

Consequences if the above conditions are satisfied - Loss arising to the taxpayer on account of purchase and sale of securities /units, to the extent such loss does not exceed the amount of dividend income received or receivable on such securities /units, shall be ignored for the purpose of computing his income chargeable to tax.

Practical 15

R, an individual resident in India, bought 1,000 equity shares of Rs.10 each of A Ltd. a Rs.50 per share on 30.5.2019. He sold 700 equity shares at Rs.35 per share on 30.09.2019 and the remaining 300 shares at Rs. 25 per share on 20.12.2019. A Ltd. declared a dividend of 50%, the record date being 10.08.2019. R sold on 01.02.2020, a house from which he derived a long-term capital gain of Rs. 75,000.

Compute the amount of capital gain arising to R for the assessment year 2020-21.

Solution

Since dividend income is received by Mr. R, first job is to verify that whether section 94(7) is applicable on sale of each lot of shares?

	Number of shares sold	
	700 Shares	300 Shares
Date of purchase of shares	30.05.2019	30.05.2019
Record date	10.08.2019	10.08.2019
Date of sale of shares	30.09.2019	20.12.2019
Whether 94(7) is applicable or not?	Yes	No

Computation of capital gain on sale of shares of A Ltd. by Mr.R

Particulars	For 700 Shares (Rs.)	For 300 Shares (Rs.)
Sale Consideration	24,500	7,500
Less: Cost of Acquisition	35,000	15,000
Loss on sale of shares	10,500	7,500
Less: Dividend income as per section 94(7) [700 × 10 × 50%]	(3,500)	Sec. 94(7) Not Applicable
Short Term Capital Loss	7,000	7,500

Computation of capital gains of Mr. R for the assessment year 2020-21

Particulars	Rs.	Rs.
Long-term capital gain on sale of building		75,000
Less: Short-term capital loss on sale of shares		
700 shares	7,000	
300 shares	7,500	(14,500)
Taxable long-term capital gain		60,500

Reader's Note:

(g) Loss arising in the case of bonus stripping [Section 94(8)]

Where—

- any person buys or acquires any units within a period of three months prior to the record date; (called original units)
- such person is allotted additional units without any payment on the basis of holding of such units on record date; (called bonus units)