Capital Gains Masterclass

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Tuesday, 15th August

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What will we cover?

Numbers

- Computation of Capital Gains
- Asset Wise Tax
    - Stocks
    - Mutual Funds
    - Real Estate
    - Bonds
    - Gold
    - Intraday
    - F&O
    - SGB
    - Invoice Discounting
    - REIT
    - Crypto
    - US Stocks
- Table of STCG and LTCG acc to different assets

What will we cover?

Tax Saving and Compliances

- Indexation
- Gifting of Assets
- Ancestral Assets
- FIFO
- Which ITR form to file
- Capital Gain Savings
  - Grandfathering
  - Exemptions
  - Loss Offsetting
  - Capital Gain Harvesting
  - Capital Loss Harvesting

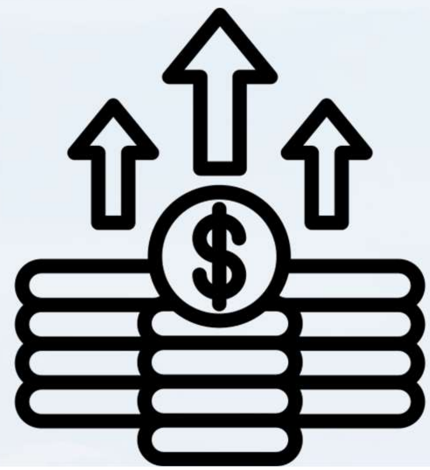
When ‘Capital Gain’ comes into play ?

Capital Gain concept arises when a **capital asset** is **transferred** by an assessee.

But,

What is a Capital Asset ? *Section 2 (14)*

When it is treated to be Transfer ? *Section 2 (47)*



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What are Capital Assets?

- House
- Bonds
- Jewelry
- Securities
- Art work
- Patent and Trademark

Capital Asset Exceptions

Section 2 (14) states that a Capital Asset is an Asset of any kind, but doesn't include :

- Rural Agricultural Land
- Personal Effect
  - (Exclusions : Jewelry, Artwork, Drawing, Painting/Sculptures)
- Stock In Trade (Goods for sale)
- Gold Monetization Bonds

What is a ‘Transfer’ of a Capital Asset ?

The term transfer includes:

- Sales
- Exchange
- Relinquishment
- Extinguishment etc.

Exempt Transfers u/s 47

- Bonus Issue
- Gift/ Will
- HUF partition
- Amalgamation/ Demerger
- Firm to Company

Formula of Capital Gain Computation

Net Consideration = Sales Consideration - Expenditure in relation to transfer

Capital Gain = Net Consideration - Cost of Acquisition - Cost of Improvement

Example Capital Gain Computation

Net Consideration = Sales Consideration – Expenditure in relation to transfer

80 Lakh (House Sold) -2 Lakh (Brokerage Paid) = 78 Lakh (Net Consideration)

Capital Gain = Net Consideration – Cost of Acquisition – Cost of Improvement

78 Lakh -20 Lakh (Cost of Acquisition) -30 Lakh (Renovation) = 28 Lakh (Capital Gain)

Types of Capital Gains/ Loss

The period of holding of an asset determines whether the capital asset is long term or short term:

- STCG/ STCL
- LTCG/ LTCL

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Tax Rates & Holding Period

Capital Gain From	Tax Rate for STCG	Tax Rate for LTCG
Real Estate	<= 2 years : Slab rate	> 2 years : 20% (With Indexation)
Listed Equity Shares / EoMF / REIT units	<= 1 year : 15%	> 1 year : 10% (w/o Indexation) Above 1 lakh
Non Listed Shares	<= 2 years : Slab Rate	> 2 years : 20% (With Indexation)
Gold/ SGB (if sold before 8 years)	<= 3 years : Slab Rate	> 3 years : 20% (With Indexation)
DoMF	Always Short Term Slab Rate (W/o Indexation) from 1st April 2023	Always Short Term Slab Rate (W/o Indexation) from 1st April 2023
Bond / Debentures	<= 3 years : Slab Rate	> 3 years : 20% (W/o Indexation)
Other Assets / Foreign Securities	<= 3 years : Slab Rate	> 3 years : 20% (With Indexation)

Concept of Indexation

- **Net Consideration** = Sales Consideration – Expenditure in Respect to transfer
- **Capital Gain** = Net Consideration – Cost Of Acquisition – Cost of Improvement (Short Term)
- **Capital Gain** = Net Consideration – Indexed Cost of Acquisition – Indexed Cost Of Improvement (Long Term)

Example on Computation of Indexed Cost

Anoop purchased a land on 01.01.2010 for Rs. 10 lakh. Build a boundary for 2 lakh in FY 2015-16. He sold it for Rs. sold it for Rs. 60 lakh in the financial year 2022-23. Determine the capital gain amount.

Indexed cost of acquisition = 10,00,000 * (331 / 148) = 22,36,486

Indexed cost of improvement = 2,00,000 * (331 / 254) = 2,60,630

Long term capital gain = 60,00,000 -(2236486 + 2,60,630) = 35,02,884

Gifting of Assets

Tax Implications : Consider gift tax and capital gains tax based on the value and type of asset.

- From Blood Relatives
- NGOs
- From Others (Non Relatives and Friends)
- During Marriage

Concept of 'FIFO'

When calculating Capital Gains, this method presumes that the **earliest acquired asset is sold first**, impacting the computation of gains and tax liabilities.

Example : Suppose Andy purchased 2 different stocks: Stock A on January 1, 2022, for Rs. 1,000 and Stock B on July 1, 2022, for Rs. 1,500. Now, if he sells one of these on December 1, 2022, for Rs. 1,200, Stock A would be sold first (As per FIFO).

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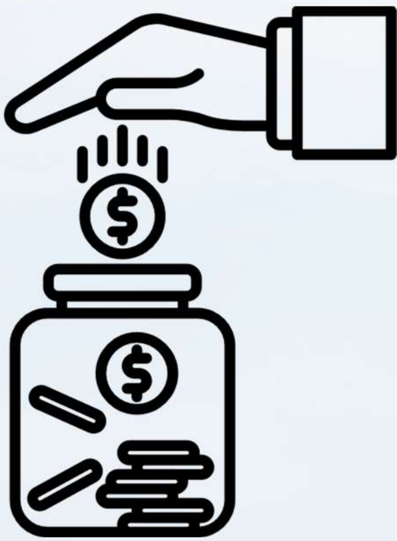
Which ITR to file

- **ITR-1 (Sahaj):** For individuals with income up to ₹50 lakh and no capital gains or losses.
- **ITR-2:** For individuals and HUFs with capital gains or losses, multiple house properties, or foreign assets.
- **ITR-3:** For individuals and HUFs with business or profession income, including capital gains or losses.
- **ITR-4 (Sugam):** For individuals, HUFs, and non-LLP firms with presumptive income from business/ profession.

Capital Gain Savings

- Grandfathering
- Exemptions
- Loss Offsetting
- Capital Gain Harvesting
- Capital Loss Harvesting



2. Exemptions

- On sale of Residential House (Section 54)
- On sale of an Agriculture Land
- On sale of any long term capital asset (Section 54 EC and 54 F)

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3. Loss Offsetting

Section	Losses to be carried forward	Can be set off against income	Time up to which losses can be carried forward	Mandatory to file return in the year of loss
71B	Loss from House Property	Income from House Property	8 Years	No
72	Loss from Normal Business	Income from Business	8 Years	Yes
73	Loss from Speculative Business (Ex : IntraDay)	Income from Speculative Business	4 Years	Yes
74	Short Term Capital Loss	STCG and LTCG	8 Years	Yes
74	Long Term Capital Loss	Long Term Capital Gain	8 Years	Yes

4. Capital Gain Harvesting

- You can save up to 10,000 in LTCG taxes every financial year with Tax Harvesting.
- Minimise your long term tax impact by realising up to 1 Lakh of Long Term Capital Gain (LTCG) every financial year with no tax.
- Example : Let's say your investment yields gains of Rs.1 Lakh every year. After 3 years, the gains are Rs.3 Lakh and you decide to sell.

5. Capital Loss Harvesting

Example scenario

- If an individual earns ₹1 lakh in Short-Term Capital Gains (STCG) this year, they must pay 15% of this amount as taxes, which amounts to ₹15,000.
- Additionally, if the individual holds stocks with an unrealized loss of ₹60,000, they can sell these stocks to reduce their net STCG to ₹40,000. This would require paying 15% of ₹40,000, which amounts to ₹6,000 in taxes, resulting in a tax savings of ₹9,000.
- This process of selling stocks to harvest losses and save on taxes is known as tax-loss harvesting.