

# CAPITAL GAIN

## 1. Concept & Relevance

Capital gains are **profits or gains arising from the transfer of a capital asset** during the previous year.

- It is **taxable** in the year in which the transfer takes place (not the year in which payment is received).
  - Governed mainly by **Section 45 to Section 55A**.
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## 2. Capital Asset – Section 2(14)

**Capital Asset** means:

- Any property (movable or immovable, tangible or intangible, rights or interests) held by a person.

**Exclusions** (not treated as capital asset):

1. **Stock-in-trade** (goods for business)
  2. **Personal effects** – Movable property for personal use (clothes, furniture, etc.) except:
    - Jewellery
    - Archaeological collections
    - Drawings, paintings, sculptures
    - Any work of art
  3. **Agricultural land** in rural areas
    - Rural means: land situated beyond specified distances from municipality/cantonment board.
  4. Specified government securities/bonds.
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## 3. Transfer – Section 2(47)

**Transfer** includes:

- Sale
- Exchange
- Relinquishment of rights
- Compulsory acquisition
- Conversion of asset into stock-in-trade
- Maturity or redemption of zero-coupon bonds
- Certain transactions under development agreements (Joint Development Agreements – JDAs)

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## 4. Types of Capital Gains

Asset Type	Short-Term	Long-Term
<b>Listed equity shares, equity MF units, units of business trust</b>	Held ≤ 12 months	Held > 12 months
<b>Unlisted shares &amp; immovable property</b> (land/building)	Held ≤ 24 months	Held > 24 months
<b>Other assets</b> (jewellery, debt funds, etc.)	Held ≤ 36 months	Held > 36 months

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## 5. Computation Formula – Section 48

### A. Short-Term Capital Gain (STCG)

$$\text{STCG} = \text{Full Value of Consideration} - (\text{Cost of Acquisition} + \text{Cost of Improvement} + \text{Transfer Expenses})$$
$$\text{STCG} = \text{Full Value of Consideration} - (\text{Cost of Acquisition} + \text{Cost of Improvement} + \text{Transfer Expenses})$$

### B. Long-Term Capital Gain (LTCG)

$$\text{LTCG} = \text{Full Value of Consideration} - (\text{Indexed Cost of Acquisition} + \text{Indexed Cost of Improvement} + \text{Transfer Expenses})$$
$$\text{LTCG} = \text{Full Value of Consideration} - (\text{Indexed Cost of Acquisition} + \text{Indexed Cost of Improvement} + \text{Transfer Expenses})$$

#### Where:

- **Full Value of Consideration** = Sale price or deemed value (if stamp duty value applies u/s 50C, 50CA, 50D).
  - **Cost of Acquisition** = Purchase price + related expenses.
  - **Cost of Improvement** = Capital expenditure for betterment.
  - **Transfer Expenses** = Brokerage, stamp duty, legal fees, etc.
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## 6. Indexation

Applies only for **LTCG** (except in cases like equity shares under 112A).

$$\text{Indexed Cost} = \text{Original Cost} \times \frac{\text{CII of year of transfer}}{\text{CII of year of acquisition}}$$
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CII = Cost Inflation Index (notified by CBDT each year).

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## 7. Special Cases in Computation

- **Section 50** – Depreciable assets → gains always short-term, but computed using block of assets method.
  - **Section 50C** – For land/building, if sale price < stamp duty value, SDV is taken as sale consideration.
  - **Section 50CA** – For unlisted shares, FMV is taken if it's higher than actual consideration.
  - **Section 50D** – If consideration not ascertainable, FMV is taken.
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## 8. Tax Rates

Type of Gain	Applicable Section	Tax Rate
STCG on equity shares/MF (STT paid)	111A	15%
Other STCG	Normal slab rate	Slab rates
LTCG on equity shares/MF (STT paid)	112A	10% on gains above ₹1 lakh (no indexation)
Other LTCG	112	20% with indexation

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## 9. Example – LTCG Computation

### Facts:

- Bought land in FY 2012–13 for ₹8,00,000
- Sold in FY 2024–25 for ₹30,00,000
- Transfer expenses: ₹50,000
- CII: FY 2012–13 = 200, FY 2024–25 = 363

### Computation:

1. Indexed Cost of Acquisition =  $₹8,00,000 \times (363 / 200) = ₹14,52,000$
2. LTCG =  $₹30,00,000 - ₹14,52,000 - ₹50,000 = ₹15,02,000$
3. Tax @ 20% = ₹3,00,400 + cess

## Example – Short-Term Capital Gain (STCG)

### Facts:

- Mr. A bought listed equity shares on 01-Aug-2024 for ₹2,00,000.
- Sold them on 10-Feb-2025 for ₹2,60,000.
- Securities Transaction Tax (STT) paid on both purchase and sale.
- Transfer expenses: ₹2,000.

**Question:** Calculate capital gain and tax liability.

### Solution:

- Holding period = < 12 months → **Short-term capital asset.**
- **STCG = Sale Price – Purchase Price – Transfer Expenses**  
=  $₹2,60,000 - ₹2,00,000 - ₹2,000 = ₹58,000$
- Since listed shares & STT paid → Tax u/s 111A @ 15%  
Tax = ₹8,700 + cess.

## Example – STCG on Listed Shares

### Facts:

- Purchase date: 01-Sep-2024
- Sale date: 15-Feb-2025
- Purchase price: ₹2,50,000
- Sale price: ₹3,10,000
- Transfer expenses: ₹2,000
- STT paid on both buy and sell

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## Solution:

- Holding period = Less than 12 months → **Short-term capital asset**
  - STCG = ₹3,10,000 – ₹2,50,000 – ₹2,000 = ₹58,000
  - STT paid & listed → Section 111A → Tax @ 15%  
Tax = ₹8,700 + cess
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## Example – LTCG on Listed Shares

### Facts:

- Purchase date: 05-Jun-2023
- Sale date: 10-Jul-2025
- Purchase price: ₹1,80,000
- Sale price: ₹3,50,000
- STT paid on both buy and sell

### Solution:

- Holding period > 12 months → **Long-term capital asset**
  - LTCG (u/s 112A) = ₹3,50,000 – ₹1,80,000 = ₹1,70,000
  - First ₹1,00,000 exempt; taxable LTCG = ₹70,000
  - Tax @ 10% = ₹7,000 + cess
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## Example – STCL & Set-off

### Facts:

- STCG from sale of listed shares (STT paid) = ₹40,000
- STCL from another sale = ₹55,000

### Solution:

- Net STCG = ₹40,000 – ₹55,000 = **Loss ₹15,000**
  - This loss can be carried forward for 8 years and set off only against capital gains in future.
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## Example – Multiple Transactions

### Facts:

1. Bought listed shares for ₹1,00,000 on 01-Apr-2024; sold on 01-Sep-2024 for ₹1,30,000 (STT paid)

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2. Bought listed shares for ₹2,00,000 on 01-Jan-2023; sold on 15-May-2024 for ₹3,00,000 (STT paid)

**Solution:**

1. First transaction: STCG = ₹1,30,000 – ₹1,00,000 = ₹30,000 → Tax @ 15% = ₹4,500
  2. Second transaction: LTCG = ₹3,00,000 – ₹2,00,000 = ₹1,00,000 → Exempt u/s 112A (up to ₹1,00,000) → No tax.
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**Example – LTCG Above Exemption Limit**

**Facts:**

- Purchase date: 01-Jan-2023 for ₹5,00,000
- Sale date: 10-Feb-2025 for ₹9,50,000
- STT paid on both buy and sell

**Solution:**

- Holding > 12 months → LTCG
  - Gain = ₹9,50,000 – ₹5,00,000 = ₹4,50,000
  - Less: Exemption u/s 112A = ₹1,00,000
  - Taxable = ₹3,50,000 → Tax @ 10% = ₹35,000 + cess
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