for Agriculture and Rural Development on 01.06.2012 for `1,50,000 which are redeemable after 3 years.

(ii) He purchased agricultural land on 01.09.2012 for `2,00,000.

(iii) He has invested `75,000 on 01.10.2012 in the bonds of National Highway Authority of India redeemable after three years.

He sold the bonds of National Highway Authority of India on 15.04.2013 for `3,00,000.

Compute his capital gains for various years and also tax liability for assessment year 2013-14.

Solution:

Previous year 2012-13

Computation of Capital gains

	`
Full value of consideration	30,00,000.00
Less: Indexed cost of acquisition	
= 2,00,000 / 100 x 852 = `17,04,000	17,04,000.00
Long Term Capital Gain	12,96,000.00
Less: Exemption u/s 54B	2,00,000.00
Less: Exemption u/s 54EC	75,000.00
Long Term Capital Gain	10,21,000.00
Income under the head Capital Gain (LTCG)	10,21,000.00
Gross Total Income	10,21,000.00
Less: Deduction u/s 80C to 80U	Nil
Total Income	10,21,000.00

Computation of Tax Liability

{Since normal income is nil, as per section 112 deficiency of `2,00,000 shall be allowed from long term capital gain and balance income shall be taxed at flat rate of 20%}

Tax on `8,21,000 (` 10,21,000 – `2,00,000) @ 20%	1,64,200.00
Add: Education cess @ 2%	3,284.00
Add: SHEC @ 1%	1,642.00
Tax Liability	1,69,126.00
Rounded off u/s 288B	1,69,130.00

Previous year 2013-14

Full value of consideration	3,00,000.00
Less: Cost of acquisition	75,000.00
Short Term Capital Gain	2,25,000.00

Long Term Capital Gain (withdrawal of exemption)	75,000.00

Illustration 22: Arjun furnishes the following particulars and requests you to advise him the liability of capital gains for the assessment year 2013-14:

(a) Jewellery purchased by him on 10.03.1995 for `1,09,000 was sold by him for a consideration of `3,95,000 on 02.11.2012.

(b) He incurred expenses –
(i) at the time of purchase – `2,000
(ii) at the time of sale (for brokerage) – `4,000

(c) He invested `90,000 in Bonds of National Highway Authority of India out of sale consideration on 03.11.2012 redeemable after 3 years.

Compute capital gains chargeable to tax for the assessment year 2013-14.

Solution:

Computation of Capital Gains

	`
Full value of consideration	3,95,000.00
Less: Indexed cost of acquisition	
= `1,11,000 / 259 x 852 = `3,65,142.86	3,65,142.86
Less: Selling expenses	4,000.00
Long Term Capital Gain	25,857.14
Less: Exemption u/s 54EC	25,857.14
{`90,000 subject to a maximum of `25,857.14}	
Long Term Capital Gain	Nil

Illustration 23: Mrs. Vimla sold a residential building at Jodhpur for `15,15,000 on 01.07.2012. The building was purchased for ` 1,75,000 on 01.06.1996. She paid brokerage @ 2% at the time of the sale of the building. She invested `7,50,000 in purchase of a residential building in December 2012 and deposited ` 2,00,000 in the bonds of NABARD in March 2013 redeemable after three years.

Compute her tax liability for the assessment year 2013-14.

Solution:

Computation of Capital Gains

		`
Full value of consideration		15,15,000.00
Less: Indexed cost of acquisition		
= 1,75,000 / Index of 96-97 x Index of 12-13		
= 1,75,000 / 305 x 852 = `4,88,852.46		4,88,852.46
Less: Brokerage		
= 2% x 15,15,000 = `30,300	30,300.00	
Long Term Capital Gain		9,95,847.54
Less: Exemption u/s 54		7,50,000.00
Long Term Capital Gain		2,45,847.54
Gross Total Income		2,45,847.54
Less: Deduction u/s 80C to 80U		Nil
Total Income (rounded off u/s 288A}		2,45,850.00

Computation of Tax Liability

{Since normal income is nil, as per section 112 deficiency of `2,00,000 shall be allowed from long term capital gain and balance income shall be taxed at flat rate of 20%}

Tax on `45,850 (`2,45,850 – `2,00,000) u/s 112 @ 20%	9,170.00
Add: Education cess @ 2%	183.40
Add: SHEC @ 1%	91.70
Tax Liability	9,445.10
Rounded off u/s 288B	9,450.00

Question 24 [V. Imp.]: Write a note on exemption under Section 54F.
Answer:
Exemption from capital gains on transfer of any capital assets other than a Residential House Section 54F

1. Assessee: The assessee should be **individual** or **Hindu Undivided Family.**

2. Asset: Capital asset transferred can be any asset but it should **not be a residential house.**

3. Type of capital gain: Capital gain should be **long term.**

4. Investment: The assessee has within a period **of one year before or two years after** the date on which the transfer took place **purchased**, or has within a period of **three years after** that date **constructed**, a **residential house** and further the assessee should either **purchase** or **construct only one house** and also assessee should **not have more than one house in his name at the time of transfer of the asset** besides the house which is being purchased or constructed for availing exemption.

5. Amount of exemption: Exemption allowed shall be that percentage of the capital gain as the amount invested bears to net consideration. i.e. **exemption = capital gain x investment / net consideration**.

Net consideration is equal to full value of consideration less selling expenses. i.e. **full value of consideration – selling expenses.**

6. Withdrawal of exemption: The house so **purchased** or **constructed** must not be transferred for a minimum period of **three years** otherwise exemption earlier allowed shall be considered to be the **long term capital gain** of the year in which the asset has been transferred (i.e. exemption shall be withdrawn in the similar manner as given under section 54EC).

Similarly if the assessee has purchased any other house within one year before or two years after or the assessee has constructed any other house within three years after the date of transfer of original asset, exemption given shall be withdrawn in that case also.

7. Capital gains account Scheme 1988: The assessee should invest the amount till the last date of furnishing of return of income otherwise amount should be deposited in capital gains account scheme 1988 and proof of such deposit should be enclosed with the return of income and subsequently the amount should be withdrawn from this scheme and should be utilised for the specified purpose otherwise exemption earlier allowed will be considered to be long term capital gain of the year in which the prescribed period has expired.

8. Extension of time for acquiring new asset or depositing or investing amount of capital gain section 54H: If the asset has been acquired compulsorily by the Government, period of investment shall be determined from the date of payment instead of the date of compulsory acquisition.

Illustration 24: Mr. Naveen Gandhi purchased gold on 01.04.1971 for `3,00,000 and its market value on 01.04.1981 is `2,00,000. This gold was sold by him on 01.01.2013 for `35,00,000 and selling expenses are `37,000. He has purchased one house on 01.05.2013 for `4,00,000 because he did not have any house in his name and he deposited `3,00,000 in capital gain account scheme on 30.09.2013.

Mr. Naveen Gandhi is also engaged in a business and he has turnover of his business `105,00,000 and cost of goods sold `100,00,000 and other expenses `5,10,000.

He has withdrawn `2,00,000 from capital gain account scheme on 01.01.2014 and constructed 1st floor of the house which was purchased by him on 01.05.2013.

Remaining amount in the capital gain account scheme was unutilized.

Compute assessee's tax liability for assessment year 2013-14 and capital gains for various years.

Solution:

Previous year 2012-13

Computation of capital gain

	`
Full value of consideration	35,00,000.00
Less: Indexed cost of acquisition	
= 3,00,000 / 100 x 852 = `25,56,000	25,56,000.00
Less: Selling expenses	37,000.00
Long Term Capital Gain	9,07,000.00
Less: Exemption u/s 54F	
= 9,07,000 / 34,63,000 x 7,00,000 = `1,83,338.15	1,83,338.15
Long Term Capital Gain	7,23,661.85
Income under the head Capital Gain (LTCG)	7,23,661.85
Loss under the head Business/Profession	(10,000.00)
Gross Total Income	713,661.85
Less: Deduction u/s 80C to 80U	Nil
Total Income (rounded off u/s 288A)	7,13,660.00

Computation of tax liability

{Since normal income is nil, as per section 112 deficiency of `2,00,000 shall be allowed from long term capital gain and balance income shall be taxed at flat rate of 20%}

Tax on `5,13,660 (7,13,660 – 2,00,000) @ 20%	1,02,732.00
Add: Education cess @ 2%	2,054.64
Add: SHEC @ 1%	1,027.32
Tax Liability	1,05,813.96
Rounded off u/s 288B	1,05,810.00

Previous year 2015-16

Amount deposited in capital gain a/c scheme	3,00,000.00
Less: Amount withdrawn	2,00,000.00
Balance amount	1,00,000.00
Long Term Capital Gain	
$= \frac{9,07,000 \times 1,00,000}{34,63,000}$ = `26,191.16	26,191.16

(Proportionate exemption with regard to the unutilized amount lying in the capital gain account scheme is chargeable to tax after expiry of period of three years.)

Illustration 25: Mr. Amrit Singh sold gold for `5,50,000 on 01.10.2012 which had been acquired by him in October, 1984 for `55,000. He wants to utilize the said amount of sale consideration for purchase or construction of a new residential house. He already owns one residential house at the time of sale of the gold on 01.10.2012. He has deposited `4,00,000 under the capital gains deposit scheme with a specified bank on 30.04.2013.

Ascertain the capital gains taxable in Mr. Amrit's hands for assessment year 2013-14 and advise him as to what further action he has to take to avail the exemption.

Solution:

Computation of Capital Gains

	`
Full value of consideration	5,50,000
Less: Indexed cost of acquisition	
= 55,000 / 125 x 852 = `3,74,880	3,74,880
Long Term Capital Gain	1,75,120
Less: Exemption u/s 54F	
= 1,75,120/5,50,000 x 4,00,000 = `1,27,360	1,27,360
Long Term Capital Gain	47,760

X has to fulfill the following conditions so as to avail exemption of section 54F

- He should acquire a residential house property by withdrawing from the deposit account. The new house can be purchased at any time upto 30.09.2014 or it can be constructed upto 30.09.2015. If the amount utilised is lower than `4,00,000 then the following amount will become chargeable to tax as long term capital gain for the assessment year 2016-17
  = [`4,00,000 – Amount utilised]/ 5,50,000 x 1,75,120
- He should not transfer the new house within 3 years
- He should not purchase another residential house upto 30.09.2014 and he should not complete construction of another residential house property upto 30.09.2015.

Illustration 26: Mr. Shankar Nayyar has sold three asset i.e. Urban Land, Gold and Silver each for `11,00,000 and their indexed cost of acquisition is `3,00,000, `5,00,000 and `7,00,000 and selling expenses are `20,000 in each case. The assessee has invested `15,00,000 in purchasing one house because he did not have any house in his name and has complied with all the conditions of section 54F.

Compute his tax liability for the assessment year 2013-14.

Solution:

Computation of Capital Gains

	`
Land	
Full value of consideration	11,00,000.00
Less: Indexed cost of acquisition	3,00,000.00
Less: Selling expenses	20,000.00
Long Term Capital Gain	7,80,000.00
Gold	
Full value of consideration	11,00,000.00
Less: Indexed cost of acquisition	5,00,000.00
Less: Selling Expenses	20,000.00
Long Term Capital Gain	5,80,000.00
Silver	
Full value of consideration	11,00,000.00
Less: Indexed cost of acquisition	7,00,000.00
Less: Selling expenses	20,000.00
Long Term Capital Gain	3,80,000.00

In this case, assessee is eligible for exemption under section 54F and such exemption is allowed from any of the above three assets but first preference shall be given to Land, second to Gold and third to Silver because highest exemption is available from land, then from gold and then from silver and exemption allowed shall be computed in the manner given below:-

1. If assessee makes investment of `10,80,000 exemption allowed from land is `7,80,000. i.e.
Capital Gains / Net Consideration x Investment
= 7,80,000 / 10,80,000 x 10,80,000 = `7,80,000

Long Term Capital Gain on Land	7,80,000.00
Less: Exemption u/s 54F	7,80,000.00
Long Term Capital Gain	Nil

2. Remaining investment of `4,20,000 shall be utilised for availing exemption from gold and exemption allowed shall be `2,25,556.
Capital Gain / Net Consideration x Investment
= 5,80,000 / 10,80,000 x 4,20,000 = `2,25,555.56

Long Term Capital Gain on Gold	5,80,000.00
Less: Exemption u/s 54F	2,25,555.56
Long Term Capital Gain on Gold	3,54,444.44
Long Term Capital Gain on Silver	3,80,000.00
Income under the under Capital Gains	7,34,444.44
Gross Total Income	7,34,444.44
Less: Deduction u/s 80C to 80U	Nil
Total Income	7,34,440.00
(Rounded off u/s 288A)	

Computation of Tax Liability

{Since normal income is nil, as per section 112 deficiency of `2,00,000 shall be allowed from long term capital gain and balance income shall be taxed at flat rate of 20%}

Tax on `5,34,440 (7,34,440 – 2,00,000) @ 20%	1,06,888.00
Add: Education cess @ 2%	2,137.76
Add: SHEC @ 1%	1,068.88
Tax Liability	1,10,094.64
Rounded off u/s 288B	1,10,090.00

<u>Illustration 27:</u> Mr. Sumit Diwan sold Gold and Silver for `13,50,000 each and their indexed cost of acquisition is `6,00,000, `8,00,000 and selling expenses are `13,000 each. He has invested `16,00,000 in purchasing one house because he did not have any house in his name. He has invested `50,000 in the bonds of National Highway Authority of India and has complied with all the conditions of section 54EC.

Compute his tax liability for assessment year 2013-14.

<u>Solution:</u> `

Computation of Capital Gains

Gold

Full value of consideration	13,50,000.00
Less: Indexed cost of acquisition	6,00,000.00
Less: Selling expenses	13,000.00
Long Term Capital Gain	7,37,000.00
Less: Exemption u/s 54F	7,37,000.00
= 7,37,000 x 13,37,000 / 13,37,000	
Long Term Capital Gain	Nil

Silver

Full value of consideration	13,50,000.00
Less: Indexed cost of acquisition	8,00,000.00
Less: Selling expenses	13,000.00
Long Term Capital Gain	5,37,000.00
Less: Exemption u/s 54F	1,05,632.76
= 5,37,000 / 13,37,000 x 2,63,000	
Less: Exemption u/s 54EC	50,000.00
Long Term Capital Gain	3,81,367.24
Income under the under Capital Gains	3,81,367.24
Gross Total Income	3,81,367.24
Less: Deduction u/s 80C to 80U	Nil
Total Income	3,81,370.00
(Rounded off u/s 288A)	

Computation of Tax Liability

{Since there is no income under any head so as per section 112 deficiency of `2,00,000 shall be allowed from long term capital gain and balance income shall be taxed at flat rate of 20%}

Tax on `1,81,370 (3,81,370 – 2,00,000) @ 20%	36,274.00
Add: Education cess @ 2%	725.48
Add: SHEC @ 1%	362.74
Tax Liability	37,362.22
Rounded off u/s 288B	37,360.00

Question 25: Write a note on exemption under section 54G.

Answer:

Exemption of capital gains on transfer of assets in cases of shifting of industrial undertaking from Urban Area Section 54G

1. Assessee: Exemption is allowed to **all the assessees**.

2. Asset: Capital asset transferred should be **machinery** or **plant** or **building** or **land** used for the purposes of the business of an industrial undertaking situated in an urban area, effected in the consequence of, the shifting of such industrial undertaking.

3. Type of capital gain: Capital gain should be **short term/long term.**

4. Investment: The assessee has within a period of **one year before** or **three years after** the date on which the transfer took place,—

(a) **purchased new machinery or plant** for the purposes of business of the industrial undertaking in the area to which the said undertaking is shifted ;

(b) **acquired building or land or constructed building** for the purposes of his business in the said area.

(c) **shifted the original asset** and **transferred the establishment** of such undertaking to such area; and

(d) **incurred expenses** on such other purpose as may be specified in a scheme framed by the Central Government for the purposes of this section.

(Capital gains on transfer of furniture and fixtures are not available for exemption.)

5. <u>Amount of exemption:</u> Amount of exemption is equal to amounts mentioned above.

6. <u>Withdrawal of exemption:</u> The asset **<u>purchased</u>** or **<u>constructed</u>** must not be transferred for a **<u>minimum period of three years</u>** otherwise exemption earlier allowed shall be withdrawn by computing capital gain in special manner i.e. The cost of acquisition shall be reduced by the amount of the exemption allowed. (Exemption shall be withdrawn in the similar manner given under section 54, 54B, 54D).

7. <u>Capital gains account Scheme 1988:</u> The amount of capital gain has to be utilised till the last date of furnishing of return of income otherwise amount should be deposited in capital gains account scheme 1988 and proof of such deposit should be enclosed with the return of income. Subsequently the amount should be withdrawn from this scheme and should be utilised for the specified purpose otherwise it will be considered to be capital gain of the year in which the prescribed period has expired.

8. <u>Extension of time for acquiring new asset or depositing or investing amount of capital gain sec 54H:</u> Section 54H is not applicable.

<u>Illustration 28:</u> X Ltd. owns an industrial undertaking in urban area. It is being shifted to a rural area.
The company has sold the following assets (date of shifting 01.03.2013):

1. Plant and machinery with written down value as on 01.04.2012 `10,00,000 and it was sold on 01.01.2013 for `50,00,000

2. Building with written down value as on 01.04.2012 `11,00,000 and it was sold on 01.01.2013 for `85,00,000

3. Furniture with written down value as on 01.04.2012 `1,00,000 and it was sold on 01.01.2013 for `5,00,000.

4. Land was purchased on 01.10.1991 for `3,00,000 and it was sold on 01.01.2013 for `50,00,000.

The company has **purchased** following assets as on 01.04.2013:

1. Plant and machinery `25,00,000

2. Building `7,00,000

3. Furniture `5,00,000

4. Land `40,00,000

Expenses on shifting `2,00,000.

Compute Capital gains and tax liability for the assessment year 2013-14.

<u>Solution:</u>
Computation of depreciation and capital gains

	`
<u>Plant and machinery</u>	
Sale of plant on 01.01.2013	50,00,000.00
Less: Written down value as on 01.04.2012	10,00,000.00
Short term capital gain	40,00,000.00
<u>Building</u>	
Sale of building on 01.01.2013	85,00,000.00

Less: Written down value as on 01.04.2012	11,00,000.00
Short term capital gain	74,00,000.00

Furniture

Sale of furniture on 01.01.2013	5,00,000.00
Less: Written down value as on 01.04.2012	1,00,000.00
Short term capital gain	4,00,000.00

Land

Full value of consideration	50,00,000.00
Less: Indexed cost of acquisition (3,00,000 /199 x 852)	12,84,422.11
Long term capital gain	37,15,577.89

Short term capital gain	1,18,00,000.00
Less: Exemption u/s 54G	74,00,000.00

Working Note:

	`
Investment/expenses eligible for exemption under section 54G	
(i) Plant and machinery	25,00,000
(ii) Building	7,00,000
(iii) Land	40,00,000
(iv) Expenses on shifting	2,00,000
Total	74,00,000

Exemption has been taken from STCG because rate of STCG in case of a company is 30%

Short term capital gain	44,00,000.00
Long tem capital gain	37,15,577.89
Income under the head Capital Gain	81,15,577.89
Gross Total Income	81,15,577.89
Less: Deduction u/s 80C to 80U	Nil
Total Income (rounded off u/s 288A)	81,15,580.00

Computation of tax liability

Tax on `37,15,580 @ 20%	7,43,116.00
Tax on `44,00,000 @ 30%	13,20,000.00
Tax before education cess	20,63,116.00
Add: Education cess @ 2%	41,262.32
Add: SHEC @ 1%	20,631.16
Tax Liability	21,25,009.48
Rounded off u/s 288B	21,25,010.00

Question 26: Write a note on exemption under section 54GA.

Answer:

Exemption from capital gains on transfer of assets in connection with shifting of industrial undertaking from urban area to any Special Economic Zone Section 54GA

1. Assessee: Exemption is allowed to **all the assessees**.

2. Assets: Assets transferred may be **plant, machinery, land or building** used for the purpose of industrial undertaking and transfer of assets should be in connection with shifting of industrial undertaking from **urban area to special economic zone.**

3. Type of Capital Gains: Capital gain may be **short term** or **long term**.

4. <u>Amount of Exemption:</u> Exemption is allowed if the assessee has **<u>purchased</u>** or **<u>constructed</u>** any **<u>building</u>**, land, plant or machinery for the purpose of industrial undertaking including the expenses incurred on shifting.

5. <u>Investment:</u> The assessee should make the investment within **<u>one year before</u>** or **<u>three years after</u>** the date on which the transfer took place.

6. <u>Withdrawal of exemption:</u> The asset **<u>purchased</u>** or **<u>constructed</u>** must not be transferred for a **<u>minimum period of three years</u>** otherwise exemption earlier allowed shall be withdrawn by computing capital gain in special manner i.e. The cost of acquisition shall be reduced by the amount of the exemption allowed. (Exemption shall be withdrawn in the similar manner given under section 54, 54B, 54D, 54G).

7. <u>Capital gains account Scheme 1988:</u> The amount of capital gain has to be utilised till the last date of furnishing of return of income otherwise amount should be deposited in capital gains account scheme 1988 and proof of such deposit should be enclosed with the return of income and subsequently the amount should be withdrawn from this scheme and should be utilised for the specified purpose otherwise it will be considered to be capital gain of the year in which the prescribed period has expired.

<u>Illustration 29:</u> Mrs. Gayathri shifted her industrial undertaking located in corporation limits of Gurgaon, to a Special Economic Zone (SEZ) on 01.12.2012.

The following particulars are available:	`
(a) **Land:** Purchased on 20.01.2002	4,26,000
Sold for	29,00,000
(b) **Building:** [Construction completed on 14.03.2006]	
WDV of building as on 01.04.2012	8,40,000
Sold for	12,39,000
(c) WDV of **Cars** as on 01.04.2012	7,80,000
Sold for	7,00,000
(d) Expenses on shifting the undertaking	1,25,000
(e) Assets acquired for the undertaking in the SEZ (on or before 25.06.2013):	
(i) Land	4,00,000
(ii) Building	6,00,000
(iii) Computers	2,00,000
(iv) Car	5,20,000
(v) Machinery (second hand)	3,00,000
(vi) Furniture	80,000

There is no intention of investing in any other asset in this undertaking.

Compute the exemption available under section 54GA for the assessment year 2013-14.

Compute income and tax liability of the assessee.

Cost inflation indices are: Financial year 2001-02 - 426; 2012-13 -852

Solution:

Computation of exemption under section 54GA	`
Land	
Full value of consideration	29,00,000
Less: Indexed cost of acquisition	
= 4,26,000 / Index of 01-02 x Index of 12-13	
= 4,26,000 / 426 x 852 = 8,52,000	8,52,000
Long term capital gain	20,48,000
Building	
Full value of consideration	12,39,000
Less: Cost of acquisition	8,40,000
Short term capital gain	3,99,000
Cars	
Full value of consideration	7,00,000
Less: Cost of acquisition	7,80,000
Short term capital loss	(80,000)
Less: Exemption u/s 54GA	
Land	4,00,000
Building	6,00,000
Computers	2,00,000
Car	5,20,000
Machinery (second hand)	3,00,000
Shifting expenses	1,25,000
Total	21,45,000

Exemption has been taken from long term capital gains and afterwards from short term capital gains

Short term capital gain	3,02,000
Less: Short term loss on sale of car	80,000
Short term capital gain	2,22,000

Computation of Tax Liability	
Tax on `2,22,000 at slab rate	2,200.00
Add: Education cess @ 2%	44.00
Add: SHEC @ 1%	22.00
Tax Liability	2,266.00
Rounded off u/s 288B	2,270.00

Question 27. Write a note on exemption under section 54GB.

Answer:

<u>Capital gain on transfer of residential property not to be charged in certain cases</u>   <u>Section 54GB</u>

(*1*) Where,—

(*i*) the capital gain arises from the transfer of a long-term capital asset, being a residential property (a house or a plot of land), owned by the eligible assessee (herein referred to as the assessee); and (*ii*) the assessee, before the due date of furnishing of return of income under sub-section (*1*) of section 139, utilises the net consideration for subscription in the equity shares of an eligible company (herein referred to as the company); and

(*iii*) the company has, within one year from the date of subscription in equity shares by the assessee, utilised this amount for purchase of new asset, then, instead of the capital gain being charged to income-tax as the income of the previous year in which the transfer takes place, it shall be dealt with in accordance with the following provisions of this section, that is to say,—

(*a*) if the amount of the net consideration is greater than the cost of the new asset, then, so much of the capital gain as it bears to the whole of the capital gain the same proportion as the cost of the new asset bears to the net consideration, shall not be charged under section 45 as the income of the previous year; or

(*b*) if the amount of the net consideration is equal to or less than the cost of the new asset, the capital gain shall not be charged under section 45 as the income of the previous year.

(*2*) The amount of the net consideration, which has been received by the company for issue of shares to the assessee, to the extent it is not utilised by the company for the purchase of the new asset before the due date of furnishing of the return of income by the assessee under section 139, shall be deposited by the company, before the said due date in an account in any such bank or institution as may be specified and shall be utilised in accordance with any scheme which the Central Government may, by notification in the Official Gazette, frame in this behalf and the return furnished by the assessee shall be accompanied by proof of such deposit having been made.

(*3*) For the purposes of sub-section (*1*), the amount, if any, already utilised by the company for the purchase of the new asset together with the amount deposited under sub-section (*2*) shall be deemed to be the cost of the new asset:

Provided that if the amount so deposited is not utilised, wholly or partly, for the purchase of the new asset within the period specified in sub-section (*1*), then,—

(*i*) the amount by which—

(*a*) the amount of capital gain arising from the transfer of the residential property not charged under section 45 on the basis of the cost of the new asset as provided in sub-section (*1*), exceeds—

(*b*) the amount that would not have been so charged had the amount actually utilised for the purchase of the new asset within the period specified in sub-section (*1*) been the cost of the new asset,
shall be charged under section 45 as income of the assessee for the previous year in which the period of one year from the date of the subscription in equity shares by the assessee expires; and

(*ii*) the company shall be entitled to withdraw such amount in accordance with the scheme.

(*4*) If the equity shares of the company or the new asset acquired by the company are sold or otherwise transferred within a period of five years from the date of their acquisition, the amount of capital gain arising from the transfer of the residential property not charged under section 45 as provided in sub-section (*1*) shall be deemed to be the income of the assessee chargeable under the head “capital gains” of the previous year in which such equity shares or such new asset are sold or otherwise transferred, in addition to taxability of gains, arising on account of transfer of shares or of the new asset, in the hands of the assessee or the company, as the case may be.

(*5*) The provisions of this section shall not apply to any transfer of residential property made after the 31st day of March, 2017.

(*6*) For the purposes of this section,—

(*a*) “eligible assessee” means an individual or a Hindu undivided family;

(*b*) “eligible company” means a company which fulfils the following conditions, namely:—

(*i*) it is a company incorporated in India during the period from the 1st day of April of the previous year relevant to the assessment year in which the capital gain arises to the due date of furnishing of return of income under sub-section (*1*) of section 139 by the assessee;

(*ii*) it is engaged in the business of manufacture of an article or a thing;

(*iii*) it is a company in which the assessee has more than fifty per cent. share capital or more than fifty per cent. voting rights after the subscription in shares by the assessee; and

(*iv*) it is a company which qualifies to be a small or medium enterprise under the Micro, Small and Medium Enterprises Act, 2006;

(*c*) “net consideration” shall have the meaning assigned to it in the *Explanation* to section 54F;

(*d*) “new asset” means new plant and machinery but does not include—

(*i*) any machinery or plant which, before its installation by the assessee, was used either within or outside India by any other person;

(*ii*) any machinery or plant installed in any office premises or any residential accommodation, including accommodation in the nature of a guest-house;

(*iii*) any office appliances including computers or computer software;

(*iv*) any vehicle; or

(*v*) any machinery or plant, the whole of the actual cost of which is allowed as a deduction (whether by way of depreciation or otherwise) in computing the income chargeable under the head “Profits and gains of business or profession” of any previous year.’.

Capital Gains on Financial assets i.e. Shares/Units/Debentures

Question 28: Write a note on computation of capital gains in case of transfer of shares.
Answer:
<u>Capital gains in case of transfer of shares</u>
If case of transfer of shares, capital gain shall be computed in the manner given below:

1. Cost of acquisition of the original shares and right shares shall be the actual expenditure incurred for acquiring the shares (Section 55(2)).

2. Cost of acquisition of bonus shares shall be nil but if such shares have been issued before 01.04.1981, their value on 01.04.1981 shall be considered. (Section 55(2))

3. If the right to purchase the rights shares has been renounced, cost of acquisition of such right shall be taken to be nil. (Section 55(2))

4. In case of rights renouncee, cost shall be the amount paid to the company and to the right holder who has renounced the right. (Section 55(2))

5. Period of holding shall be computed as per section 2(42A) in the manner given below:
(i) In case of original shares, right shares and bonus shares, the period of holding shall start from the date of allotment of shares.
(ii) In case of right to subscribe to right shares, period shall be determined from the date of offer of such right.

- **In case of long term equity shares or long term units of equity oriented mutual funds, no capital gains shall be computed as per section 10(38) w.e.f. 01.10.2004 provided securities transaction tax has been paid.**

- **In case of short term equity shares or the units, capital gains shall be computed but as per section 111A, such capital gains shall be taxed @ 15%.**

Illustration 30: Mr. Chetan Bakshi purchased 100 equity shares in ABC Ltd. on 01.10.1975 @ `10 per share. The company has issued 100 bonus shares on 01.10.1978 and market value of the shares on 01.04.1981 was `7 per share. The company has again issued 100 bonus shares on 01.10.1992.

The company has offered 100 right shares on 01.04.2012 @ `140 per share though the market value is `250 per share. Mr. Chetan Bakshi purchased half of the shares and remaining half were renounced by him in favour of his friend Mr. Harmeet Singh. He has charged `20 per share from Mr. Harmeet Singh for renouncing the right.

All the shares were sold by Mr. Chetan Bakshi and Mr. Harmeet Singh @ `300 per share on 01.01.2013 and securities transaction tax has been paid.

Mr. Chetan Bakshi has income under the head house property `2,20,000 and has invested `1,00,000 in NSC.

Mr. Harmeet Singh has income under the head house property `2,50,000 and has invested `30,000 in NSC.

Compute tax liability of Mr. Chetan Bakshi and Mr. Harmeet Singh.

Solution: `

Computation of Capital Gains

Mr. Chetan Bakshi

- **Original Shares are exempt under section 10(38)**
- **1st Bonus Shares are exempt under section 10(38)**
- **2nd Bonus Shares are exempt under section 10(38)**

Right Shares

Full value of consideration (50 x 300)	15,000.00
Less: Cost of Acquisition (50 x 140)	7,000.00
Short Term Capital Gain u/s 111A	8,000.00

Renouncing of right to purchase shares

Full value of consideration	1,000.00

Less: Cost of acquisition	Nil
Short Term Capital Gain	1,000.00

Computation of Total Income

Income under the head House Property	2,20,000.00
Income under the head Capital Gains	9,000.00
Gross Total Income	2,29,000.00
Less: Deduction u/s 80C	1,00,000.00
Total Income	1,29,000.00

Computation of Tax Liability

Tax on (8,000 – 8,000) @ 15% u/s 111A	Nil
Tax on `1,21,000 at slab rate	Nil
Tax before education cess	Nil
Add: Education cess @ 2%	Nil
Add: SHEC @ 1%	Nil
Tax Liability	Nil

(Deduction under section 80C is not allowed from short term capital gain u/s 111A on the transfer of equity shares on which securities transaction tax has been paid.)

Mr. Harmeet Singh

Full value of consideration	15,000.00
Less: Cost of acquisition (50 x 160)	8,000.00
Short Term Capital Gain u/s 111A	7,000.00

Computation of Total Income

Income under the head House Property	2,50,000.00
Income under the head Capital Gains	7,000.00
Gross Total Income	2,57,000.00
Less: Deduction u/s 80C	30,000.00
Total Income	2,27,000.00

Computation of Tax Liability

Tax on `7,000 @ 15% u/s 111A	1,050.00
Tax on `2,20,000 at slab rate	2,000.00
Tax before education cess	3,050.00
Add: Education cess @ 2%	61.00
Add: SHEC @ 1%	30.50
Tax Liability	3,141.50
Rounded off u/s 288B	3,140.00

(Deduction under section 80C is not allowed from short term capital gain u/s 111A on the transfer of equity shares on which securities transaction tax has been paid.)

Illustration 31: Mr. Prashant Kaushik holds 500 shares of ABC Ltd. which were allotted to him on 22.04.2001 @ `30 per share. On 22.07.2012 ABC Ltd. made right issue to the existing shareholders at the rate of one share for every five shares held @ `20 per share. Mr. Prashant Kaushik instead of exercising his rights to obtain right shares, has exercised his right of renouncement by renouncing the said right entitlement in favour of Mr. Dharmender Kumar @ `13 per right share entitlement on 04.08.2012.

(a) Determine the nature and amount of capital gain, if any, taxable in the hands of Mr. Prashant Kaushik.

(b) What will be the cost of acquisition of shares purchased by Mr. Dharmender Kumar?

Solution:

Computation of Capital Gains in the hands of Mr. Prashant Kaushik

	`
Full value of consideration (100 x 13)	1,300
Less: Cost of acquisition	Nil
Short Term Capital Gain	1,300

Cost of acquisition of shares purchased by Mr. Dharmender Kumar = `33 x 100 = `3,300

Illustration 32: Mr. Kartik Chawla is a shareholder of ABC Ltd. holding 1,000 shares of the face value of `10 each. The company made a right issue in the ratio of 1:1 on 01.01.2013 at a premium of `50 per share. He renounced it in favour of Mr. Bharat Ahuja at a price of `10 per share.

What is the capital gain chargeable in the hands of Mr. Kartik Chawla? What will be the cost of the shares in the hands of Mr. Bharat Ahuja?

Solution:

Computation of Capital Gains in the hands of Mr. Kartik Chawla

	`
Full value of consideration (1,000 x 10)	10,000
Less: Cost of acquisition	Nil
Short Term Capital Gain	10,000

Cost of the shares in the hands of Mr. Bharat Ahuja is `70 per share.

Question 29: Write a note on computation of capital gains on conversion of debentures etc. into shares.

Answer:

Capital gains on conversion of debentures etc. into shares

As per section 47, no capital gain shall be computed in case of conversion of debenture etc. into shares, however if subsequently these shares have been sold, capital gains shall be computed in the manner given below:

1. As per section 49(2A), the cost of acquisition of the shares shall be the cost of acquisition of the debentures etc.

2. Period of holding shall start from the date of conversion instead of the date of purchasing the debentures etc.

Illustration 33: Mr. Jaspal Singh has purchased 100 debentures in ABC Ltd. on 01.10.1992 @ `300 per debentures and subsequently these debentures were converted into shares on 01.10.2011 and 3 shares were issued for each debenture.

The assessee has sold all the shares on 01.04.2012 @ `250 per share. Compute capital gains for the assessment year 2013-14.

Solution:

Computation of Capital Gains

	`
Full value of consideration (300 x 250)	75,000
Less: Cost of acquisition (100 x 300)	30,000
Short Term Capital Gain	45,000

<u>Illustration 34:</u> Mr. Inder Pal Dudeja purchased 3,000 partly convertible debentures of ABC Ltd. on 01.11.1991 for ` 300 per debentures 1/3 of each debenture was converted into one equity share on 01.12.1996. All the equity shares were sold on 01.01.2013 @ ` 267 per share and brokerage was paid @ 2%.

Compute capital gains for assessment year 2013-14.

<u>Solution:</u>

Computation of Capital Gains

	`
Full value of consideration (3,000 x 267)	8,01,000.00
Less: Indexed cost of acquisition = (3,000 x 100) / Index of 96-97 x Index of 12-13 = 3,00,000 / 305 x 852 = `8,38,032.79	8,38,032.79
Since 1/3 part of each debenture is converted into one share hence cost of acquisition of one share shall be equal to the cost of 1/3 part of the debenture as per section 55(2).	
Less: Brokerage = 2% of `8,01,000 = `16,020	16,020.00
Long Term Capital Loss	53,052.79

Question 30 [V. Imp.]: Write a note on computation of capital gains on the transfer of shares or the units of mutual fund on which securities transaction tax has been paid.

Answer:

<u>Capital gains on the transfer of Equity Shares or the units of Mutual Fund on which Securities Transaction Tax has been paid</u>

<u>Taxability of Long Term Gains on transfer of Equity Shares or Units</u> <u>Section 10(38)</u>

Under section 10(38), any income arising from transfer of a long term equity shares or units of an equity oriented fund shall be fully exempt from income tax provided securities transaction tax has been paid on such transaction.

<u>"Equity oriented fund"</u> means a fund –

(i) where the investible funds are invested by way of equity shares in domestic companies to the extent of more than 65% of the total proceeds of such fund; and

(ii) which has been set up under a scheme of a Mutual Fund specified under section 10(23D).

<u>Taxability of short term gains on transfer of equity shares or units</u> <u>Section 111A</u>

If any person has transferred equity shares or units of an equity oriented fund w.e.f 01.10.2004 and such shares and units were short term capital asset and such transaction is chargeable to securities transaction tax, then tax shall be charged @ 15% instead of slab rates.

Example

Mr. Kunal Mehra purchased equity shares on 01.04.2012 and these shares were sold by him 20.10.2012 (STT paid), in this case short term capital gain shall be taxed @ 15%.

❖ **<u>While computing capital gains, securities transaction tax paid shall not be allowed to be deducted.</u>**

❖ **<u>Deduction under section 80C to 80U shall not be allowed from such short term capital gain.</u>**

❖ **<u>If normal income is less than `2,00,000/2,50,000/5,00,000, deficiency shall be allowed from short</u>**

term capital gain.

Special provision in case of long term capital indexed bonds Section 112
If the assessee has transferred long term capital indexed bonds, the assessee will have the option to compute capital gains in the normal manner and it will be taxable @ 20% or capital gain can be computed without indexation but capital gain shall be taxable @ 10%.

Section 112 has been amended to provide that the capital gains arising from transfer (i.e. maturity redemption/sale) of zero coupon bonds shall be taxed at the rate of 10%. Indexation shall not be available as indexation is not available for bonds.

In the case of a non-resident (not being a company) or a foreign company:

(i) the amount of income-tax payable on the total income as reduced by the amount of such long-term capital gains, had the total income as so reduced been its total income; and

(ii) the amount of income-tax calculated on such long-term capital gains, except where such gain arises from transfer of capital asset referred to in sub clause (*iii*), at the rate of twenty percent; and

(iii) the amount of income tax on long term capital gains arising from the transfer of a capital asset, being unlisted securities, calculated at the rate of ten per cent on the capital gains in respect of such asset as computed without giving effect to the first and second proviso to section 48.

Question 31 [Imp.]: Write a note on reference to Valuation Officer.
Answer:
Reference to Valuation Officer Section 55A Rule 111AA
If the Assessing Officer is of the view that the fair market value of a capital asset computed by the assessee is not correct, Assessing Officer may refer the valuation to the Valuation Officer in the following circumstances:

(i) in a case where the value of the asset has been estimated by a registered valuer, if the Assessing Officer is of opinion that the value so claimed is at variance with its fair market value.

(ii) In any other case, if the value in the opinion of the Assessing Officer is exceeding by more than 15% of the value computed by the assessee or it is exceeding by more than `25,000 of the value computed by the assessee.

Example
Mr. Mahesh Swami has converted one capital asset into stock in trade and its market value computed by the assessee is `1,00,000 but in the opinion of the Assessing Officer, value should be `1,10,000, in this case valuation can not be referred to the Valuation Officer. But if the value in the opinion of the Assessing Officer is `1,20,000, in this case matter can be referred to the Valuation Officer.

Similarly, if the value computed by the assessee is `2,00,000 but in the opinion of the Assessing Officer value should be `2,27,000, matter can be referred to the Valuation Officer.

Valuation Officer Section 2(r) [Wealth Tax Act]
"Valuation Officer" means a person appointed as a Valuation Officer and includes a Regional Valuation Officer, a District Valuation Officer, and an Assistant Valuation Officer.

Question 32: Write a note on Cost of Improvement.
Answer:

<u>Cost of Improvement</u> <u>Section 55(1)</u>
<u>Cost of improvement means expenditure of capital nature incurred in connection with capital asset</u> i.e. if any expenditure is of revenue nature and has been claimed as an expenditure while computing income under any head, it will not to be considered to be cost of improvement.

Example
If an additional floor has been constructed in an existing house, it will be considered to be cost of improvement but if it is a case of minor repairs or white washing, painting etc., it will not be considered to be cost of improvement.

Cost of improvement in different cases is determined in the manner given below:

1. If expenditure is incurred before 01.04.1981, it will not be taken into consideration.

2. If expenditure is incurred from 01.04.1981, actual expenditure incurred shall be taken into consideration.

3. In case of following intangible assets, cost of improvement shall be nil

(i) goodwill of a business.
(ii) right to manufacture, produce or process any article or thing.
(iii) right to carry on any business.

Question 33: Write a note on Cost of Acquisition.
Answer:
<u>Cost of Acquisition</u>   <u>Section 55(2)</u>
<u>Cost of acquisition means the actual expenditure incurred for acquiring an asset and it will be determined in the manner given below:</u>

1. If the asset is acquired before 01.04.1981, cost of acquisition shall be the expenditure incurred by the assessee for acquiring the asset or its fair market value as on 01.04.1981, whichever is higher.

2. If the asset has been acquired with effect from 01.04.1981 onwards, the cost of acquisition shall be the expenditure incurred by the assessee for acquiring the asset.

3. In case of original shares/right shares, cost of acquisition shall be the actual amount paid for purchasing the shares.

4. In case of bonus shares, cost of acquisition shall be nil, but if the bonus shares have been issued prior to 01.04.1981, their cost of acquisition shall be the market value on 01.04.1981.

5. If the right to purchase the rights shares has been renounced, cost of acquisition of such right shall be taken to be nil.

6. In case of rights renouncee, cost shall be the amount paid to the company and to the right holder who has renounced the right.

7. Where the capital asset became the property of the assessee on the distribution of the capital assets of a company on its liquidation and the assessee has been assessed to income-tax under the head “Capital gains” in respect of that asset under section 46, means the fair market value of the asset on the date of distribution.

8. In case of following **<u>self acquired intangible assets</u>**, “cost of acquisition, will be nil.

(i) goodwill of a business

(ii) right to carry on any business

(iii) right to manufacture, produce or process any article or thing

(iv) trade mark or brand name associated with a business

(v) tenancy rights

(vi) stage carriage permits

(vii) loom hours

In case there is any other self acquired asset, it will not be chargeable to tax, as per the Supreme Court's ruling in **<u>CIT v. B.C. Srinivasa Setty (1981) (SC)</u>**, wherein it was pointed out that the income chargeable to capital gains tax is to be computed by deducting from the full value of the consideration "the cost of acquisition of the capital asset and the cost of any improvement thereto". If it is not possible to ascertain cost of acquisition and or cost of improvement, then transfer of such asset is not taxable under the Act.

❖ **<u>55(3)</u>** Where the cost for which the previous owner acquired the property cannot be ascertained, the cost of acquisition to the previous owner means the fair market value on the date on which the capital asset became the property of the previous owner.

Example

Mr. Lokesh Bhardwaj purchased route permits on 01.01.1994 for ` 1 lakh. The same are sold by him on 01.01.2013 for ` 5 lakhs.

<u>Solution:</u>

Assessment year 2013-14

Capital gains on route permits

Period of holding :	01.01.1994 to 31.12.2012	(Long Term)
Full value of consideration		5,00,000.00
Less: Indexed cost of acquisition		
= 1,00,000 / 244 x 852 = `3,49,180.33		3,49,180.33
Long Term Capital Gain		1,50,819.67

Example

Mr. Anoop Sharma was awarded route permits between Delhi and Bombay on the basis of his performance on 01.01.1997. He sells the same on 01.01.2013 for `5 lakhs. He claims that no capital gains are taxable since cost of acquisition is in determinate.

<u>Solution:</u>

Assessment year 2013-14

Capital gains on route permits

Period of holding:	01.01.1997 to 31.12.2012	(Long Term)
Full value of consideration		5,00,000
Less: Cost of acquisition		Nil
Long Term Capital Gain		5,00,000

Question 34: Write a note on determining of the period of holding of a capital asset. Section 2(42A).

Answer:

<u>Determining of the period of holding of a Capital Asset Section 2(42A)</u>

<u>Period of holding as per section 2(42A) shall be determined in the manner given below:</u>

1. Any period subsequent to the date of liquidation shall not be considered.

2. The period of holding of the previous owner of section 47 shall also be considered in the following cases:

(a) Capital asset became the property of the assessee on any distribution of assets on partition of a Hindu Undivided Family.

(b) Capital asset became the property of the assessee under a gift or will.

(c) Capital asset became the property of the assessee on any distribution of assets on the liquidation of a company.

(d) Capital asset became the property of the assessee on any transfer of a capital asset by a company to its subsidiary company.

(e) Capital asset became the property of the assessee on any transfer of a capital asset by a subsidiary company to the holding company.

(f) Capital asset became the property of the assessee on any transfer in a scheme of amalgamation, of a capital asset by the amalgamating company to the amalgamated company.

❖ **"Previous owner of the property"** in relation to any capital asset owned by an assessee means the last previous owner of the capital asset who acquired it otherwise than through a transaction of section 47.

3. In case of original shares, right shares and bonus shares, the period of holding shall start from the date of allotment of shares.

4. In case of right to subscribe to right shares, period shall be determined from the date of offer of such right.

5. In case of shares received in connection with demerger, the period for which the shares were held in the demerged company shall also be considered.

Question 35: What types of transactions are included in the term 'transfer' in relation to a capital asset?
Answer:
Meaning of 'transfer' in relation to a capital asset
Transfer Section 2(47)
The Income Tax Act contains an inclusive definition of the term 'transfer' under section 2(47) the following types of transactions are included in the term 'transfer' in relation to a capital asset:

(i) (a) The sale of the asset,

(b) The exchange of the asset.

Example
Mr. Gurpreet Singh has exchanged his capital asset of `7,00,000 for an asset of `10,00,000, there will be capital gain of ` 3,00,000.

(c) The relinquishment of the asset.
Example
Mr. Naresh Kukreja has received the right to purchase the right shares but he has relinquished his right to purchase the share in favour of some other person by charging `1,00,000, in this case, he has capital gain of

`1,00,000.

(ii) The extinguishment of any rights therein.

Example

Mr. Nishant Gulati was holding shares in ABC Ltd. The company has gone into liquidation and Mr. Nishant Gulati has received `2,00,000 being the full value of consideration and the cost of acquisition was `1,50,000, in this case there is a capital gain of `50,000.

(iii) The compulsory acquisition thereof under any law.

(iv) The owner of the capital asset may convert the same into stock in trade of a business carried on by him, such conversion is treated a transfer.

(v) Part performance of the contract: (Section 53A of Transfer of Property Act 1882) Sometimes possession of an immovable property is given in consideration of part performance of a contract.

Example

Mr. Aakash Batra enters into an agreement for the sale of his house. The purchaser gives the entire sale consideration to Mr. Aakash Batra. A hands over complete rights of possession to the purchaser since he has realised the entire sales consideration. The above transaction is considered as transfer.

(vi)There are certain types of transactions which have the effect of transferring or enabling the enjoyment of an immovable property.

Example

A person may become a member of a cooperative society, company or other association of persons which may be building house/flats. When he pays an agreed amount, the society etc. hands over possession of the house to the person concerned. No conveyance is registered. The above transaction is also a transfer.

(vii) The maturity or redemption of a zero coupon bond.

Explanation

"Transfer" includes and shall be deemed to have always included disposing of or parting with an asset or any interest therein, or creating any interest in any asset in any manner whatsoever, directly or indirectly, absolutely or conditionally, voluntarily or involuntarily, by way of an agreement (whether entered into in India or outside India) or otherwise, notwithstanding that such transfer of rights has been characterised as being effected or dependent upon or flowing from the transfer of a share or shares of a company registered or incorporated outside India.

Illustration 35: Aditya owns a plot of land acquired on 01.06.1988 for a consideration of ` 2 lakhs. He enters into an agreement to sell the property on 15.03.2013 for a consideration of ` 7.5 lakhs. In part performance of the contract, he handed over the possession of land on 21.03.2013 on which date he received the full consideration. As on 31st March 2013 the sale was not registered.

Discuss the liability to capital gain for the assessment year 2013-14.

Solution:

Computation of Capital Gains

	`
Full value of consideration	7,50,000.00
Less: Indexed cost of acquisition	
= 2,00,000 / Index of 88-89 x Index of 12-13	
= 2,00,000 / 161 x 852 = `10,58,385.09	10,58,385.09
Long Term Capital Loss	(3,08,385.09)

Question 36: Write a note on taxability of Long Term Capital Gains.
Answer:
Tax on Long-Term Capital Gains Section 112(1)
If total income of an assessee includes long term capital gains, such capital gains shall be taxed @ 20%
Example
If ABC Ltd. has business income of `5,00,000 and long term capital gain `4,00,000, company tax liability shall be `2,36,900.

Special provision in case of resident individual and resident Hindu Undivided Family
Where the total income as reduced by such long-term capital gains is below the maximum amount which is not chargeable to income-tax (2,00,000/2,50,000/5,00,000), then, such long-term capital gains shall be reduced by the amount by which the total income as so reduced falls short of the maximum amount which is not chargeable to income-tax and the tax on the balance of such long-term capital gains shall be computed at the rate of 20%.

Deductions under section 80C to 80U shall not be allowed from long term capital gain Section 112(2)
If any assessee has long term capital gains, no deduction shall be allowed from such long term capital gains under chapter VI-A i.e. deductions under section 80C to 80U are not allowed.
Example
Mr. Akhil Jain has long term capital gains of `5,00,000. He has donated `1,00,000 in Prime Minister's National Relief Fund eligible for deduction under section 80G, his tax liability shall be 3,00,000 x 20% + 2% + 1% = `61,800 (deduction under section 80G is not been allowed but deficiency of the normal income has been allowed.)

Question 37: Write short note on special provisions for Full Value of Consideration in certain cases, in the context of capital gains liability.
Answer:
Special provisions for full value of consideration in certain cases
Full value of consideration means the sale price in connection with a capital asset which has been transferred, however in the following cases, full value of consideration shall be computed on notional basis:

1. As per section 45(1A), in case of destruction of a capital asset, full value of consideration shall be claim received from insurance company.

2. As per section 45(2), in case of conversion of capital asset into stock in trade, market value of the asset on the date of conversion.

3. As per section 45(3), in case of transfer of capital asset by a partner to the partnership firm or association of person or body of individual, credit given in the book of accounts in connection with the asset transferred.

4. As per section 45(4), in case of dissolution of a partnership firm or association of person or body of individual, market value of the asset on the date of transfer.

5. As per section 50C, if the full value of consideration in connection with land or building claimed by an assessee is less than the value adopted by the stamp valuation authority, the value adopted by the stamp valuation authority.

Question 38: Write a note on set off and carry forward of loss under the head Capital Gains.
Answer:
Set off and carry forward of loss under the head Capital Gains Section 70, 71, 74
Set off of loss from one source against income from another source under the same head of income Section 70

If any person has short term loss, it can be set off either from short term or from long term gain but if any person has long term loss, it can be set off only from long term gains i.e. set off from short term is not allowed.

Example

Mr. Girish Aggarwal has long term loss of `5,00,000 and short term gain of `5,00,000, his tax liability shall be `30,900 but if he has long term gain of `5,00,000 and short term loss of `5,00,000, his tax liability shall be nil.

Set off of loss from one head against income from another Section 71

Where in respect of any assessment year, the net result of the computation under the head "Capital gains" is a loss and the assessee has income assessable under any other head of income, the assessee shall not be entitled to have such loss set off against income under the other head.

Example

Mr. Chanpreet Singh has short term loss `5,00,000 and business income of `5,00,000, his tax liability shall be `30,900.

Losses under the head "capital gains" Section 74

If any assessee has short term loss or long term loss which could not be set off, such losses shall be allowed to be carried forward but for a maximum period of **8 years** starting from the year next to the year in which the loss was incurred.

Brought forward short term loss can be set off either from short term or from long term gain but brought forward long term loss can be set off only from long term gain and not from short term gain.

PRACTICE PROBLEMS

TOTAL PROBLEMS 25

Problem 1.

Compute capital gains in the following situations for the assessment year 2013-14:

Asset	Gold	Land	Residential house	Personal Motor Car
Date of purchase	01.07.1978	01.04.1980	01.07.2010	01.05.2003
Cost price	3,00,000	5,00,000	7,00,000	2,00,000
Cost of improvement	20,000	1,00,000	3,00,000	Nil
Year of improvement	1979-80	1980-81	2010-11	2006-07
Fair market value on 01.04.1981	2,90,000	5,50,000	N.A.	N.A.
Date of Sale	01.01.2013	01.01.2013	01.01.2013	01.01.2013
Full value of consideration	30,00,000	32,00,000	15,00,000	1,80,000

Answer = Long term capital gains: Gold: `4,44,000; Long term capital loss: Land: (`14,86,000); Short term capital gain: Residential House: `5,00,000; Personal motor car is not an asset.

Problem 2.

Mr. X acquired a residential house in January, 1979 for `2,00,000 and its market value on 01.04.1981 is `1,80,000 and he constructed its 1st floor in September' 1987 by incurring `3,00,000 and constructed second floor in October' 2001 by incurring `4,00,000 and constructed its third floor in February' 2012 by incurring `5,00,000 and sold the house on 01.01.2013 for `100,00,000 and paid brokerage @ 1% and he invested `20,000 in equity shares of infrastructure development company notified under section 80C.

Compute his tax liability for assessment year 2013-14.

Answer = Tax Liability: `10,19,560

Problem 3.

Mr. Sandeep Mishra purchased one house on 01.10.1982 for `5,00,000 and this house was acquired compulsorily by the Government on 01.07.1995. Compensation fixed by the Government was `32,00,000. Government has paid half of the amount on 01.10.2012 and balance half on 01.10.2013.

The assessee was not satisfied with the compensation and he has filed an appeal in the High Court. The High Court has given decision on 31.03.2015 directing the Government to pay additional compensation of `5,00,000 and the Government has paid `3,00,000 on 10.04.2015 and balance `2,00,000 on 10.04.2016.

Compute capital gains for the various years and tax liability for assessment year 2013-14.

Answer = Assessment Year 2013-14: Long term capital gains: `19,11,010; Tax Liability: `3,52,470;
Assessment Year 2016-17: Long term capital gains: `3,00,000;
Assessment Year 2017-18: Long term capital gains: `2,00,000

<u>Problem 4.</u>
Mr. Rahul Dubey (aged 65 years) sold the following assets during the previous year 2012-13:

1. He purchased one house in rural area on 01.10.1961 for `2,00,000 and incurred `50,000 on its improvement on 01.07.1980. Its market value on 01.04.1981 is `2,30,000. It was sold on 01.04.2012 for `5,00,000.

2. He purchased agricultural land in the rural area for `2,00,000 on 01.07.2002 and sold it on 01.07.2012 for `3,00,000.

3. He purchased one T.V. for his personal use on 01.01.2003 for `25,000 and sold it on 30.12.2012 for `20,000.

4. He purchased gold on 01.07.2009 for `3,00,000 and sold it on 01.04.2012 for `4,50,000.

5. He has one motor car in his business with written down value as on 01.04.2012 `2,00,000 and it was sold by him on 01.07.2012 for `2,50,000.

6. He purchased one house on 01.10.1982 for `7,00,000 and incurred `4,50,000 on 01.10.2002 to construct its first floor and subsequently the house was sold on 01.01.2013 for `80,00,000 and selling expenses were 2% of the sale price.

Compute tax liability of Mr. Rahul Dubey for the assessment year 2013-14.

Answer = Tax Liability: `230

<u>Problem 5.</u>
Discuss whether the following are capital assets or not:

(i) Household furniture
(ii) Personal Motor car
(iii) Residential house
(iv) Urban land
(v) Rural land in India
(vi) Rural land in Nepal
(vii) Stock in trade
(viii) Gold ornaments
(ix) Music system for personal use
(x) Music system in business use
(xi) Motor car in business use
(xii) Plant and machinery in business use
(xiii) Silver utensils for personal use

(xiv) Precious stones in personal use

Answer = (i) Not a capital asset; (ii) Not a capital asset; (iii) Capital asset; (iv) Capital asset; (v) Not a capital asset; (vi) Capital asset; (vii) Not a capital asset; (viii) Capital asset; (ix) Not a capital asset; (x) Capital asset; (xi) Capital asset; (xii) Capital asset; (xiii) Not a capital asset; (xiv) Capital asset

Problem 6.

Mr. X purchased one residential house on 01.10.1992 for `5,00,000 and sold the house on 01.07.2012 for `100,00,000 and purchased one house on 01.01.2013 for `20,00,000 and this house was sold by him on 01.01.2014 for `25,00,000.

Compute his income tax liability for assessment year 2013-14 and also capital gains for all the years.

Answer = Income Tax Liability : `12,13,280
Assessment Year 2014-15: Short term capital gains: `25,00,000

(b) Presume the house purchased on 01.01.2013 was sold on 31.01.2013

Answer = Income Tax Liability : `16,97,380

(c) Presume the house purchased on 01.01.2013 was purchased on 01.10.2013 and was not sold upto 01.09.2016.

Answer = Income Tax Liability : `16,25,280

(d) Presume no house was purchased but the amount was deposited in capital gains account scheme on 31.07.2013 and the amount remained unutilized.

Answer = Income Tax Liability : `12,13,280
Assessment Year 2016-17: Long term capital gains: `20,00,000

Problem 7.

Mr. Yogender Sharma purchased agricultural land for `3,00,000 on 01.10.1985 and this land was transferred by him on 01.07.2012 for `32,00,000 (this agricultural land is used for agricultural purpose since its purchase). Mr. Yogender Sharma purchased one agricultural land on 30.09.2013 in the urban area for `6,00,000. The agricultural land were sold on 01.01.2014 for `10,00,000.

He has one business also with turnover `105,00,000 and has income from business `1,10,000.

Compute capital gains for various years and also tax liability for assessment year 2013-14.

Answer =
Assessment Year 2013-14: Long Term Capital Gains: `6,78,195.49; Tax Liability: `1,21,170
Assessment Year 2014-15: Short Term Capital Gains: `10,00,000

Problem 8.

On 25.04.2012 Anand sold an urban agricultural land for `55,00,000 which he had been using for agricultural purposes for several years. He acquired that land in 1980 for `2,50,000. The market value of such land as on 01.04.1981 was `5,00,000. He purchased rural agricultural land for `8,00,000 on 25.06.2012 which was sold for `12,50,000 on 18.01.2013. A sum of `12,50,000 was also invested by him in purchase of residential property on 25.07.2012. He did not own any house property before this date. The new house property was sold on 28.03.2013 for `15,00,000.

Compute tax liability for assessment year 2013-14.

Answer = Long term capital gain: `4,40,000; Short term capital gain: `2,50,000; Tax Liability: `95,790

Problem 9.

Mr. Sunil Sarraf sells a commercial house property on 15th December 2012 for `19,00,000 (cost of acquisition on 23rd April 1981 `1,50,000). On 14th March 2013 he purchases a residential house for `3,00,000 for availing exemption under section 54F and bonds of NHAI which are redeemable after 3 years for `3,80,000 for claiming exemptions under section 54EC. He does not own any other house. He also incurred a short term capital loss amounting to `50,000 during the previous year 2012-13.

During the previous year his only other income was from business amounting to `50,000.

He deposited `20,000 in public provident fund.

Compute the total income and tax liability of Mr. Sunil Sarraf for the assessment year 2013-14.

Answer = Total Income: `1,23,790; Tax Liability: Nil

Problem 10.

Mr. Tara Chand Sachdeva purchased agricultural land on 01.05.1971 for `3,00,000 in urban area and its market value on 01.04.1981 is `2,00,000. This land was gifted by him to his son Mr. Vinay Sachdeva on 01.01.2003 when its market value was `15 lakhs. Mr. Vinay Sachdeva has transferred this land on 01.01.2013 for `40 lakhs (this agricultural land is used for agricultural purposes since its purchase) and he purchased one more agricultural land in rural area on 10th January 2013 for `2,50,000 and purchased one residential house on 31.01.2013 because he didn't have any house in his name, for `7,00,000.
He invested `1,00,000 in bonds of National Highways Authority of India redeemable after 3 years. The amount was invested on 30.06.2013.

Compute his tax liability for the assessment year 2013-14.

Answer = Tax Liability: `1,32,110

Problem 11.

Mr. Apoorv Jain is the owner of the following assets:

1. He purchased gold in 1977-78 for `90,000 and its market value as on 01.04.1981 is `1,01,000.
2. He purchased equity shares in A Ltd (listed) in 1973-74 for `1,92,000 and its market value on 01.04.1981 is `2,83,000.

Mr. Apoorv Jain died on 16.08.1998 and as per his will these assets were transferred to his son Ankur Jain. Mr. Ankur Jain now sells these assets on 10.06.2012 for `20,00,000 and `3,00,000 respectively and securities transaction tax has been paid on sale of equity shares.

Find out the amount of capital gains chargeable to tax and also tax liability for the assessment year 2013-14.

Answer = Income under the head Capital Gains: `11,39,480; Tax Liability: `1,93,530

Problem 12.

Mr. Abhinav Bilotia purchased a house property for `36,000 on 10.05.1963. He gets the first floor of the house constructed in 1967-68 by spending `80,000. He dies on 12.09.1983. The property is transferred to Mrs. Ekta Bilotia by his will. Mrs. Ekta Bilotia spends `40,000 during 1984-85 for renewals/reconstruction of the property. Mrs. Ekta Bilotia sells the house property for `14,50,000 on 15.03.2013 (brokerage paid by Mrs. Ekta Bilotia is `14,500). The fair market value of the house on 01.04.1981 is `1,10,000.

Find out the amount of capital gain chargeable to tax for the assessment year 2013-14.

Answer = Long Term Capital Gains: `2,25,660

Problem 13.

Mr. Piyush Garg a senior citizen (aged 65 years) sold residential building at Alwar for `23,00,000 on October 1st, 2012. This building was acquired by his father on 01.01.1979 for `1,00,000. On the death of his father on July 5th, 1986, he inherited this building. Fair market value of this property on 01.04.1981 was `1,50,000. He paid brokerage @ 1% to the real estate agent at the time of sale of the building. He purchased a residential building at Bangalore on March 7th, 2013 for `8,00,000 and deposited `3,00,000 on April 20th, 2013 in the bonds of National Highways authority of India redeemable after one year.

His other incomes are ` 50,000. He deposited ` 10,000 in public provident fund.

Compute total income and tax liability of Mr. Piyush for the assessment year 2013-14.

Answer = Total Income: `2,39,000; Tax Liability: Nil

Problem 14.

Mr. Mukul Grover purchased one building on 01.10.1962 for `2,00,000 and incurred `1,50,000 on its improvement on 01.10.1978. He entered into an agreement to sell this house on 01.04.1981 for `3,00,000 but the buyer backed out. Subsequently Mr. Mukul Grover incurred `5,00,000 on its improvement on 01.07.1987 and Mr. Mukul Grover expired on 01.10.1997. The asset was inherited by his son Mr. Kapil Grover who further incurred `2,00,000 on its improvement on 01.01.2002. Finally this asset was sold by him on 01.01.2013 for `59,00,000 and he purchased NSC of `5,00,000.

Compute his tax liability for the assessment year 2013-14.

Answer = Tax Liability: `Nil

Problem 15.

Mr. Prabhu Chand Talwar purchased one house on 01.04.1981 for `5,00,000. He entered into an agreement to sell this house on 01.10.1991 and advance money of `22,000 was received but the buyer backed out and advance money was forfeited. Mr. Prabhu Chand Talwar expired on 01.10.1993 and the house was inherited by his son Mr. Umesh Chand Talwar who has further entered into an agreement on 01.10.2001 to sell this house and advance money of `30,000 was received but the buyer backed out and advance money was forfeited and subsequently Mr. Umesh Chand Talwar has sold the house on 01.01.2013 for `45,00,000.

Compute tax liability for assessment year 2013-14.

Answer = Tax Liability: `60,890

Problem 16.

Mr. Sagar Saini purchased 100 equity shares in ABC Ltd. (listed) on 01.10.1976 @ `10 per share. The company had issued 100 bonus shares on 01.10.1980 and market value of the share as on 01.04.1981 is `8 per share. Company has again issued 100 bonus shares on 01.10.1996.

The company has further offered 100 right shares on 01.05.2012 @ `150 per share and Mr. Sagar Saini has purchased half of the shares and balance half was renounced in favour of Mr. Sanjay Shukla by charging `5 per share.

Mr. Sagar Saini and Mr. Sanjay Shukla both have transferred all the shares on 01.01.2013 @ `200 per share and securities transaction tax has been paid.

Mr. Sagar Saini has income under the head business/profession `2,60,000 and he has invested `70,000 in public provident fund.

Mr. Sanjay Shukla has income under the head business/profession `2,40,000 and he has invested `50,000 in public provident fund.

Compute tax liability of Mr. Sagar Saini and Mr. Sanjay Shukla.

Answer = Mr. Sagar Saini: Tax Liability: Nil; Mr. Sanjay Shukla: Tax Liability: Nil

Problem 17.

Mr. Vikram Narula purchased 100 debentures in ABC Ltd. on 01.10.1994 @ `300 per debenture and subsequently the company has converted the debentures into shares on 01.10.2011 and for each debenture 3 shares were issued and market value of the shares on the date of conversion was `250 per share and subsequently assessee has sold all these shares on 01.04.2012 @ `275 per share and has paid brokerage @ 1% of the sale price.

Compute capital gains in the hands of Mr. Vikram Narula.

Answer = Short Term Capital Gains: `51,675

Problem 18.

Mr. Rajeev Goel purchased 500 debentures on 01.07.1991 of ABC Ltd. @ ` 390 per debenture and paid brokerage @ 1.5%. The debentures were converted into share @ 3 share for each debenture on 01.07.2001. Market value on the date of conversion was ` 170 per share. All the shares were sold on 01.07.2012 @ `550 per share and no securities transaction tax has been paid and paid brokerage @ 1.5%.

A sum of `1,00,000 was invested in purchasing a house on 28.06.2013 because the assessee did not have any house and `1,00,000 was deposited in capital gain account scheme on 30.06.2013 for availing exemption under section 54F and ` 50,000 was withdrawn on 02.07.2013 to construct first floor of the house purchased on 28.06.2013 and the house was sold on 01.11.2015 for `3,00,000.

Compute total income and tax liability for assessment year 2013-14 and capital gains for various years.

Answer = Total Income: `3,14,200; Tax Liability: `23,530;
Assessment Year 2016-17: Long Term Capital Gain: `1,02,574.99
Assessment Year 2016-17: Short Term Capital Gain: `1,50,000

Problem 19.

Mr. Tarun Bhasin has transferred land on 01.10.2012 for `8,75,000 and selling expenses are `20,000 and Indexed cost of acquisition is `3,29,000. He has also transferred gold on 01.01.2013 for `11,00,000 and Indexed cost of acquisition is `8,31,000 and selling expenses are 1% of the sale price. He has invested `4,27,500 on 10.01.2013 for purchasing one house and `2,50,000 in the bonds of National Highways Authority of India which are redeemable after 3 years.

He is running a shop for selling consumer goods and his gross sale are ` 45,00,000 and he purchased stock in trade for ` 38,00,000 and paid Delhi VAT @ 12.5% and he has opted composition scheme and Delhi VAT was paid by him @ 1% of gross sales. He has rejected presumptive income under section 44AD and he has maintained the records and also accounts have been audited.

Compute his tax liability for the assessment year 2013-14.

Answer = Tax Liability: `51,710

Problem 20.

Mr. X has sold the following assets:

Asset	Gold	Land	Residential house	Personal Motor Car
Date of purchase	01.07.1978	01.04.1980	01.07.2010	01.05.2003
Cost price	3,00,000	5,00,000	7,00,000	2,00,000

Cost of improvement	20,000	1,00,000	3,00,000	Nil
Year of improvement	1979-80	1980-81	2010-11	2006-07
Fair market value on 01.04.1981	2,90,000	5,50,000	N.A.	N.A.
Date of Sale	01.01.2013	01.01.2013	01.01.2013	01.01.2013
Full value of consideration	30,00,000	32,00,000	15,00,000	1,80,000

Compute his total income and tax liability also for assessment year 2013-14.

Answer = Total Income: `5,00,000; Tax Liability: `30,900; Loss under the head capital gains: `10,42,000

Problem 21.
Mr. X has submitted information regarding sale of certain assets as given below:

1. He purchased one house on 01.10.1978 for `5,00,000 and paid brokerage `25,000. He entered into an agreement to sell this house on 01.04.1981 for `5,10,000 but the buyer backed out. He constructed its first floor on 01.01.2003 by incurring `4,00,000 and subsequently this house was sold on 01.01.2013 for `60,00,000 and selling expenses were `85,000.

2. He purchased Preference shares in ABC Ltd. on 01.07.2002 for `1,50,000 and sold these shares on 31.03.2013 for `1,00,000.

3. He purchased one motor car for personal use on 28.02.2003 for `2,00,000 and sold it on 01.04.2012 for `2,10,000.

4. He purchased gold ornaments on 01.10.1980 for `2,10,000. Its market value on 01.04.1981 is `2,00,000 and it was sold by her on 01.07.2012 for `8,00,000.

5. He purchased silver utensils on 01.07.2002 for `30,000 and these utensils were sold by her on 01.01.2013 for `23,000.

6. He has invested `35,000 in the units of UTI.

Compute his income tax liability for assessment year 2013-14.

Answer = Tax Liability: Nil

Problem 22.
Mrs. X purchased 1,000 Debenture of ABC Ltd on 01.07.2001 @ `500 per debenture and the Debenture were converted into shares on 01.07.2011 and for each debenture two shares were issued.

Mrs. X sold half of the shares on 01.05.2012 @ `800 per shares & balance half on 01.11.2012 @ `900 per share. (STT not paid)

She is engaged in retail trade and is registered under DVAT and purchased goods from Delhi for `30 lakh and paid VAT @ 12.5% and half of the good were stock transferred to some other state and balance half were sold in Delhi for `25 lakh plus VAT @ 12.5%.

She purchased goods from some other state for `40 lakh and paid CST @ 2% & goods were sold in Delhi for `53 lakh Plus VAT 12.5%.

Compute her tax liability for A.Y. 2013-14 also show the working for VAT.

Answer = Tax Liability: `8,10,330

Problem 23(a).

Mrs. X purchased one house on 01.07.1975 for ` 2,00,000 and its market value on 01.04.1981 is ` 3,00,000.

She has entered into an agreement to sell the house in 1992-93 and advance money of `30,000 was forfeited. She has gifted the house on 01.11.2012 to Mrs. Y when its market value was `20,00,000 and value for the purpose of stamp duty was `15,00,000.

Mrs. Y has sold the house on 01.01.2013 for ` 75,00,000 and has purchased one house on 10.01.2013 for `5,00,000 and it was sold by her on 20.01.2013 for ` 6,00,000.

Compute her tax liability for the assessment year 2013-14.

Answer = Tax Liability: `21,73,300

<u>Problem 23(b).</u>
Presume Mrs. Y is sister of Mrs. X.

Compute her tax liability for assessment year 2013-14.

Answer = Tax Liability: `9,66,960

<u>Problem 24.</u>
Mr. Puneet Choudhary owns several assets but does not own any residential house. He sells the following assets and requests you to compute his tax liability for the assessment year 2013-14.

1. Shares (non-listed) purchased in April 1997 for `1,30,000 sold on 19.07.2012 for `12,00,000.
2. On 01.04.1981, he had agreed to sell the jewellery to Mr. Milan Bhardwaj for `3,50,000 which was purchased in 1976 for `1,80,000. However, the sale could not be effected as Mr. Milan Bhardwaj backed out. He now sold the jewellery on 15.08.2012 for `18,00,000 and incurred `30,000 incidental selling expenses on account of brokerage and commission.

   In December 2012, he also purchased a small residential house for `2,00,000.

   He has deposited `1,60,000 on 20.01.2013 in deposit account with a public sector bank under capital gains deposit scheme for construction on the house which he has purchased in December 2012.

   On 15.01.2013, he invested `2,50,000 in the bonds issued by National Highway Authority of India which are redeemable after 3 years.

3. Debentures purchased in April 2012 for `80,000 sold on 31.12.2012 for `1,40,000.

4. Sold his motor car purchased in August 1997 for `1,50,000 on 15.03.2013 for `18,000.

5. He purchased equity shares of ABC Limited on 01.11.2011 for `2,00,000 and sold all the shares on 01.06.2012 for `10,00,000 and has paid STT @ 0.25% of sale price.

   He has a small business and is trading in consumer goods and he purchased goods of `250,00,000 from Delhi and paid Delhi VAT @ 4% and goods were sold by him at a profit of 10% on sale price and has charged VAT @ 4% and he is registered under Delhi VAT.

Compute his income tax liability and also show working of VAT:

Answer = Tax Liability: `8,25,370; Carried forward long term capital loss: `8,56,235.65

<u>Problem 25.</u>
Hari has acquired a residential house property in Delhi on 1st April, 2000 for `10,00,000 and decided to sell the same on 3rd May, 2003 to Ms. Pari and an advance of `25,000 was taken from her. The balance money

was not paid by Ms. Pari and Hari has forfeited the entire advance sum. On 3rd June, 2012, he has sold this house to Mr. Suri for `35,00,000. In the meantime, on 4th April, 2012, he had purchased a residential house in Delhi for `8,00,000, where he was staying with his family on rent for the last 5 years and paid the full amount as per the purchase agreement. However, Hari does not possess any legal title till 31st March, 2013, as such transfer was not registered with the registration authority.

Mr. Hari is a Registered Dealer under VAT and he has submitted the information for F.Y. 2012-13 as given below:

Particulars	**Amount `**	**Rate of VAT**
Details of purchase		
Raw material purchased from another State (CST @ 2%).	20,00,000	
Raw material X purchased within the State	30,00,000	1%
Raw material Y imported from Singapore (includes basic customs duty paid @ 10% plus education cess)	22,00,000	
Raw material Z purchased within the State.	12,00,000	12.5%
Details of sales		
Sale of goods produced from raw material X.	54,00,000	4%
Sale of goods produced from inter-State purchase and imported raw materials.	64,00,000	1%
Sale of goods produced from raw material Z.	16,00,000	12.5%

Note: The purchase and sales figures given above do not include VAT/CST.
Determine his income tax liability for Assessment Year 2013-14 and also show the tax treatment for VAT for Financial Year 2012-13.
Answer = Income Tax Liability: `14,92,250; Net VAT Payable: ` 3,00,000

SOLUTIONS

TO

PRACTICE PROBLEMS

Solution 1:

	`
Gold	
Full value of consideration	30,00,000
Less: Indexed cost of acquisition	
= 3,00,000 / Index of 81-82 x Index of 12-13	
= 3,00,000 / 100 x 852 = 25,56,000	25,56,000
Long term capital gain	4,44,000
Land	
Full value of consideration	32,00,000
Less: Indexed cost of acquisition	
= 5,50,000 / Index of 81-82 x Index of 12-13	
= 5,50,000 / 100 x 852 = 46,86,000	46,86,000
Long term capital loss	14,86,000
Residential House	
Full value of consideration	15,00,000

Less: Cost of acquisition	7,00,000
Less: Cost of improvement	3,00,000
Short term capital gain	5,00,000

Personal motor car

It is not a capital asset as per section 2(14)

Solution 2:

`

Computation of income under the head Capital Gain

Full value of consideration	100,00,000.00
Less: Indexed cost of acquisition	
= 2,00,000 / Index of 81-82 x Index of 12-13	
= 2,00,000 / 100 x 852 = `17,04,000	17,04,000.00
Less: Indexed cost of improvement	
Cost of constructing first floor	
= 3,00,000 / Index of 87-88 x Index of 12-13	
= 3,00,000 / 150 x 852 = `17,04,000	17,04,000.00
Less: Indexed cost of improvement	
Cost of constructing second floor	
= 4,00,000 / Index of 01-02 x Index of 12-13	
= 4,00,000 / 426 x 852 = `8,00,000	8,00,000.00
Less: Indexed cost of improvement	
Cost of constructing third floor	
= 5,00,000 / Index of 11-12 x Index of 12-13	
= 5,00,000 / 785 x 852 = `5,42,675.16	5,42,675.16
Less: Brokerage @ 1%	
= 1% of `100,00,000 = `1,00,000	1,00,000.00
Long Term Capital Gain	51,49,324.84
Income under the head Capital Gain (LTCG)	51,49,324.84
Gross Total Income	51,49,324.84
Less: Deduction u/s 80C to 80U	Nil
Total Income	51,49,324.84
Rounded off u/s 288A	51,49,320.00

Computation of Tax Liability

Tax on ` 49,49,320 (`51,49,320 – `2,00,000) @ 20%	9,89,864.00
Add: Education cess @ 2%	19,797.28
Add: SHEC @ 1%	9,898.64
Tax Liability	10,19,559.92
Rounded off u/s 288B	10,19,560.00

Solution 3:

Computation of Tax Liability for the previous year 2012-13 under section 45(5)

Since the Government has made the first payment in the previous year 2012-13, Long term capital gain shall be taxed in the pervious year 2012-13. However, Long term capital gain shall be computed in the year in which the asset has been acquired i.e. in the year 1995-96.

`

Computation of capital gains

Full value consideration	32,00,000.00
Less: Indexed cost of acquisition	
= 5,00,000 / Index of 82-83 x Index of 95-96	
= 5,00,000/109 x 281 = `12,88,990.83	12,88,990.83
Long Term Capital Gain	19,11,009.17
Income under the head Capital Gains (LTCG)	19,11,009.17
Gross Total Income	19,11,009.17
Less: Deductions u/s 80C to 80U	Nil
Total Income {Rounded off u/s 288A}	19,11,010.00

Computation of Tax Liability

{Since there is no income under any other head so as per section 112 deficiency of `2,00,000 shall be allowed from LTCG and the balance income shall be taxed at flat rate of 20%}

Tax on `17,11,010 (`19,11,010 – 2,00,000) @ 20%	3,42,202.00
Add: Education cess @ 2%	6,844.04
Add: SHEC @ 1%	3,422.02
Tax liability of Mr. Sandeep Mishra	3,52,468.06
Rounded off u/s 288B	3,52,470.00

Computation of Capital Gains

Capital gains for the previous year 2015-16 i.e. the year in which additional compensation has been received.

Long term capital gain for 2015-16	3,00,000.00

Capital gain for the previous year 2016-17 in which balance amount of additional compensation has been received.

Long term capital gain for the year 2016-17	2,00,000.00

Solution 4:

`

Computation of Capital Gains

1. House

Full value of consideration	5,00,000.00
Less: Indexed cost of acquisition (2,30,000 / 100 x 852)	19,59,600.00
Long term capital loss	14,59,600.00

2. Agricultural Land in rural area not an asset as per section 2(14).

3. T.V. is not an asset as per section 2(14).

4. Gold

Full value of consideration	4,50,000.00
Less: Cost of acquisition	3,00,000.00
Short term capital gain	1,50,000.00

5. Motor car

Full value of consideration	2,50,000.00
Less: written down value	2,00,000.00
Short term capital gain as per section 50	50,000.00

6. House

Full value of consideration	80,00,000.00

Less: Indexed cost of acquisition (7,00,000 / 109 x 852)	54,71,559.63
Less: Indexed cost of improvement (4,50,000 / 447 x 852)	8,57,718.12
Less: Selling expenses @ 2%	1,60,000.00
Long term capital gains	15,10,722.25
Less: Long term capital loss on sale of first house	14,59,600.00
Long term capital gain after adjust loss	51,122.25
Short Term Capital Gain	2,00,000.00
Income under the head Capital Gains	2,51,122.25
Gross Total Income	2,51,122.25
Less: Deduction u/s 80C to 80U	Nil
Total Income	2,51,122.25
Rounded off u/s 288A	2,51,120.00

Computation of Tax Liability

Tax on LTCG `1,120 (`51,120 - `50,000) @ 20%	224.00	
Tax on `2,00,000 at slab rate		Nil
Tax before education cess		224.00
Add: Education cess @ 2%		4.48
Add: SHEC @ 1%		2.24
Tax Liability		230.72
Rounded off u/s 288B		230.00

Solution 5:

(i) Household furniture is not a capital asset.
(ii) Personal motor car is not a capital asset.
(iii) Residential house is a capital asset.
(iv) Urban land is a capital asset.
(v) Rural land in India is not a capital asset.
(vi) Rural land in Nepal is a capital asset.
(vii) Stock in trade is not a capital asset.
(viii) Gold ornaments are a capital asset.
(ix) Music system for personal use is not a capital asset.
(x) Music system for business use is a capital asset.
(xi) Motor car in business use is a capital asset.
(xii) Plant and machinery in business use is a capital asset.
(xiii) Silver utensils for personal use is not a capital asset.
(xiv) Precious stones in personal use is a capital asset.

Solution 6:

Computation of Capital Gains

	`
Full value of consideration	100,00,000.00
Less: Indexed cost of acquisition	
= 5,00,000 / Index of 92-93 x Index of 12-13	
= 5,00,000 / 223 / 852 = 19,10,313.90	19,10,313.90
Long Term Capital Gains	80,89,686.10
Less: Exemption u/s 54	20,00,000.00
Long Term Capital Gains	60,89,686.10
Income under the head Capital Gains	60,89,686.10
Gross Total Income	60,89,686.10

Less: Deduction u/s 80C to 80U	Nil
Total Income	60,89,686.10
Rounded off u/s 288A	60,89,690.00

Computation of Tax Liability

Tax on LTCG `58,89,690 (`60,89,690 – `2,00,000) @ 20%	11,77,938.00	
Add: Education cess @ 2%		23,558.76
Add: SHEC @ 1%		11,779.38
Tax Liability		12,13,276.14
Rounded off u/s 288B		12,13,280.00

Computation of Capital Gain for the assessment year 2014-15

Full value of consideration	25,00,000.00
Less: Cost of acquisition (20,00,000- 20,00,000)	Nil
Short Term Capital Gain	25,00,000.00

<u>Solution 6(b):</u>

Computation of Capital Gains

Full value of consideration	100,00,000.00
Less: Indexed cost of acquisition	
= 5,00,000 / Index of 92-93 x Index of 12-13	
= 5,00,000 / 223 / 852 = 19,10,313.90	19,10,313.90
Long Term Capital Gain	80,89,686.10

The assessee has the option either not to avail exemption under section 54 or to avail exemption under section 54 and also it will be withdrawn

<u>Option I Exemption is not availed:</u>

Long Term Capital Gain	80,89,686.10

<u>Sale of house purchased on 01.01.2013</u>

Full value of consideration	25,00,000.00
Less: Cost of acquisition	20,00,000.00
Short Term Capital Gain	5,00,000.00

Income under the head Capital Gains	85,89,686.10
Gross Total Income	85,89,686.10
Less: Deduction u/s 80C to 80U	Nil
Total Income	85,89,686.10
Rounded off u/s 288A	85,89,690.00

Computation of Tax Liability

Tax on `5,00,000 at slab rate	30,000.00
Tax on LTCG `80,89,690 @ 20%	16,17,938.00
Tax before education cess	16,47,938.00
Add: Education cess @ 2%	32,958.76
Add: SHEC @ 1%	16,479.38
Tax Liability	16,97,376.14
Rounded off u/s 288B	16,97,380.00

<u>Option II Exemption is availed</u>

Long Term Capital Gain	80,89,686.10
Less: Exemption u/s 54	20,00,000.00
Long Term Capital Gains	60,89,686.10

<u>Sale of house purchased on 01.01.2013</u>

Full value of consideration	25,00,000.00
Less: Cost of acquisition (20,00,000 – 20,00,000)	Nil
Short Term Capital Gain	25,00,000.00

Income under the head Capital Gains	85,89,686.10
Gross Total Income	85,89,686.10
Less: Deduction u/s 80C to 80U	Nil
Total Income	85,89,686.10
Rounded off u/s 288A	85,89,690.00

Computation of Tax Liability

Tax on `25,00,000 at slab rate	5,80,000.00	
Tax on LTCG `60,89,690 @ 20%		12,17,938.00
Tax before education cess		17,97,938.00
Add: Education cess @ 2%		35,958.76
Add: SHEC @ 1%		17,979.38
Tax Liability		18,51,876.14
Rounded off u/s 288B		18,51,880.00

Hence the assessee should opt for option I and his tax liability shall be `16,97,380

<u>Solution 6(c):</u>

Computation of Capital Gains

Full value of consideration	100,00,000.00
Less: Indexed cost of acquisition	
= 5,00,000 / Index of 92-93 x Index of 12-13	
= 5,00,000 / 223 x 852 = 19,10,313.90	19,10,313.90
Long Term Capital Gains	80,89,686.10

(Exemption is not allowed because house was purchased after the last date of filing of return of income)

Income under the head Capital Gains	80,89,686.10
Gross Total Income	80,89,686.10
Less: Deduction u/s 80C to 80U	Nil
Total Income	80,89,686.10
Rounded off u/s 288A	80,89,690.00

Computation of Tax Liability

Tax on LTCG `78,89,690 (`80,89,690 – `2,00,000) @ 20%	15,77,938.00	
Add: Education cess @ 2%		31,558.76
Add: SHEC @ 1%		15,779.38
Tax Liability		16,25,276.14
Rounded off u/s 288B		16,25,280.00

<u>Solution 6(d):</u>

Computation of Capital Gains

Full value of consideration	100,00,000.00
Less: Indexed cost of acquisition	
= 5,00,000 / Index of 92-93 x Index of 12-13	

= 5,00,000 / 223 / 852 = 19,10,313.90		19,10,313.90
Long Term Capital Gains		80,89,686.10
Less: Exemption u/s 54		20,00,000.00
Long Term Capital Gains		60,89,686.10
Income under the head Capital Gains		60,89,686.10
Gross Total Income		60,89,686.10
Less: Deduction u/s 80C to 80U		Nil
Total Income		60,89,686.10
Rounded off u/s 288A		60,89,690.00

Computation of Tax Liability

Tax on LTCG \`58,89,690 (\`60,89,690 – \`2,00,000) @ 20%	11,77,938.00	
Add: Education cess @ 2%		23,558.76
Add: SHEC @ 1%		11,779.38
Tax Liability		12,13,276.14
Rounded off u/s 288B		12,13,280.00

Computation of Capital Gain for the assessment year 2016-17

Unutilized amount in capital gain account scheme after expiry of three years

Long Term Capital Gain	20,00,000.00

<u>Solution 7:</u>

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Computation of Capital Gains

Previous year 2012-13

Full value of consideration	32,00,000.00
Less: Indexed cost of acquisition	
= \`3,00,000 / Index of 85-86 x Index of 12-13	
= \`3,00,000 / 133 x 852 = \`19,21,804.51	19,21,804.51
Long term capital gain	12,78,195.49
Less: Exemption u/s 54B	6,00,000.00
Long term capital gain	6,78,195.49
Income under the head Business/Profession	1,10,000.00
Gross Total Income	7,88,195.49
Less: Deduction u/s 80C to 80U	Nil
Total Income	7,88,195.49
Rounded off u/s 288A	7,88,200.00

Computation of Tax Liability

Tax on LTCG \`5,88,200 (\`6,78,200 – \`90,000) @ 20%	1,17,640.00
Tax on \`1,10,000 at slab rate	Nil
Tax before education cess	1,17,640.00
Add: Education cess @ 2%	2,352.80
Add: SHEC @ 1%	1,176.40
Tax Liability	1,21,169.20
Rounded off u/s 288B	1,21,170.00

Previous year 2013-14

<u>Sale of land</u>

Full value of consideration	10,00,000.00
Less: Cost of acquisition = `6,00,000	
Less: Exemption earlier allowed = `6,00,000	
So, Cost of acquisition = Nil	Nil
Short term capital gain	10,00,000.00

<u>Solution 8:</u>

`

Computation of Capital Gains

1. Sale of Land

Full value of consideration	55,00,000
Less: Indexed cost of acquisition	
= 5,00,000 / Index of 81-82 x Index of 12-13	
= 5,00,000 / 100 x 852 = `42,60,000	42,60,000
Long term capital gain	12,40,000
Less: Exemption u/s 54B	8,00,000
Long term capital gain	4,40,000

2. House

Full value of consideration	15,00,000
Less: Cost of acquisition	12,50,000
Short term capital gain	2,50,000
Income under the head capital Gain	6,90,000
Gross Total Income	6,90,000
Less: Deduction u/s 80C to 80U	Nil
Total Income	6,90,000

Computation of Tax Liability

Tax on `2,50,000 at slab rate	5,000
Tax on LTCG `4,40,000 @ 20% u/s 112	88,000
Tax before education cess	93,000
Add: Education cess @ 2%	1,860
Add: SHEC @ 1%	930
Tax Liability	95,790

<u>Note:</u> Assessee will be allowed exemption under section 54F but exemption shall be withdrawn because the house has been sold hence exemption allowed and exemption withdrawn will be the same amount and it will give the same tax liability.

<u>Solution 9:</u>

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Computation of Capital Gains

Full value of consideration	19,00,000.00
Less: Indexed cost of acquisition	
= 1,50,000 / Index of 81-82 x Index of 12-13	
= 1,50,000 / 100 x 852 = `12,78,000	12,78,000.00
Long term capital gain	6,22,000.00
Less: Exemption u/s 54EC	3,80,000.00
Less: Exemption u/s 54F	
= 6,22,000/19,00,000 x 3,00,000	98,210.53
Long term capital gain	1,43,789.47

Less: Short Term Capital Loss	(50,000.00)
Income under the head Capital Gains (LTCG)	93,789.47
Income under the head Business/Profession	50,000.00
Gross Total Income	1,43,789.47
Less: Deductions u/s 80C	20,000.00
Total Income {Rounded off u/s 288A}	1,23,790.00

Computation of Tax Liability

Tax on LTCG (93,790 – 93,790) @ 20% u/s 112	Nil
Tax on `30,000 at slab rate	Nil
Tax Liability	Nil

Solution 10:

		`
Computation of Capital Gains		
Full value of consideration		40,00,000.00
Less: Indexed cost of acquisition		
= 3,00,000 / Index of 81-82 x Index of 12-13		
= 3,00,000 / 100 x 852 = `25,56,000		25,56,000.00
Long term capital gain		14,44,000.00
Less: Exemption u/s 54B		
Purchased on 10.01.2013		2,50,000.00
Less: Exemption u/s 54F		
= Capital Gains / Net Consideration x Amount of investment		
= `14,44,000/ 40,00,000 x 7,00,000	2,52,700.00	
Less: Exemption u/s 54EC		1,00,000.00
Long term capital gain after various deductions		8,41,300.00
Income under the head Capital Gains (LTCG)		8,41,300.00
Gross Total Income		8,41,300.00
Less: Deductions u/s 80C to 80U		Nil
Total Income		8,41,300.00

Computation of Tax Liability

Tax `6,41,300 (`8,41,300 – `2,00,000) @ 20% u/s 112	1,28,260.00
Add: Education cess @ 2%	2,565.20
Add: SHEC @ 1%	1,282.60
Tax Liability	1,32,107.80
Rounded off u/s 288B	1,32,110.00

Solution 11:

		`
Computation of Capital Gains		
Gold		
Full value of consideration		20,00,000.00
Less: Indexed cost of acquisition		
= 1,01,000 / Index of 81-82 x Index of 12-13		
= 1,01,000 / 100 x 852 = `8,60,520	8,60,520.00	
Long term capital gain		11,39,480.00

Shares in A Ltd

Capital gain on sale of long term equity shares is exempt u/s 10(38)

Income under the head Capital Gains	11,39,480.00
Gross Total Income	11,39,480.00
Less: Deduction u/s 80C to 80U	Nil
Total Income	11,39,480.00

Computation of Tax Liability

Tax on LTCG `9,39,480 (`11,39,480 – `2,00,000) @ 20%	1,87,896.00
Add: Education cess @ 2%	3,757.92
Add: SHEC @ 1%	1,878.96
Tax Liability	1,93,532.88
Rounded off u/s 288B	1,93,530.00

<u>Solution 12:</u>

Computation of Capital Gains

		`
Full value of consideration		14,50,000.00
Less: Indexed cost of acquisition		
= 1,10,000 / Index of 81-82 x Index of 12-13		
= 1,10,000 / 100 x 852 = `9,37,200	9,37,200.00	
Less: Indexed cost of improvement		
= 40,000 / Index of 84-85 x Index of 12-13		
= 40,000 / 125 x 852 = `2,72,640		2,72,640.00
Less: Brokerage		14,500.00
Long term capital gain		2,25,660.00
Income under the head Capital Gains		2,25,660.00

<u>Solution 13:</u>

Computation of income under the head Capital Gains

	`
Full value of consideration	23,00,000.00
Less: Indexed cost of acquisition	
= 1,50,000 / Index of 81-82 x Index of 12-13	
= 1,50,000 / 100 x 852 = `12,78,000	12,78,000.00
Less: Brokerage	23,000.00
1% of `23,00,000 = `23,000	
Less: Exemption u/s 54	8,00,000.00
Long term capital gain	1,99,000.00
Income under the head Capital Gains (LTCG)	1,99,000.00
Income under the head Other Sources	50,000.00
Gross Total Income	2,49,000.00
Less: Deduction u/s 80C	10,000.00
Total Income	2,39,000.00

Computation of Tax Liability

Tax on LTCG on (`1,99,000 – `1,99,000) @ 20% u/s 112	Nil
Tax on `40,000 at slab rate	Nil
Tax Liability	Nil

<u>Solution 14:</u>

Computation of Capital Gains

	`
Full value of consideration	59,00,000.00
Less: Indexed cost of acquisition	

= 3,00,000 / Index of 81-82 x Index of 12-13	
= 3,00,000 / 100 x 852 = `25,56,000	25,56,000.00
Less: Indexed cost of improvement	
= 5,00,000 / Index of 87-88 x Index of 12-13	
= 5,00,000 / 150 x 852 = `28,40,000	28,40,000.00
Less: Indexed cost of improvement	
= 2,00,000 / Index of 01-02 x Index of 12-13	
= 2,00,000 / 426 x 852 = `4,00,000	4,00,000.00
Long term capital gain	1,04,000.00
Income under the head Capital Gains (LTCG)	1,04,000.00
Gross Total Income	1,04,000.00
Less: Deductions u/s 80C to 80U	Nil
{Deduction u/s 80C to 80U is not allowed from LTCG}	
Total Income	1,04,000.00

Computation of Tax Liability

Tax (`1,04,000 – `1,04,000) @ 20%	Nil
Tax Liability	Nil

<u>Solution 15:</u>

Computation of Capital Gains

		`
Full value of consideration		45,00,000.00
Less: Indexed cost of acquisition		
= (`5,00,000 – `30,000) / Index of 81-82 x Index of 12-13		
= `4,70,000 / 100 x 852 = `40,04,400		40,04,400.00
Long term capital gain		4,95,600.00
Income under the head Capital Gains (LTCG)		4,95,600.00
Gross Total Income		4,95,600.00
Less: Deductions u/s 80C to 80U		Nil
Total Income		4,95,600.00

Computation of Tax Liability

Tax on LTCG `2,95,600 (4,95,600 – 2,00,000) @ 20%	59,120.00	
Add: Education cess @ 2%		1,182.40
Add: SHEC @ 1%		591.20
Tax Liability		60,893.60
Rounded off u/s 288B		60,890.00

<u>Solution 16:</u>

Computation of Capital Gains in the hands of Mr. Sagar Saini

- Original shares are exempt under section 10(38)
- 1st bonus shares are exempt under section 10(38)
- 2nd bonus shares are exempt under section 10(38)

Computation of capital gains in case of right shares

	`
Full value of consideration (50 x 200)	10,000
Less: Cost of acquisition	7,500

(50 x 150)	
Short term capital gain u/s 111A	2,500

Computation of capital gains in case of shares renounced

Full value of consideration	250
(50 x 5)	
Less: Cost of acquisition	Nil
Short term capital gain	250
Short term capital gain of Mr. Sagar Saini	2,750

Working Note:

<u>Period of holding in case of renouncing of right to purchase a right shares section 2(42A)</u>

In the case of a capital asset, being the right to subscribe to any financial asset, which is renounced in favour of any person, the period shall be reckoned from the date of the offer of such right by the company or institution, as the case may be, making such offer.

Computation of Total Income

Income under the head Business/Profession	2,60,000.00
Income under the head Capital Gains	2,750.00
Gross Total Income	2,62,750.00
Less: Deduction u/s 80C	70,000.00
Total Income	1,92,750.00

Computation of Tax Liability

Tax on (`2,500 – `2,500) @ 15% u/s 111A	Nil
Tax on `1,90,250 at slab rate	Nil
Tax before education cess	Nil
Add: Education cess @ 2%	Nil
Add: SHEC @ 1%	Nil
Tax Liability	Nil

(Deduction under section 80C is not allowed from short term capital gain on the transfer of equity shares on which STT has been paid.)

Computation of capital gains in case of Mr. Sanjay Shukla

Full value of consideration	10,000
(200 x 50)	
Less: Cost of acquisition	7,750
(50 x 155)	
Short term capital gain u/s 111A	2,250

Working Note:

<u>Cost of acquisition of right renouncee section 55(2)</u>

In relation to any financial asset purchased by any person in whose favour the right to subscribe to such asset has been renounced, means the aggregate of the amount of the purchase price paid by him to the person renouncing such right and the amount paid by him to the company or institution, as the case may be, for acquiring such financial asset.

<u>Period of holding in case of right renouncee section 2(42A)</u>

In the case of a capital asset, being a share or any other security subscribed to by the assessee on the basis of his right to subscribe to such financial asset or subscribed to by the person in whose favour the assessee has renounced his right to subscribe to such financial asset, the period shall be reckoned from the date of allotment of such financial asset.

Computation of Total Income

Income under the head Business/Profession	2,40,000.00
Income under the head Capital Gains	2,250.00
Gross Total Income	2,42,250.00
Less: Deduction u/s 80C	50,000.00
Total Income	1,92,250.00

Computation of Tax Liability

Tax on (`2,250 – `2,250) @ 15% u/s 111A	Nil	
Tax on `1,90,000 at slab rate		Nil
Tax before education cess		Nil
Add: Education cess @ 2%		Nil
Add: SHEC @ 1%		Nil
Tax Liability		Nil

(Deduction under section 80C is not allowed from short term capital gain on the transfer of equity shares on which STT has been paid.)

<u>Solution 17:</u>

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Computation of Capital Gains

Full value of consideration (300 x 275)	82,500
Less: Cost of acquisition	30,000
Less: Brokerage (1% on `82,500)	825
Short term capital gain	51,675

<u>Solution 18:</u>

`

<u>Computation of Capital Gains</u>
<u>Previous Year 2012-13 Assessment Year 2013-14</u>

Full value of consideration (1,500 x 550)		8,25,000.00
Less: Indexed cost of acquisition = (500 x 395.85) / Index of 01-02 x Index of 12-13 = 1,97,925 / 426 x 852 = `3,95,850		3,95,850.00
Less: Brokerage @ 1.5% = 1.5 % of `8,25,000 = `12,375		12,375.00
Long Term Capital Gains		4,16,775.00
Less: Exemption u/s 54F = $\frac{4,16,775 \times 2,00,000}{8,12,625}$ = `1,02,574.99	1,02,574.99	
Long Term Capital Gain		3,14,200.01
Gross Total Income		3,14,200.01
Less: Deduction u/s 80C to 80U		Nil
Total Income (rounded off u/s 288A)		3,14,200.00

Computation of Tax Liability

Tax on `1,14,200 (`3,14,200 – `2,00,000) @ 20%	22,840.00
Add: Education cess @ 2%	456.80
Add: SHEC @ 1%	228.40
Tax Liability	23,525.20
Rounded off u/s 288B	23,530.00

Assessment Year 2016-17

Amount deposited in capital gain a/c scheme	1,00,000.00
Less: Amount withdrawn	50,000.00
Long Term Capital Gain	
= $\frac{4,16,775 \times 50,000}{8,12,625}$ = `25,643.75	25,643.75

(Proportionate exemption with regard to the unutilised amount lying in the capital gain account scheme is chargeable to tax after expiry of period of three years.)

When the house is sold within three year exemption earlier allowed shall be considered to be LTCG of the year in which the asset is sold i.e. P.Y 2015-16, A.Y. 2016-17

= $\frac{4,16,775 \times 1,50,000}{8,12,625}$ = `76,931.24

LTCG	76,931.24

Capital gain on sale of house in the Previous Year 2015-16

Full value of consideration	3,00,000.00
Less: Cost of acquisition	1,00,000.00
Less: Cost of improvement	50,000.00
STCG	1,50,000.00
Hence for A.Y. 2016-17	
LTCG (25,643.75 + 76,931.24)	1,02,574.99
STCG	1,50,000.00

Solution 19:

Computation of Capital Gains

1. Land

Full value of consideration	8,75,000
Less: Indexed cost of acquisition	3,29,000
Less: Selling Expenses	20,000
Long term capital gain	5,26,000

2. Gold

Full value of consideration	11,00,000
Less: Indexed cost of acquisition	8,31,000
Less: Selling Expenses	11,000
Long term capital gain	2,58,000

In this case assessee is eligible for exemption under section 54F and such exemption is allowed from any of the above two assets but first preference shall be given to land and second to gold because higher exemption is available from land and then from gold and amount of exemption is

= Capital gains / Net consideration x Amount of investment

= 5,26,000 / 8,55,000 x 4,27,500 = `2,63,000

Accordingly, income is –

Long term capital gain on Land	5,26,000.00
Less: Exemption u/s 54F	2,63,000.00
	2,63,000.00
Long term capital gain on Gold	2,58,000.00
Less: Exemption u/s 54EC	2,50,000.00
	8,000.00
Long term capital gain	2,71,000.00
Income under the head Capital Gains	2,71,000.00

Income under the head business/ profession

Gross sales	45,00,000.00
Less: Composition tax @ 1%	45,000.00
Less: Cost of goods sold [38,00,000 + (38,00,000 x 12.5%)]	42,75,000.00
Income under the business/profession	1,80,000.00
Gross Total Income	4,51,000.00
Less: Deductions u/s 80C to 80U	Nil
Total Income	4,51,000.00

Computation of Tax Liability

Tax on `2,51,000 (`2,71,000 - ` 20,000) @ 20% u/s 112	50,200.00
Tax on `1,80,000 at slab rate	Nil
Add: Education cess @ 2%	1,004.00
Add: SHEC @ 1%	502.00
Tax Liability	51,706.00
Rounded off u/s 288B	51,710.00

<u>Solution 20:</u>

Computation of income under the head Capital Gains

<u>Gold</u>

Full value of consideration	30,00,000.00
Less: Indexed cost of acquisition = 3,00,000 / Index of 81-82 x Index of 12-13 = 3,00,000 / 100 x 852 = 25,56,000	25,56,000.00
Long term capital gain	4,44,000.00

<u>Land</u>

Full value of consideration	32,00,000.00
Less: Indexed cost of acquisition = 5,50,000 / Index of 81-82 x Index of 12-13 = 5,50,000 / 100 x 852 = 46,86,000	46,86,000.00
Long term capital loss	14,86,000.00

<u>Residential House</u>

Full value of consideration	15,00,000.00
Less: Cost of acquisition	7,00,000.00
Less: Cost of improvement	3,00,000.00
Short term capital gain	5,00,000.00

<u>Personal motor car</u>

It is not a capital asset as per section 2(14)	
Income under the head capital gains	5,00,000.00
Gross Total Income	5,00,000.00
Less: Deduction u/s 80C to 80U	Nil
Total Income	5,00,000.00

Computation of Tax Liability

Tax on `5,00,000 at slab rate	30,000.00
Add: Education cess @ 2%	600.00
Add: SHEC @ 1%	300.00
Tax Liability	30,900.00

Carry forward long term capital loss	10,42,000.00

Solution 21:

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Computation of income under the head Capital Gain

1. House

Full value of consideration	60,00,000.00
Less: Indexed cost of acquisition (5,25,000/ 100 x 852)	44,73,000.00
Less: Indexed cost of improvement of First floor (4,00,000/ 447 x 852)	7,62,416.11
Less: Selling Expenses	85,000.00
Long term capital gain	6,79,583.89

2. Shares

Full value of Consideration	1,00,000.00
Less: Indexed cost of acquisition (1,50,000 / 447 x 852)	2,85,906.04
Long term capital loss	1,85,906.04

3. Motor car for personal use is not an asset as per section 2(14).

4. Gold

Full value of consideration	8,00,000.00
Less: Indexed cost of acquisition (2,10,000 / 100 x 852)	17,89,200.00
Long term capital loss	9,89,200.00

5. Silver Utensils not an asset as per section 2(14)

Long term capital loss carried forward	4,95,522.15
Tax Liability	Nil

Solution 22:

\`

01.05.2012

Full Value of Consideration	8,00,000.00
(1,000 x 800)	
Less: Cost of Acquisition	
(1,000 x 500) / 2	2,50,000.00
Short Term Capital Gain	5,50,000.00

01.11.2012

Full Value of consideration	9,00,000.00
(1,000 x 900)	
Less: Index Cost of Acquisition	
= 2,50,000 / Index of 11-12 x Index of 12-13	
= 2,50,000 / 785 x 852 = 2,71,337.58	2,71,337.58
Long Term Capital Gain	6,28,662.42

Purchase from Delhi

Purchase	30,00,000.00
DVAT @ 12.5%	3,75,000.00
Tax credit allowed for the goods sold in Delhi	1,87,500.00
Tax credit allowed for the stock transferred to other State (12.5% - 2%)	1,57,500.00

Total tax credit allowed	3,45,000.00

<u>Purchase from other State</u>

Purchase	40,00,000.00
CST @ 2%	80,000.00
	40,80,000.00
Sale	25,00,000.00
VAT @ 12.5 %	3,12,500.00
	28,12,500.00
Sale	53,00,000.00
VAT @ 12.5%	6,62,500.00
	59,62,500.00

<u>Output VAT</u>

Sale - 1	3,12,500.00
Sale - 2	6,62,500.00
Total	9,75,000.00
Less:- Input Tax credit	(3,45,000.00)
Net Tax Payable	6,30,000.00

Computation of income under the head Business/Profession

Sale 1	25,00,000.00
Sale 2	53,00,000.00
Less: Purchases	
P -1	(15,00,000.00)
P- 2	(40,80,000.00)
Income under head Business/Profession	22,20,000.00

Computation of Total Income

Income under head business profession	22,20,000.00
Long Term Capital Gains	6,28,662.42
Short Term Capital Gains	5,50,000.00
Gross Total Income	33,98,662.42
Less: Deduction u/s 80C to 80U	Nil
Total Income (rounded off u/s 288A)	33,98,660.00

Computation of Tax Liability

Tax on LTCG `6,28,660 @ 20%	1,25,732.00
Tax on `27,70,000 at slab rate	6,61,000.00
Tax before education cess	7,86,732.00
Add: EC @ 2%	15,734.64
Add: SHEC @ 1%	7,867.32
Tax Liability	8,10,333.96
Rounded off u/s 288B	8,10,330.00

<u>Solution 23(a):</u>

	`
Full value of consideration	75,00,000
Less: Cost of acquisition	15,00,000
Short Term Capital Gains	60,00,000

New house

Full value of consideration	6,00,000
Less: Cost of acquisition	5,00,000
Short Term Capital Gains	1,00,000
Income under the head capital gain	61,00,000

Income under the head Other Sources

Gift received from Mrs. X	15,00,000
Income under the head other sources	15,00,000
Gross Total Income	76,00,000
Less: Deduction u/s 80C to 80U	Nil
Total Income	76,00,000

Computation of Tax Liability

Tax on ` 76,00,000 at slab rate	21,10,000
Add: Education cess @ 2%	42,200
Add: SHEC @ 1%	21,100
Tax Liability	21,73,300

Solution 23(b):

	`
Full value of consideration	75,00,000
Less: Cost of acquisition	
= 3,00,000 / Index of 81-82 x index of 12-13	
= 3,00,000 / 100 x 852	25,56,000
Long Term Capital Gains	49,44,000

The assessee has the option either not to avail exemption under section 54 or to avail exemption under section 54.

Option I Exemption is not availed

Long Term Capital Gain	49,44,000

New house

Full value of consideration	6,00,000
Less: Cost of acquisition	5,00,000
Short Term Capital Gains	1,00,000
Income under the head capital gain	50,44,000
Gross Total Income	50,44,000
Less: Deduction u/s 80C to 80U	Nil
Total Income	50,44,000

Computation of Tax Liability

Tax on ` 1,00,000 at slab rate	Nil
Tax on ` 48,44,000 (49,44,000 – 1,00,000) @ 20%	9,68,800
Add: Education cess @ 2%	19,376
Add: SHEC @ 1%	9,688
Tax Liability	9,97,864
Rounded off u/s 288B	9,97,860

Option II Exemption is availed

Long Term Capital Gain	49,44,000
Less: Exemption u/s 54	5,00,000

Long Term Capital Gain	44,44,000

New house

Full value of consideration	6,00,000
Less: Cost of acquisition (5,00,000 – 5,00,000)	Nil
Short Term Capital Gains	6,00,000
Income under the head capital gain	50,44,000
Gross Total Income	50,44,000
Less: Deduction u/s 80C to 80U	Nil
Total Income	50,44,000

Computation of Tax Liability

Tax on ` 6,00,000 at slab rate	50,000
Tax on ` 44,44,000 @ 20%	8,88,800
Tax before education cess	9,38,800
Add: Education cess @ 2%	18,776
Add: SHEC @ 1%	9,388
Tax Liability (rounded off u/s 288B)	9,66,960

Hence the assessee should opt for option-II and her tax liability shall be 9,66,960.

Solution 24:

Computation of capital gains

	`
1. Shares	
Full value of consideration	12,00,000.00
Less: Indexed cost of acquisition	
= 1,30,000 / Index of 97-98 x Index of 12-13	
= 1,30,000 / 331 x 852 = `3,34,622.36	3,34,622.36
Long term capital gain	8,65,377.64
Less: Exemption u/s 54F	
= 8,65,377.64 / 12,00,000 x 3,60,000 = 2,59,613.29	2,59,613.29
Less: Exemption u/s 54EC	2,50,000.00
Long term capital gain	3,55,764.35
2. Jewellery	
Full value of consideration	18,00,000.00
Less: Indexed cost of acquisition	
= 3,50,000 / Index of 81-82 x Index of 12-13	
= 3,50,000 / 100 x 852 = `29,82,000	29,82,000.00
Less: Selling Expenses	30,000.00
Long term capital loss	(12,12,000.00)
3. Debentures	
Full value of consideration	1,40,000.00
Less: Cost of acquisition	80,000.00
Short term capital gain	60,000.00

4. Motor car: is covered under the personal movable effects, hence, no capital gains shall be computed

5. Equity Shares

Full value of consideration	10,00,000.00
Less: Cost of acquisition	2,00,000.00
Short term capital gain u/s section 111A	8,00,000.00
Income under the head Capital gain	**8,60,000.00**

Income under the head Business/Profession

Purchase Price	250,00,000.00
Sale Price	277,77,777.77
(250,00,000 / 100 / 90)	
Income under the head Business/Profession (277,77,777.77 – 250,00,000)	27,77,777.77
Gross Total Income	36,37,777.77
Less: Deduction u/s 80C to 80U	Nil
Total Income	36,37,777.77
Rounded off u/s 288A	36,37,780.00

Computation of Tax Liability

Tax on `8,00,000 @ 15% u/s 111A	1,20,000.00
Tax on `28,37,780 at slab rate	6,81,334.00
Tax before education cess	8,01,334.00
Add: Education cess @ 2%	16,026.68
Add: SHEC @ 1%	8,013.34
Tax Liability	8,25,374.02
Rounded off u/s 288B	8,25,370.00
Long term capital loss carried forward (12,12,000 – 3,55,764.35)	8,56,235.65

Working of VAT

Output Tax (277,77,777.77 x 4%)	11,11,111.11
Less: VAT credit (250,00,000 x 4%)	10,00,000.00
Net VAT	1,11,111.11

Solution 25:

Computation of taxable capital gain of Mr. Hari for the A.Y. 2013-14

	`
Sale proceeds	35,00,000.00
Less: Indexed cost of acquisition (See Note 1)	20,46,059.11
Long Term Capital Gain	14,53,940.89
Less: Exemption under section 54 in respect of investment in house at Delhi	8,00,000.00
Taxable long-term capital gain	6,53,940.89

Note:

Computation of indexed cost of acquisition	`
Cost of acquisition	10,00,000.00
Less: Advance taken and forfeited	25,000.00
Cost for the purpose of Indexation	9,75,000.00
Indexed cost of acquisition (9,75,000 x 852/406)	20,46,059.11

Computation of income under the head Business/Profession

Sale of goods produced from raw material X	54,00,000.00
Sale of goods produced from inter-State purchase and imported raw materials.	64,00,000.00

Sale of goods produced from raw material Z	16,00,000.00
Less:	
Raw material purchased from another State	20,40,000.00
Raw material X purchased within the State	30,00,000.00
Raw material Y imported from Singapore	22,00,000.00
Raw material Z purchased within the State	12,00,000.00
Income under the head Business/Profession	49,60,000.00

Computation of Gross Total Income

Long-term capital gain	6,53,940.89
Income under the head Business/Profession	49,60,000.00
Gross Total Income	56,13,940.89
Less: Deduction u/s 80C to 80U	Nil
Total Income	56,13,940.89
LTCG	6,53,940.89
Rounded off u/s 288A	6,53,940.00
Normal Income	49,60,000.00

Computation of Tax Liability

Tax on LTCG `6,53,940 @ 20%	1,30,788.00
Tax on normal income `49,60,000 @ slab rate	13,18,000.00
Tax before education cess	14,48,788.00
Add: Education cess @ 2%	28,975.76
Add: SHEC @ 1%	14,487.88
Tax Liability	14,92,251.64
Rounded off u/s 288B	14,92,250.00

Computation of VAT payable by Mr. Hari

Raw material purchased from another State

Purchase Price	20,00,000.00
Add: CST @ 2%	40,000.00
Total purchased price	20,40,000.00

Raw material X purchased within the State

Purchase Price	30,00,000.00
Add: VAT @ 1%	30,000.00

Raw material Y imported from Singapore

Purchase Price	22,00,000.00

Raw material Z purchased within the State

Purchase Price	12,00,000.00
Add: VAT @ 12.5%	1,50,000.00

Sale of goods produced from raw material X.

Sale Price	54,00,000.00
Add: VAT @ 4%	2,16,000.00

Sale of goods produced from inter-State purchase and imported raw materials.

Sale Price	64,00,000.00
Add: VAT @ 1%	64,000.00

<u>Sale of goods produced from raw material Z.</u>

Sale Price	16,00,000.00
Add: VAT @ 12.5%	2,00,000.00

<u>Net Tax Payable</u>

Output tax (2,16,000 + 64,000 + 2,00,000)	4,80,000.00
Less: Tax credit (30,000 + 1,50,000)	1,80,000.00
Net Tax Payable	3,00,000.00

EXAMINATION QUESTIONS

IPCC NOV – 2012

Question No. 3(a) **(8 Marks)**

Mr. C inherited from his father 8 plots of land in 1980. His father had purchased the plots in 1960 for ` 5 lakhs. The fair market value of the plots as on 01.04.1981 was `8 lakhs. (`1 lakh for each plot)

On 1st June 2001, C started a business of dealer in plots and converted the 8 plots as stock in trade of his business. He recorded the plots in his books and `45 lakhs being the fair market value of that date. In June 2005, C sold the 8 plots for `50 lakhs.

In the same year he acquired a residential house property for `45 lakhs. He invested an amount of `5 lakhs in construction of one more floor in his house in June 2006. The house was sold by him in June 2012 for `63,50,000.

The valuation adopted by the registration authorities for charge of stamp duty was `85,50,000. As per the assessee's request the assessing officer made a reference to a valuation officer. The value determined by the valuation officer was `87,20,000. Brokerage of 1% of sale consideration was paid by C.

The relevant Cost Inflation Indices are

F.Y.	1981-82	100
F.Y.	2001-02	426
F.Y.	2005-06	497
F.Y.	2006-07	519

F.Y.	2011-12	785
F.Y.	2012-13	852

Give the tax computation for the relevant assessment years with reasoning. (Modified)

Answer:

<u>Computation of Capital Gains in the hands of Mr. C for PY 2005-06 AY 2006-07</u>

Capital Gain on conversion of plots of land into Stock in Trade
(section 45(2) becomes applicable. Conversion of capital asset into stock in trade is treated as deemed transfer. This capital gain is taxable in the previous year when above plots are actually sold from business i.e. PY 2005-06)

Sales Consideration [FMV on 01.06.2001]	45,00,000
Less: Indexed Cost of Acquisition (8,00,000 X 426) / 100	<u>34,08,000</u>
Long Term Capital Gain	**10,92,000**
Less: Exemption u/s 54F (10,92,000 / 45,00,000 x 45,00,000)	10,92,000
LTCG After Exemption	**NIL**

<u>Income From Business</u>

Actual sales- FMV as on date of conversion (50 lakhs – 45 lakhs = 5 lakhs)	**5,00,000**

<u>Computation of Capital Gains in the hands of Mr. C for P.Y. 2012-13 A.Y.2013-14</u>

Sales Consideration (as per section 50C)	85,50,000.00
Less: Indexed Cost of Acquisition (45,00,000 x 852) / 497	77,14,285.71
Less: Indexed Cost of Improvement (5,00,000 x 852) / 519	8,20,809.24
Less: Commission @ 1% on sales (63,50,000 x 1%)	63,500.00
Long Term Capital Loss	**<u>48,594.95</u>**

<u>Taxable Income for P.Y. 2005-06</u>

Income under the head Business/Profession	5,00,000
Income under the head Capital Gain	Nil

<u>Taxable income for P.Y. 2012-13</u>

Long Term Capital Loss	48,594.95

Question No. 7(a) (4 Marks)
(iii) Discuss the tax implication arising consequent to conversion of a Capital Asset into stock-in-trade of business and its subsequent sale.

Answer:
<u>Capital Gains in case of conversion of capital assets into Stock-In-Trade Section 45(2)</u>
The profits or gains arising from the transfer by way of conversion by the owner of a capital asset into stock-in-trade of a business carried on by him shall be chargeable to income-tax as his income of the previous year in which such stock-in-trade is sold or otherwise transferred by him and, for the purposes of section 48, the

fair market value of the asset on the date of such conversion or treatment shall be deemed to be the full value of the consideration.

Section 45(2) is applicable only if the asset has been converted into stock-in-trade w.e.f. **<u>01.04.1984 onwards</u>**. If the conversion is prior to 01.04.1984, no capital gains shall be computed as per Supreme Court decision in **<u>Bai Shirinbai K. Kooka v. CIT (1962)(SC).</u>**

<u>Section 2(22B) "Fair Market Value",</u> in relation to a capital asset, means—the price that the capital asset would ordinarily fetch on sale in the open market on the relevant date

IPCC MAY – 2012

Question 3 **(8 Marks)**

Anshu transfers land and building on 02.01.2013 and furnishes the following informations.

Particulars	`
(i) Net consideration received	14,00,000
(ii) Value adopted by Stamp Valuation Authority	16,00,000
(iii) Value ascertained by Valuation Officer on reference by the Assessing Officer	17,00,000
(iv) This land was acquired by Anshu on 01.04.1981. Fair Market value of the land as on 01.04.1981 was	1,10,000
(v) A Residential building was constructed on land by Anshu at cost of `3,20,000 (construction completed on 01.12.2002 during financial year 2002-03.)	
Short term capital loss incurred on sale of shares during financial year 2008-09 b/f of `50,000	

Anshu seeks your advice to the amount to be invested in NHAI bonds so as to be exempt from capital gain tax under Income Tax Act.

Cost inflation index of FY 1981-1982 = 100
Cost inflation index of FY 2002-2003 = 447
Cost inflation index of FY 2012-2013 = 852 (Modified)

Answer:

Computation of Long term Capital Gain for A.Y. 2013-14

As per section 50C, where the consideration received or accruing as a result of transfer of a capital asset, being land or building or both, is less than the valuation by the stamp valuation authority, such value adopted or assessed by the stamp valuation authority shall be deemed to be the full value of consideration. Where a reference is made to the valuation officer, and the value ascertained by the valuation officer exceeds the value adopted by the stamp valuation authority, the value adopted by the stamp valuation authority shall be taken as the full value of consideration.

Sale consideration	` 14,00,000
Valuation made by registration authority for stamp duty	` 16,00,000
Valuation made by the valuation officer on a reference	` 17,00,000

Applying the provisions of section 50C to the present case, ` 16,00,000, being, the value adopted by the registration authority for stamp duty, shall be taken as the sale consideration for the purpose of charge of capital gain.

Sale consideration as per section 50C of the Act		16,00,000
Less: Indexed cost of acquisition		
1,10,000 x 852/100	= 9,37,200.00	
Indexed cost of improvement		
3,20,000 x 852/447	= 6,09,932.89	15,47,132.89
Long term capital gain		52,867.11
Less: Short term capital loss 111A 2008-09		50,000.00
In order to get exemption, amount to be invested in NHAI shall be		**2,867.11**

PCC MAY – 2012

Question 6 **(5 Marks)**

Dinesh received a vacant site as gift from his friend in November 2002. The site was acquired by his friend for `3,00,000 in April 1990. Dinesh constructed a residential building during the year 2004-05 in the said site for `15,00,000. He carried out some further extension of a construction in the year 2007-08 for `5,00,000.

Dinesh sold the residential building for `55,00,000 in January 2013 but the state stamp valuation authority adopted `65,00,000 as value for the purpose of stamp duty.

Compute his long term capital gain, for the assessment year 2013-14 based on the above information. The cost inflation index are as follows:

Financial year	**Cost inflation index**
1990-91	182
2002-03	447
2004-05	480
2007-08	551
2012-13	852

(Modified)

Answer:

Computation of capital gain for the Assessment Year 2013-14

	`
Full value of consideration	65,00,000.00
Less: Indexed cost of acquisition	
= `3,00,000/ Index of 90-91 x Index of 12-13	
= ` 3,00,000 / 182 x 852 = `14,04,395.60	14,04,395.60
Less: Indexed cost of Improvement	
= `15,00,000/ Index of 04-05 x Index of 12-13	
= ` 15,00,000 / 480 x 852 = `26,62,500	26,62,500.00
Less: Indexed cost of Improvement	
= `5,00,000/ Index of 07-08 x Index of 12-13	
= ` 5,00,000 / 551 x 852 = `7,73,139.75	7,73,139.75
Long Term Capital Gain	**16,59,964.65**

Question 6 **(3 Marks)**

Mr. Abhishek (62 years old), pledged his residential house to a bank under a notified reverse mortgage scheme. He was getting loan from bank in monthly instalments. Mr. Abhishek did not repay the loan on maturity and hence gave possession of the house to the bank to discharge his loan. How will the treatment of long-term capital gain be on such reverse mortgage transaction?

Answer:

As per section 47, reverse mortgage shall not be considered to be transfer for the purpose of capital gain.

Under reverse mortgage, a senior citizen can mortgage his house property to the bank and the bank shall grant a loan against the security of house property and such loan shall be given in monthly installments and the amount so received shall not be considered to be income of the mortgagor under section 10(43).

After the death of the mortgagor the bank shall have right to sell off the property and shall adjust loan and interest and shall compute capital gains for the deceased person and shall pay tax to the government.

The purpose of the scheme is to make available regular amount to the persons who do not have regular income but are the owners of the house property.

In general, the mortgagors repay the loan in installments but in this case mortgagee i.e. bank is paying installment to the mortgagor and hence it is called reverse mortgage.

IPCC NOV – 2011

Question 3 **(8 Marks)**

Mr. Selvan, acquired a residential house in January, 2000 for `10,00,000 and made some improvements by way of additional construction to the house, incurring expenditure of `2,00,000 in October, 2004. He sold the house property in October, 2012 for `75,00,000. The value of property was adopted as `80,00,000 by the State stamp valuation authority for registration purpose. He acquired a residential house in January, 2012 for `25,00,000. He deposited `20,00,000 in capital gains bonds issued by National Highways Authority of India (NHAI) in June 2013.

Compute the capital gain chargeable to tax for the assessment year 2013-14.

What would be the tax consequence and in which assessment year it would be taxable, if the house property acquired in January, 2012 is sold for `40,00,000 in March, 2014?

Cost inflation index: F.Y. 1999-2000 = 389
F.Y. 2004-2005 = 480
F.Y. 2010-2011 = 711
F.Y. 2012-2013 = 852 (Modified)

Answer:

Computation of capital gains for A.Y. 2013-14	`
Full value of consideration (See Note-1)	80,00,000.00
Less: Indexed cost of acquisition = 10,00,000 / Index of 1999-2000 x Index of 2012-2013 = 10,00,000 / 389 x 852 = `21,90,231.36	21,90,231.36
Less: Indexed cost of improvement = 2,00,000 / Index of 2004-2005 x Index of 2012-2013 = 2,00,000 / 480 x 852 = `3,55,000	3,55,000.00

Long term capital gain	54,54,768.64
Less: Exempted u/s 54	
-Purchase of new house	25,00,000.00
Long term capital gain	29,54,768.64
Gross Total Income	29,54,768.64
Less: Deduction u/s 80C to 80U	Nil
Total Income (rounded off u/s 288A)	29,54,770.00

Note:1- Since the value adopted by stamp valuation authority is higher than the sale value, hence, the value determined by stamp valuation authority shall be the sale consideration.

Note:-2 No exemption u/s 54EC is available since capital gain bonds are purchased after 6 months from the date of sale

Tax consequences in case the property purchased in January 2012 sold within 3 years i.e. on March 2014

Tax consequences shall be for the assessment year 2014-15

Full value of consideration	40,00,000.00
Less: Cost of Acquisition (25,00,000-25,00,000)	NIL
Short term capital gain	40,00,000.00

PCC NOV – 2011

Question 3 **(4 Marks)**

Mr. Mithun purchased 100 shares of M/s Goodmoney Co. Ltd. on 01.04.2005 at rate of `1,000 per shares in public issue of the company.

Company allotted bonus shares in the ratio of 1:1 on 01.12.2011. He has also received dividend of `10 per share on 01.05.2012.

He has sold all the shares on 01.10.2012 at the rate of `3,000 per share through a recognized stock exchange and paid brokerage of 1% and securities transaction tax of 0.1% to celebrate his 75th birthday. The cost inflation Index are as follows:

Financial Year	**Cost Inflation Index**
2005-06	497
2012-13	852

Compute his total income and tax liability for Assessment Year 2013-14 assuming that he is having no income other than given above. (Modified)

Answer:

Computation of total income and tax liability for A.Y. 2013-14 `

Bonus shares

Full value of consideration (100 x 3000)	3,00,000.00
Less: Cost of Acquisition	Nil
Less: Expenses (3,00,000 x 1%)	3,000.00
Short term capital gain u/s 111A	2,97,000.00

Original Shares

Exempted u/s10(38) since STT has been paid	
Gross Total Income	2,97,000.00

Less: Deduction u/s 80C to 80U	Nil
Total income	2,97,000.00

Computation of Tax Liability

Tax on STCG `47,000 (2,97,000-2,50,000) @ 15% u/s 111A	7,050.00
(Since normal income is below exemption limit hence will be reduced from STCG u/s 111A)	
Add: Education cess @ 2%	141.00
Add: SHEC @ 1%	70.50
Tax Liability	7,261.50
Rounded off u/s 288B	7,260.00

IPCC MAY – 2011

Question 5 **(8 Marks)**

Mr. Rakesh purchased a house property on 14th April, 1979 for `1,05,000. He entered into an agreement with Mr. B for the sale of house on 15th September, 1982 and received an advance of `25,000. However, since Mr. B did not remit the balance amount, Mr. Rakesh forfeited the advance.

Later on, he gifted the house property to his friend Mr. A on 15th June, 1986.

Following renovations were carried out by Mr. Rakesh and Mr. A to the house property:

	Amounts (`)
By Mr. Rakesh during F.Y. 1979-80	10,000
By Mr. Rakesh during F.Y. 1983-84	50,000
By Mr. A during F.Y. 1993-94	1,90,000

The fair market value of the property as on 01.04.1981 is `1,50,000/-

Mr. A entered into an agreement with Mr. C for sale of the house on 1st June, 1995 and received an advance of `80,000. The said amount was forfeited by Mr. A, since Mr. C could not fulfill the terms of the agreement.

Finally, the house was sold by Mr. A to Mr. Sanjay on 2nd January, 2013 for a consideration of `25,00,000. Compute the capital gains and income tax liability of Mr. A for the assessment year 2013-14.

Cost inflation indices are as under:

Financial Year	Cost inflation index
1981-82	100
1983-84	116
1986-87	140
1993-94	244
2012-13	852

(Modified)

Answer.

`

Computation of capital gains chargeable to tax in the hands of Mr. A

Full Value of Consideration	25,00,000.00
Less: Indexed cost of acquisition	
= (1,50,000 – 80,000) x 852 / 100	5,96,400.00
Less: Indexed cost of improvement	
= 50,000 / 116 x 852	3,67,241.38

= 1,90,000 / 244 x 852	6,63,442.62
Long term capital gain	**8,72,916.00**
Gross Total Income	8,72,916.00
Less: Deduction u/s 80C to 80U	Nil
Total Income	8,72,916.00
Rounded off u/s 288A	8,72,920.00

Computation of Tax Liability

Tax on LTCG `6,72,920 (8,72,920 – 2,00,000) @ 20%	1,34,584.00
Add: Education Cess @ 2%	2,691.68
Add: SHEC @ 1%	1,345.84
Tax Liability	1,38,621.52
Rounded off u/s 288B	1,38,620.00

PCC MAY – 2011

Question 1 **(5 Marks)**

Mr. Chandru transferred a vacant site on 28.10.2012 for `100 lakhs. The site was acquired for `9,99,300 on 30.06.2000. He deposited `50 lakhs in eligible bonds issued by Rural Electrification Corporation (REC) on 20.03.2013.

Again, he deposited `20 lakhs in eligible bonds issued by National Highways Authority of India (NHAI) on 16.04.2013.

Compute total income and tax liability of Mr. Chandru for the assessment year 2013-14.

Financial year	**Cost Inflation Index**
2000-01	406
2012-13	852

Answer.

Computation of chargeable capital gain of Mr. Chandru for the A.Y. 2013-14

Particulars	`	`
Sale consideration		100,00,000.00
Less: Indexed cost of acquisition		
$9{,}99{,}300 \times \frac{852}{406}$		**<u>20,97,053.20</u>**
		79,02,946.80
Less: Deduction under section 54EC		
20.03.2013 RECL bonds	50,00,000	
16.04.2013 NHAI bonds	<u>20,00,000</u>	70,00,000.00
Long term capital gain		**9,02,946.80**
Gross Total Income		9,02,946.80
Less: Deduction u/s 80C to 80U		Nil
Total Income (rounded off u/s 288A)		**9,02,950.00**

Computation of Tax Liability

Tax on `7,02,950 (9,02,950 – 2,00,000) @ 20%	1,40,590.00
Add: Education cess @ 2%	2,811.80
Add: SHEC @ 1%	1,405.90
Tax Liability	1,44,807.70
Rounded off u/s 288B	1,44,810.00

Note:

(1) Since the site was held for more than 36 months prior to the date of transfer, it is a long-term capital asset and the capital gain arising upon its transfer is long-term capital gain.

(2) In order to claim exemption under section 54EC, Mr. Chandru has to invest in specified bonds of RECL or NHAI within a period of 6 months from the date of transfer of the asset.

However, investments made in such bonds by an assessee during any financial year cannot exceed `50 lakhs.

In this case, Mr. Chandru has invested ` 50 lakhs in RECL bonds in the F.Y. 2012-13 and ` 20 lakhs in NHAI bonds in the F.Y.2013-14, both within six months from the date of transfer. He has, therefore, fulfilled both the conditions and hence, he is eligible to claim exemption of ` 70 lakhs under section 54EC.

Question 4 **(4 Marks)**

Decide the following transactions in the context of Income-tax Act, 1961:

(i) Mrs. X transferred a vacant site to Mrs. Y for `4,25,000. The stamp valuation authority fixed the value of vacant site for stamp duty purpose at `6,00,000. The total income of Mrs. X and Mrs. Y before considering the transfer of vacant site are `50,000 and `2,05,000 respectively. The indexed cost of acquisition for Mrs. X in respect of vacant site is `4,00,000 (computed).

Determine the total income of both Mrs. X and Mrs. Y taking into account the above said transaction.

(ii) Mr. X is employed in a company with taxable salary income of `5,00,000. He received a cash gift of `1,00,000 from Atma Ram Charitable Trust (registered under section 12AA) in December 2012 for meeting his medical expenses.
Is the cash gift so received from the trust chargeable to tax in the hands of Mr. X?

Answer.

(i) Transfer of immovable property for inadequate consideration will not have any tax implication in the hands of transferee under section 56. Therefore, in the hands of transferee, i.e., Mrs. Y, the provisions of section 56 would not be attracted. However, for the transferor, Mrs. X, the value adopted for stamp duty purpose will be taken as the deemed sale consideration under section 50C for computation of capital gains.

Particulars	**Mrs. X (Transferor)** `	**Mrs. Y (Transferee)** `
Capital gains		
Deemed sale consideration under section 50C	6,00,000	
Less: Indexed cost of acquisition	4,00,000	
	2,00,000	
Other income (computed)	50,000	2,05,000
Total income	**2,50,000**	**2,05,000**

(ii) The provisions of section 56 would not apply to any sum of money or any property received from any trust or institution registered under section 12AA. Therefore, the cash gift of `1 lakh received from Atma Ram Charitable Trust, being a trust registered under section 12AA, for meeting medical expenses would not be chargeable to tax under section 56 in the hands of Mr. X.

IPCC NOV – 2010

Question 1 **(5 Marks)**

Mr. A is a proprietor of Akash Enterprises having 2 units which were set up on 01.07.2004. He transferred on 01.04.2012 his unit 1 by way of slump sale for a total consideration of `25 Lacs. The expenses is incurred for this transfer were `28,000/-. His Balance Sheet as on 31.03.2012 is as under:

Liabilities	**Total** `	**Assets**	**Unit 1** `	**Unit 2** `	**Total** `
Own Capital	15,00,000	Building	12,00,000	2,00,000	14,00,000
Revaluation Reserve (for building of unit 1)	3,00,000	Machinery	3,00,000	1,00,000	4,00,000
Bank Loan (70% for unit 1)	2,00,000	Debtors	1,00,000	40,000	1,40,000
Trade creditors (25% for unit 1)	1,50,000	Other assets	1,50,000	60,000	2,10,000
Total	**21,50,000**	**Total**	**17,50,000**	**4,00,000**	**21,50,000**

Other information:

(i) Revaluation reserve is created by revising upward the value of the building of unit 1.

(ii) No individual value of any asset is considered in the transfer deed.

Compute the capital gain for the assessment year 2013-14.

(Modified)

Answer.

Computation of capital gains on slump sale of Unit 1

	`
Sale value	25,00,000
Less: Expenses on sale	28,000
Less: Net worth (See Note (i) below)	12,72,500
Long term capital gain	11,99,500

Note (i) : Computation of net worth of Unit 1 of Akash Enterprises

	`
Building (excluding `3 lakhs on account of revaluation)	9,00,000
Machinery	3,00,000
Debtors	1,00,000
Other assets	1,50,000
Total assets	14,50,000
Less:	
Bank Loan	(1,40,000)
Creditors	(37,500)
Net worth	**12,72,500**

Question 2 **(4 Marks)**

How will you calculate the period of holding in case of the following assets?

(1) Shares held in a company in liquidation

(2) Bonus shares

(3) Flat in a co-operative society

(4) Transfer of a security by a depository (i.e. demat account)

Answer.

(1) Shares held in a company in liquidation –

The period after the date on which the company goes into liquidation shall be excluded while calculating the period of holding. Therefore, the period of holding shall commence from the date of acquisition of shares and shall end with the date on which the company goes into liquidation.

(2) Bonus shares –
The period of holding shall be reckoned from the date of allotment of bonus shares and will end with the date of transfer.

(3) Flat in a co-operative society –
The period of holding shall be reckoned from the date of allotment of shares in the society and will end with the date of transfer.

Note – Any transaction whether by way of becoming a member of, or acquiring shares in, a co-operative society or by way of any agreement or any arrangement or in any other manner whatsoever which has the effect of transferring, or enabling enjoyment of, any immovable property is a transfer as per section 2(47)(vi). Hence, it is possible to take a view that any date from which such right is obtained may be taken as the date of acquisition.

(4) Transfer of a security by a depository (i.e., demat account) –
The period of holding shall be computed from the date of purchase to the date of sale. The first-in-first-out (FIFO) method will be adopted for determining the period of holding.

PCC NOV – 2010

Question 4 **(7 Marks)**

Mukesh (aged 55 years) owned a residential house at Nagpur. It was acquired by Mukesh on 10.10.1984 for `4,00,000. It was sold for `55,00,000 on 04.11.2012. The State stamp valuation authority fixed the value of the property at `60,00,000. The assessee paid 2% of the sale consideration as brokerage for the sale of said property.

Mukesh acquired a residential house at Chennai on 10.12.2012 for `15,00,000 and deposited `10,00,000 on 10.04.2013 in the capital gain bond or Rural Electrification Corporation Ltd (RECL). He deposited `5,00,000 on 06.07.2013 in the Capital Gain Deposit Scheme in a nationalized bank for construction of additional floor on the residential house property acquired at Chennai.

Compute the capital gain chargeable to tax in the hands of Mr. Mukesh for the assessment year 2013-14. Calculate the Income Tax Payable on the assumption that he has no other income chargeable to tax.

Cost inflation index: Financial year 1984-85 = 125
Financial year 2012-13 = 852 (Modified)

Answer.

Computation of capital gains in the hands of Mukesh for the A.Y. 2013-14

Particulars	`	`
Deemed sale consideration (under section 50C)		60,00,000
Less: Brokerage @ 2% of `55,00,000		1,10,000
Less: Indexed cost of acquisition 4,00,000 / 125 x 852		27,26,400
		31,63,600
***Less:* Exemption under sections 54 and 54EC**		
Under section 54:		
(i) Residential house acquired at Chennai on 10.12.2012	15,00,000	
(ii) Amount deposited in Capital Gains Accounts Scheme on 06.07.2013 **(before the due date of filing of return)** for construction of additional floor on the residential house property acquired at Chennai	5,00,000	

	20,00,000	
Under section 54EC:		
Amount deposited in RECL bonds on 10.04.2013 **(within six months from the date of transfer)**	10,00,000	30,00,000
Taxable long-term capital gain		1,63,600

Computation of tax liability of Mr. Mukesh for A.Y. 2013-14

Tax on (i.e., long term capital gain `1,63,600 less basic exemption limit of `2,00,000) @ 20%	Nil
Total tax liability	Nil

Question 7 **(4 Marks)**

Sachin received `15,00,000 on 23.01.2013 on transfer of his residential building in a transaction of reverse mortgage under a scheme notified by the Central Government. The building was acquired in March 1991 for `8,00,000.

Is the amount received on reverse mortgage chargeable to tax in the hands of Sachin under the head 'Capital Gains'?

Cost inflation index for the Financial year 1990-91 = 182
Financial year 2012-13 = 852 (Modified)

Answer.

As per section 47, any transfer of a capital asset in a transaction of Reverse Mortgage under a scheme made and notified by the Central Government will not be regarded as a transfer. Therefore, capital gains tax liability is not attracted.

Section 10(43) provides that the amount received by an individual as a loan, either in lump sum or in installments, in a transaction of Reverse Mortgage would be exempt from income-tax. Therefore, the amount received by Sachin in a transaction of Reverse Mortgage of his residential building is exempt under section 10(43).

IPCC MAY – 2010

Question 2 **(6 Marks)**

Mr. Raj Kumar sold a house to his friend Mr. Dhuruv on 1st November, 2012 for a consideration of `25,00,000. The Sub-Registrar refused to register the document for the said value, as according to him, stamp duty had to be paid on `45,00,000, which was the Government guideline value. Mr. Raj Kumar preferred an appeal to the Revenue Divisional Officer, who fixed the value of the house as `32,00,000 (`22,00,000 for land balance for building portion). The differential stamp duty was paid, accepting the said value determined. Assuming that the fair market value is `32,00,000, what are the tax implications in the hands of Mr. Raj Kumar and Mr. Dhuruv for the assessment year 2013-14? Mr. Raj Kumar had purchased the land on the 1st June, 2007 for `5,19,000 and completed the construction of house on 1st October, 2010 for `14,00,000.

Cost inflation indices may be taken as 551 for the financial year 2007-08, 711 for the financial year 2010-11 and 852 for the financial year 2012-13. (Modified)

Answer.

In the hands of the seller, Mr. Raj Kumar

As per section 50C, where the consideration received or accruing as a result of transfer of land or building or both, is less than the value adopted or assessed or assessable by the stamp valuation authority, the value adopted or assessed or assessable by the stamp valuation authority shall be deemed to be the full value of consideration received or accruing as a result of transfer.

Where the assessee appeals against the stamp valuation and the value is reduced in appeal by the appellate authority (Revenue Divisional Officer, in this case), such value will be regarded as the consideration received or accruing as a result of transfer.

In the given problem, land has been held for a period exceeding 36 months and building for a period less than 36 months immediately preceding the date of transfer. So land is a long-term capital asset, while building is a short-term capital asset.

Particulars	`
Long term capital gain on sale of land	
Full value of consideration	22,00,000
Less: Indexed cost of acquisition 5,19,000 x 852/551	8,02,519
Long-term capital gain	13,97,481
Short-term capital loss on sale of building	
Full value of consideration	10,00,000
Less: Cost of acquisition	14,00,000
Short term capital loss	(4,00,000)

As per section 70, short-term capital loss can be set-off against long-term capital gains. Therefore, the net taxable long-term capital gains would be `9,97,481 (i.e., `13,97,481 – `4,00,000).

IPCC NOV – 2009

Question 2 **(6 MARKS)**

Compute the net taxable capital gains and tax liability of Smt. Megha on the basis of the following information :

A house was purchased on 01.05.1998 for `4,50,000 and was used as a residence by the owner. The owner had contracted to sell this property in June, 2008 for `10 lacs and had received an advance of `70,000 towards sale. The intending purchaser did not proceed with the transaction and the advance was forfeited by the owner. The property was sold in April, 2012 for `15,00,000. The owner, from out of sale proceeds, invested `4 lacs in a new residential house in January, 2013.

Cost inflation index: Financial year 1998-99 = 351
Financial year 2012-13 = 852 (Modified)

Answer.

Computation of net taxable capital gains of Smt. Megha for the A.Y. 2013-14

Particulars	`
Full value of consideration	15,00,000.00
Less: Indexed cost of acquisition	9,22,393.16
= (`4,50,000 – `70,000) x 852 / 351 = 9,22,393.16	
Long term capital gain	5,77,606.84
Less: Exemption under section 54	4,00,000.00
Long term capital gain	1,77,606.84
Total Income	1,77,606.84
Rounded off u/s 288A	1,77,610.00

Computation of Tax Liability

Tax on (`1,77,610 – `1,77,610) @ 20%	Nil
Tax Liability	Nil

Notes:

(i) As per section 51, any advance received and retained by the assessee, as a result of earlier negotiations for sale of the asset, shall be deducted from the purchase price for computing the cost of acquisition of the asset.

Question 4 **(4 Marks)**

Explain the concept of reverse mortgage and discuss its tax implications.

Answer.

Reverse Mortgage Scheme and its tax implications

(i) The Reverse Mortgage scheme is for the benefit of an individual, who own a residential house property. In order to supplement their existing income, they can mortgage their house property with a scheduled bank or housing finance company, in return for a lump-sum amount or for a regular monthly/quarterly/annual income.

The individual can continue to live in the house and receive regular income, without the botheration of having to pay back the loan.

(ii) The borrower can use the loan amount for renovation and extension of residential property, family's medical and emergency expenditure etc., amongst others.

However, he cannot use the amount for speculative or trading purposes.

(iii) Section 47 clarifies that any transfer of a capital asset in a transaction of reverse mortgage under a scheme made and notified by the Central Government would not amount to a transfer for the purpose of capital gains.

(iv) Section 10(43) provides that any amount received by an individual as a loan, either in lump sum or in installments, in a transaction of reverse mortgage would be exempt from income-tax.

Question 4 **(4 Marks)**

What are the circumstances under which the Assessing Officer can make reference to the Valuation Officer u/s 55A of the Income Tax Act, 1961?

Answer.

Reference to Valuation Officer

With a view to ascertaining the fair market value of a capital asset, the Assessing Officer may refer valuation of the capital asset to the Valuation Officer, in the following cases:

(1) Where the value of the asset, as claimed by the assessee, is in accordance with the estimate made by the registered valuer but the Assessing Officer is of the opinion that the value so claimed is at variance with its fair market value.

(2) Where the Assessing Officer is of the opinion that the fair market value of the asset exceeds the value of the asset as claimed by the assessee by more than 15% of the value of the asset as so claimed or by more than `25,000**.**

(3) Where the Assessing Officer is of opinion that, having regard to the nature of the asset and relevant circumstances, it is necessary to make a reference to the Valuation Officer.

PCC NOV – 2009

Question 4 **(7 Marks)**

Mr. Pranav, a resident individual had purchased a plot of land at a cost of `75,000 in June, 1999. He constructed a house for his residence on that land at a cost of `1,25,000 in August, 2001. He sold that house in May, 2012 at `15,00,000 and purchased another residential house in June, 2012 for `8,00,000. He furnishes other income and investment as follows: **`**

Interest on fixed deposit with a Bank (after TDS)	45,000
TDS made by bank	5,000
Investment in NSC VIII issue	20,000

You are required to compute taxable income and tax payable by Mr. Pranav for the assessment year 2013-14.

Cost inflation index: Financial year 1999-00 = 389
Financial year 2001-02 = 426
Financial year 2012-13 = 852 (Modified)

Answer.

Computation of Taxable Income and tax payable by Mr. Pranav for the A.Y. 2013 -14

	`	**`**
1. Income from Capital Gains		
Full value of consideration		15,00,000.00
Less : Indexed cost of acquisition of land		
` 75,000 x 852 / 389		1,64,267.35
Less : Indexed cost of improvement i.e. house		
` 1,25,000 x 852 / 426	2,50,000.00	
		10,85,732.65
Less : Exemption under section 54		
Cost of new residential house		8,00,000.00
Long term capital gains		**2,85,732.65**
2. Income from other sources		
Interest on Bank deposit	45,000	
Add:		
Tax deducted at source	5,000	50,000.00
Gross total income		**3,35,732.65**
Less: Deduction under Chapter VIA :		
Deduction under section 80C		
Investment in NSC		20,000.00
Total Income		**3,15,732.65**
Rounded off u/s 288A		**3,15,730.00**
Computation of Tax Liability		
Tax on normal income of `30,000		Nil
Tax on LTCG		
LTCG-(Maximum amount not chargeable to tax - Normal Income) @ 20% u/s112		23,146.00
= {` 2,85,730 – (2,00,000 – 30,000)} x 20%		
Add : Education cess @ 2%		462.92
Add: Secondary and Higher education cess @ 1%		231.46
Tax Liability		**23,840.38**
Less: TDS		**5,000.00**
Tax payable (rounded off u/s 288B)		**18,840.00**

PCC JUNE – 2009

Question 3 **(8 Marks)**

Mr. Kumar is the owner of a residential house which was purchased in September, 1993 for `50,00,000. He sold the said house on 5th August, 2012 for ` 24,00,000. Valuation as per stamp valuation authority of the said plot of land was ` 35,00,000. He invested ` 8,00,000 in NHAI Bonds on 12th January, 2013. He purchased a residential house on 8th September, 2012 for ` 12,00,000. He gives other particulars as follows:

Interest on fixed Bank Deposit	` 32,000
Investment in public provident fund	` 12,000

You are requested to calculate the total income for the assessment year 2013-2014 and the tax liability, if any.

Cost inflation index for F.Y. 1993-94 and 2012-13 are 244 and 852 respectively. (Modified)

Answer.

Computation of total income and tax liability of Mr. Kumar for the A.Y. 2013-14

Particulars	`	`
Capital Gains:		
Sale price of the residential house	24,00,000	
Valuation as per Stamp Valuation authority	35,00,000	
(Value to be taken is the higher of actual sale price or valuation adopted for stamp duty purpose as per section 50C)		
Therefore, Consideration for the purpose of Capital Gains	35,00,000	
Less: Indexed Cost of Acquisition = 50,00,000 x 852 / 244	174,59,016	
Long-term Capital Loss (to be carried forward to the succeeding year for set-off against only long-term capital gains -can be carried forward for a maximum of 8 years)	**(139,59,016)**	
Income from other sources:		
Interest on fixed bank deposits		32,000
Gross Total Income		**32,000**
Less: Deduction under Chapter VI-A		
Section 80C – Investment in PPF		12,000
Total Income		**20,000**
Tax liability (There is no tax liability since the total income is less than the basic exemption limit)		**Nil**

Question 4 **(3 Marks)**

Mr. Abhik's father, who is 62 years old had pledged his residential house to a bank under a notified reverse mortgage scheme. He was getting loan from bank in monthly installments. Mr. Abhik's father did not repay the loan on maturity and gave possession of the house to the bank to discharge his loan. How will the treatment of long-term capital gain be made on such reverse mortgage transaction?

Answer.

As per section 47, any transfer of a capital asset in a transaction of reverse mortgage under a scheme made and notified by the Central Government shall not be considered as a transfer for the purpose of capital gain.

Accordingly, the transaction made by Mr. Abhik's father will not be regarded as a transfer. Therefore, no capital gain will be charged on such transaction.

Further, section 10(43) provides that the amount received as a loan, either in lump sum or in installment, in a transaction of reverse mortgage would be exempt from income-tax.

However, capital gains tax liability would be attracted at the stage of alienation of the mortgaged property by the bank for the purposes of recovering the loan.

PCC NOV – 2008

Question 1 **(2 Marks)**

Capital gain of `75 lakh arising from transfer of long term capital assets will be exempt from tax if such capital gain is invested in the bonds redeemable after three years, issued by NHAI under section 54EC of the Act.

Answer.

The statement is false.

The exemption under section 54EC has been restricted, by limiting the maximum investment on or after 01.04.2007 in long term specified assets (i.e. bonds of NHAI or RECL, redeemable after 3 years) to `50 lakh during any financial year. Therefore, in this case, the exemption under section 54EC can be availed only to the extent of `50 lakh.

PCC NOV – 2007

Question 3 **(8 Marks)**

Mrs. Malini Hari shifted her industrial undertaking located in corporation limits of Faridabad, to a Special Economic Zone (SEZ) on 01.12.2012:

The following particulars are available:	`
(a) Land: Purchased on 20.01.2004	4,26,000
Sold for	22,00,000
(b) Building [Construction completed on 14.03.2010]	
WDV of building as on 01.04.2012	8,20,000
Sold for	11,39,000
(c) WDV of cars as on 01.04.2012	7,40,000
Sold for	6,00,000
(d) Expenses on shifting the undertaking	1,15,000
(e) Assets acquired for the undertaking in the SEZ (on or before 25.06.2013):	
(i) Land	3,00,000
(ii) Building	5,00,000
(iii) Computers	1,00,000
(iv) Car	4,20,000
(v) Machinery (Second hand)	2,00,000
(vi) Furniture	50,000

There is no intention of investing in any other asset in this undertaking.

Compute the exemption available under section 54GA for the assessment year 2013-14.

Cost inflation indices are:

Financial year	Index
2003-04	463
2012-13	852

(Modified)

Answer.

Where an assessee shifts an existing undertaking from an urban area to a SEZ and incurs expenses for shifting and acquires new assets for the undertaking in the SEZ, section 54GA comes into play.

The capital gain, short-term or long-term, arising from transfer of land, building, plant and machinery in the existing undertaking would be exempt under section 54GA if the assessee, within a period of one year before or three years after the date on which the transfer took place,

(i) acquires plant and machinery for use in the undertaking in the SEZ;

(ii) acquires land or building or constructs building for the business of the undertaking in the SEZ;

(iii) incurs expenses on shifting of the undertaking.

Computation of capital gain:

(a)	Land:	
	Sale price	22,00,000
	Less: Indexed cost of acquisition 4,26,000 x 852/463	7,83,914
	Long-term capital gain	14,16,086
(b)	Building:	
	Sale value	11,39,000
	Less: Opening WDV	8,20,000
	Short-term capital gain under section 50	3,19,000
(c)	Plant:	
	Car	
	Sale value	6,00,000
	Less: Opening WDV	7,40,000
	Short term capital loss under section 50	(-)1,40,000

Exemption under section 54GA is available in respect of the following assets acquired and expenses incurred:

	`
Land	3,00,000
Building	5,00,000
Plant:	
Computers	1,00,000
Car	4,20,000
Machinery	2,00,000
Expenses of shifting	1,15,000
Total Exemption	**16,35,000**

Exemption has been taken first from long term gain and then from short term gain because it will be beneficial to the assessee and balance amount of short term capital gain shall be (14,16,086 + 3,19,000 – 16,35,000) `1,00,086

Exemption shall be taken first and loss shall be adjusted afterwards, hence loss on sale of motor car shall be adjusted to the extent of `1,00,086 and balance loss `39,914 shall be carried forward

Note:

(i) Furniture purchased is not eligible for exemption under section 54GA.

(ii) There is no restriction regarding purchase of second hand machinery.

(iii) Computers and car are considered to be the type of plant and machinery hence exemption is allowed. (details are given under the head Business/Profession)

Question 4. **(9 Marks)**

Mr. Thomas inherited a house in Jaipur under will of his father in May, 2003. The house was purchased by his father in January, 1981 for ` 2,50,000. He invested an amount of ` 7,00,000 in construction of one more floor in this house in June, 2005. The house was sold by him in November, 2012 for ` 37,50,000. The valuation adopted by the registration authorities for charge of stamp duty was ` 47,25,000 which was not contested by the buyer, but as per assessee's request, the Assessing Officer made a reference to Valuation Officer. The value determined by the Valuation Officer was `47,50,000. Brokerage @ 1% of sale consideration was paid by Mr. Thomas to Mr. Sunil. The market value of house as on 01.04.1981 was `2,70,000.

You are required to compute the amount of capital gain chargeable to tax for A.Y. 2013-14 with the help of given information and by taking CII for the F.Y. 2012-13 as 852, F.Y. 2003-04 as 463 and for F.Y. 2005-06 as 497. (Modified)

Answer.

Computation of Long term Capital Gain for A.Y. 2013-14

Sale consideration as per section 50C of the Act (Note (i))		47,25,000
Less: Expenses incurred on transfer being brokerage @ 1% of sale consideration of ` 37.50 lacs		37,500
		46,87,500
Less: Indexed cost of acquisition (Note (ii))		
2,70,000 x 852/100	= 23,00,400	
Indexed cost of improvement		
7,00,000 x 852/497	= 12,00,000	35,00,400
Long term capital gain		**11,87,100**

Notes:

(i) As per section 50C, where the consideration received or accruing as a result of transfer of a capital asset, being land or building or both, is less than the valuation by the stamp valuation authority, such value adopted or assessed by the stamp valuation authority shall be deemed to be the full value of consideration. Where a reference is made to the valuation officer, and the value ascertained by the valuation officer exceeds the value adopted by the stamp valuation authority, the value adopted by the stamp valuation authority shall be taken as the full value of consideration.

Sale consideration	` 37,50,000
Valuation made by registration authority for stamp duty	` 47,25,000
Valuation made by the valuation officer on a reference	` 47,50,000

Applying the provisions of section 50C to the present case, ` 47,25,000, being, the value adopted by the registration authority for stamp duty, shall be taken as the sale consideration for the purpose of charge of capital gain.

(ii) The house was inherited by Mr. Thomas under the will of his father and therefore the cost incurred by the previous owner shall be taken as the cost. Value as on 01.04.1981 accordingly shall be adopted as the cost of acquisition of the house property.