

# TAXBOOK<sup>+</sup>

## Working steps of solutions

### B41 to B50

#### Capital Gains

#### Build Your Confidence (BYC)

**B41. 54, 54EC – CA2015(N) (modified) - Martin sold his residential house property on 8.6.2021 for Rs. 7 crore.....**

*Computation of income under the head 'Capital Gains' for AY 2022-23*

Particulars	Rs.
Full value of consideration u/s 50C = SDV, since it is > 110% of consideration.	8,00,00,000
Less: Expenditure on transfer	(10,00,000)
Net consideration	7,90,00,000
Less: ICOA = COA × (CII of 2021-22/CII of 2006-07) = 2 crore × (317/122)	(5,19,67,213)
Long term capital gain before exemption (since house property held for more than 24 months)	2,70,32,787
Less: Exemption:	
• Exemption u/s 54 = Cost of New Asset, i.e., Purchase of new house property and deposit in CGAS account, before the due date of filing ROI u/s 139(1) (assumed to be 31.7.2022).	(2,50,00,000)
• Exemption u/s 54EC = Cost of investment in NHAI bonds made within 6 months of transfer of original asset (i.e., on or before 7.12.2021) subject to upper cap of Rs. 50 lakh	(50,00,000)
Taxable long term capital gain	Nil

*Note:* Since CG > 2 crore, exemption is available only for one new house. However, in this case, exemption will not be denied on amount spent on additional floor on the ground that since only one new house is entitled to exemption, the amount deposited in CGAS will not be construed as having been utilized to acquire new house. This is because different floors (units) of a house property can be construed as one house property.

**B42. 54, 54EC – CA2011(N) - Selvan acquired a residential houses in January 2006 for Rs. 10,00,000 and made some.....**

*Computation of capital gain taxable in the hands of Selvan*

Computation of capital gain for AY 2022-23	Rs.
Full value of consideration u/s 50C = SDV, since it is > 110% of consideration.	80,00,000
Less: ICOA = COA × (CII of 2021-22/CII of 2005-06) = 10 lakh × (317/117)	(27,09,402)
Less: ICOI = COI × (CII of 2021-22/CII of 2010-11) = 2 lakh × (317/167)	(3,79,641)
Long term capital gain before exemption (since house property held for more than 24 months)	49,10,957
Less: Exemption:	
• Exemption u/s 54 = Cost of new asset being purchase of new house property within 1Y before or 2Y from date of transfer of original asset	(25,00,000)
• Exemption u/s 54EC: Not available since NHAI bonds purchased after 6 months of transfer of original asset	Nil
Taxable long term capital gain	24,10,957
Computation of capital gain for AY 2023-24 since new house sold within 3 years of its acquisition	Rs.
Full value of consideration	40,00,000
Less: ICOA = COA (Cost – CG exempted earlier u/s 54) = 25 lakh – 25 lakh = Nil) × (CII of 2022-23/CII of 2020-21)	Nil
Long term capital gain (since new house sold after 24 months)	40,00,000

**B43. 54F - Jagjit owns certain jewellery which was acquired in two lots: On 1.5.2004 for Rs. 20 lakh and on 1.5.2020.....**

*Computation of capital gain in the hands of Jagjit*

Computation of capital gain for AY 2022-23	LTCA	STCA
Full value of consideration	80,00,000	60,00,000
Less: Expenditure on transfer	(80,000)	(60,000)
Net consideration	79,20,000	59,40,000
Less: COA		
• ICOA for 1 <sup>st</sup> lot = COA × (CII of 2021-22/CII of 2004-05) = 20 lakh × (317/113)	(56,10,619)	-
• COA for 2 <sup>nd</sup> lot	-	(30,00,000)
Capital gain (long term for first lot and short term for second lot based on POH threshold of 36 months)	23,09,381	29,40,000
Less: Exemption u/s 54F (only on LTCG) = Capital gain × (Cost of new asset / Net consideration) = 23,09,381 × (60,00,000 / 79,20,000). Cost of new asset = Amount utilized to acquire new asset and that deposited in CGAS by due date to file ROI.	(17,49,531)	-
Taxable capital gain	5,59,850	29,40,000
<b>Computation of capital gain for AY 2024-25 in which another house, other than the new asset, is purchased within 2Y from 1.5.2021</b>	<b>Rs.</b>	<b>Rs.</b>
Long term capital gain = Capital gain exempted earlier	17,49,531	-

**B44. 54F** - Jagjit purchased a vacant plot of land on 1.8.2010 for Rs. 30 lakh which he sold on 1.8.2021 for.....

*Computation of capital gain in the hands of Jagjit*

Computation of capital gain for AY 2022-23	Rs.
Full value of consideration u/s 50C = FVC, since SDV ≤ 110% of FVC	90,00,000
Less: Expenditure on transfer	(90,000)
Net consideration	89,10,000
Less: ICOA = COA × (CII of 2021-22/CII of 2010-11) = 30 lakh × (317/167)	(56,94,611)
Long term capital gain	32,15,389
Less: Exemption u/s 54F = Capital gain × (Cost of new asset / Net consideration) = 32,15,389 × (75,00,000 / 89,10,000).	(27,06,556)
<b>Taxable long term capital gain</b>	<b>5,08,833</b>
<b>Computation of capital gain for AY 2025-26 in which new house is sold within 3Y from 1.3.2022</b>	<b>Rs.</b>
Full value of consideration u/s 50C = SDV, since SDV > 110% of FVC	1,00,00,000
Less: Expenditure on transfer = 1% of 90 lakh	(90,000)
Net consideration	99,10,000
Less: ICOA = COA × (CII of 2024-25/CII of 2021-22) = 75 lakh × (350/317).	(82,80,757)
Long term capital gain on sale of house in Shimla (since held for more than 24 months)	16,29,243
Long term capital gain exempted earlier (now forfeited)	27,06,556
<b>Taxable long term capital gain</b>	<b>43,35,799</b>

#### TAX ON CAPITAL GAIN

**B45. Compute the tax liability of Charmis from the following particulars for the AY 2022-23. He has not opted for.....**

*Computation of tax liability of Charmis for AY 2022-23*

Particulars	A	B	C	D
<b>Composition of total income</b>				
STCG u/s 111A: STCG on sale of units of equity oriented fund	2,00,000	1,00,000	1,00,000	1,00,000
LTCG u/s 112A: LTCG on sale of equity shares of Z Ltd.	3,00,000	2,00,000	1,20,000	1,20,000
LTCG u/s 112: LTCG on sale of diamond jewellery and unlisted shares	2,50,000	90,000	2,80,000	2,80,000
Other income (taxable at normal rates): Salary and STCG on sale of vacant plot of land	6,50,000	2,00,000	1,70,000	1,70,000
Gross total income	14,00,000	5,90,000	6,70,000	6,70,000
Less: Deduction u/c VIA from gross total income: Available only from other income.	(1,50,000)	(1,50,000)	(1,70,000)	(1,70,000)

Total income	12,50,000	4,40,000	5,00,000	5,00,000
<b>Incomes comprised in total income:</b>				
Income taxable at special rates	7,50,000	3,90,000	5,00,000	5,00,000
Income taxable at normal rates	5,00,000	50,000	Nil	Nil
Unexhausted basic exemption limit (UBEL) (first adjust u/s 112, then 111A, then 112A). Benefit not available to NR.	-	2,50,000	3,00,000	N/A
<b>Computation of tax liability:</b>				
Tax on LTCG u/s 112 @ 20% :				
• A: 20% of 2,50,000	50,000	-	-	-
• B: 20% of Nil (90,000 adjusted against UBEL)	-	Nil	-	-
• C: 20% of Nil (2,80,000 adjusted against UBEL)	-	-	Nil	-
• D: 20% of 2,80,000	-	-	-	56,000
Tax on STCG u/s 111A @ 15%:				
• A: 15% of 2,00,000	30,000	-	-	-
• B: 15% of Nil (1,00,000 adjusted against UBEL)	-	Nil	-	-
• C: 15% of 80,000 (20,000 adjusted against UBEL)	-	-	12,000	-
• D: 15% of 1,00,000	-	-	-	15,000
Tax on LTCG u/s 112A @ 10%:				
• A: 10% of 2,00,000 (3,00,000 – exemption of 1 lakh)	20,000	-	-	-
• B: 10% of 40,000 (1,40,000 (60,000 adjusted against UBEL) – exemption of 1 lakh)	-	4,000	-	-
• C & D : 10% of 20,000 (1,20,000 – exemption of 1 lakh)	-	-	2,000	2,000
Tax on other income at normal rates:				
• A: Tax on 5,00,000	12,500	-	-	-
• B: Tax on 50,000	-	Nil	-	-
• C & D: Tax on Nil	-	-	Nil	Nil
	1,12,500	4,000	14,000	73,000
Less: Rebate u/s 87A: Available to resident individual with TI ≤ 5 lakh. Not available on tax u/s 112A.	-	-	(12,000)	-
	1,12,500	4,000	2,000	73,000
Add: Surcharge: Not applicable for TI up to 50 lakh	-	-	-	-
	1,12,500	4,000	2,000	73,000
Add: HEC @ 4%	4,500	160	80	2,920
<b>Tax liability</b>	<b>1,17,000</b>	<b>4,160</b>	<b>2,080</b>	<b>75,920</b>

**B46. 112A – CA2019(M) - Himanshi (68 years) is a resident individual. During the AY 2022-23, she has income from.....**

*Computation of tax liability of Himanshi for AY 2022-23*

Particulars	Rs.
<b>Incomes comprised in total income:</b>	
• Long term capital gain u/s 112A	1,80,000
• Other income	2,75,000
<b>Computation of tax liability:</b>	
• Tax on LTCG u/s 112A: Unexhausted BEL = 25,000 (3,00,000 – 2,75,000). Taxable LTCG = 1,80,000 – 25,000 = 1,55,000. Taxable LTCG u/s 112A = 1,55,000 – exemption of 1,00,000 = 55,000. Tax @ 10%.	5,500
• Tax on balance income of Rs. 2,75,000 at normal rates	Nil
<b>Tax on total income</b>	<b>5,500</b>
Less: Rebate u/s 87A: Not allowed on tax u/s 112A	-
	5,500
Add: Surcharge	-
	5,500
Add: HEC@ 4%	220
<b>Tax liability</b>	<b>5,720</b>

*Mistake by students – Failure to provide benefit of unexhausted BEL to LTCG.*

**B46A. CA2021(JAN) - One equity share of a company listed on recognized stock exchange is acquired on 1.1.2017 at.....**

*Computation of capital gain/loss u/s 112A*

Particulars	Rs.
Full value of consideration	150
Less: COA = Higher of COA (100) or lower of FMV on 31.1.2018 or FVC (i.e., 200 or 150) = 150. Benefit of indexation not available u/s 112A.	(150)
<b>Long term capital gain u/s 112A</b>	<b>Nil</b>

**B47. 55, 112A – Calculate the tax liability of Chintan, a resident individual of age 45 years, for the AY 2022-23 on sale of.....**

*Computation of tax liability for AY 2022-23 in the hands of Chintan*

Particulars	Rs.
Capital gain on sale of equity shares u/s 112A:	
• Full value of consideration	9,00,000
• Less: Expenses on transfer being brokerage on sale (STT not allowed as deduction)	(9,000)
• Net consideration	8,91,000
• Less: COA = Higher of COA (1,50,000 based on higher of cost or FMV on 1.4.2001) or lower of FMV on 31.1.2018 or FVC (5,00,000 or 9,00,000)	(5,00,000)
Long-term capital gain u/s 112A	3,91,000
Business income	5,00,000
<b>Gross total income</b>	<b>8,91,000</b>
Less: Deduction u/s 80C for amount deposited in NSC certificates (not allowed on income u/s 112A)	(50,000)
<b>Total income</b>	<b>8,41,000</b>
<b>Incomes comprised in total income:</b>	
• Long term capital gain u/s 112A	3,91,000
• Other income	4,50,000
<b>Computation of tax liability:</b>	
• Tax on LTCG u/s 112A @ 10% on 2,91,000 (3,91,000 – exemption of 1,00,000)	29,100
• Tax on balance income of Rs. 4,50,000 at normal rates	10,000
<b>Tax on total income</b>	<b>39,100</b>
Less: Rebate u/s 87A: Not allowed as total income > 5 lakh	-
	39,100
Add: Surcharge	-
	39,100
Add: HEC@ 4%	1,564
<b>Tax liability</b>	<b>40,664</b>
<b>Tax liability (rounded off)</b>	<b>40,660</b>

**B48. 111A/112A – Gurmeet, 70 years of age, acquired 150 equity shares of JKL Ltd. on 15.5.2008 at Rs. 1,500 per.....**

*Computation of total income and tax liability of Gurmeet for AY 2022-23*

Particulars	Rs.	Rs.
<b>Long term capital gains on sale of original shares u/s 112A, i.e., equity shares on which STT is paid on acquisition and transfer</b>		
Full value of sale consideration = 150 × 5,500	8,25,000	
Less: Expenditure on transfer: Brokerage (50% of 10,000). STT not allowed as deduction.	(5,000)	
Net consideration	8,20,000	
Less COA = 150 × 3,500. COA of equity shares acquired before 1.2.2018 is higher of COA of Rs. 1,500 per share and lower of (a) FMV on 31.1.2018 of Rs. 3,500 per share or (b) FVC of Rs. 5,500 per share. Indexation not allowed u/s 112A.	(5,25,000)	
Long term capital gain u/s 112A	2,95,000	2,95,000
<b>Short term capital gains on sale of bonus shares u/s 111A, i.e, equity shares where sale is chargeable to STT</b>		
Full value of sale consideration = 150 × 5,500	8,25,000	

Less: Expenditure on transfer: Brokerage (50% of 10,000). STT not allowed as deduction.	(5,000)	
Net consideration	8,20,000	
Less: COA is Nil	Nil	
Short term capital gain u/s 111A	8,20,000	8,20,000
<b>Income from other sources</b>		
Dividend = $300 \times \text{Rs. 20 per share}$		6,000
<b>Total income</b>		<b>11,21,000</b>
<b>Tax liability</b>		
Tax on STCG u/s 111A: Unexhausted BEL = 2,94,000 (3,00,000 BEL – 6,000). Taxable STCG = $8,20,000 - 2,94,000 = 5,26,000$ . Tax is 15% of 5,26,000		78,900
Tax on LTCG u/s 112A @ 10% of 1,95,000 (2,95,000 – exemption of 1,00,000)		19,500
Tax on balance dividend income of 6,000		Nil
		98,400
Add: HEC @ 4%		3,936
Tax payable		1,02,336
<b>Tax payable (rounded off)</b>		<b>1,02,340</b>

**B49. 112, 112A – CA2019(N) (modified) – Rajan, a resident of age 30 years, provides you with the following details .....**

*Computation of capital gain and tax liability in the hands of Rajan for AY 2022-23*

Particulars	Rs.
<b>Sale of 10,000 shares of A Ltd. on 5.4.2021 @ Rs. 650 per share</b>	
Full value of consideration = $10,000 \times 650$	65,00,000
Less: COA = Higher of COA (100 per share) or lower of FMV on 31.1.2018 or FVC (i.e., 300 per share or 650 per share) = $10,000 \times 300$ per share. Benefit of indexation not available u/s 112A.	(30,00,000)
Long term capital gain u/s 112A: Since shares held for more than 12 months and STT is paid both on purchase and sale.	35,00,000
<b>Sale of 1,000 units of B Mutual Fund on 20.4.2021 @ Rs. 50 per unit</b>	
Full value of consideration = $1000 \times 50$	50,000
Less: COA = Higher of COA (10 per unit) or lower of FMV on 31.1.2018 or FVC (i.e., 55* per unit or 50 per share) = $1000 \times 50$ per unit. Benefit of indexation is not available u/s 112A. *NAV on 31.1.2018 taken assuming that units are not listed on this date.	(50,000)
Long term capital gain u/s 112A: Since units held for more than 12 months and STT is paid on sale.	Nil
<b>Sale of 100 shares of C Ltd. on 25.4.2021 @ Rs. 200 per share</b>	
Full value of consideration = $100 \times 208$	20,800
Less: ICOA = $\text{COA} \times (\text{CII of 2021-22} / \text{CII of 2001-02}) = 5,000$ (100 shares @ 50 per share) $\times (317 / 100)$ COA of bonus shares is Nil but FMV on 1.4.2001 can be substituted. Indexation is available u/s 112.	(15,850)
Long term capital gain u/s 112: Since shares are unlisted and held for more than 12 months	4,950
<b>Computation of tax for AY 2022-23</b>	
Tax u/s 112A @ 10% on Rs. 34,00,000 (35,00,000 – Exemption of 1,00,000)	3,40,000.00
Tax u/s 112 @ 20% on 4,950	990.00
Tax on other income of 4,00,000	7,500.00
Tax on total income	3,48,490.00
Less: Rebate u/s 87A (not available as total income > 5 lakh)	-
Add: Surcharge (not applicable as total income is up to 50 lakh)	-
Add: HEC @ 4%	13,939.60
Tax liability	3,62,429.60
<b>Tax liability (rounded off)</b>	<b>3,62,430</b>

*Mistake by students – Incorrect computation of COA of shares of A Ltd. Indexation provided u/s 112A.*

**B50. 45(2)/112/112A – CA2020(N) – Govind purchased 600 shares of Y Ltd. at Rs. 130 per share on 26.2.1979. Y Ltd.....**

*Computation of total income of Govind for AY 2022-23*

Particulars	600 original shares	400 bonus shares	800 bonus shares
<b>Long term capital gains on conversion of 1,000 shares into stock in trade u/s 45(2) – Taxable in AY 2022-23 (year of sale)</b>			
Full value of consideration = FMV on date of conversion of 31.1.2020 @ Rs. 2,200 per share <b>(Note)</b>	13,20,000	8,80,000	-
Less: ICOA = COA × (CII of 2019-20 being year of conversion / CII of 2001-02) COA = Higher of actual COA or FMV on 1.4.2001 = Rs. 900 ICOA = Rs. 900 per share for 600/400 shares × (289/100) COA is not computed on basis of FMV on 31.1.2018 since conversion is not covered u/s 112A but u/s 112 (as STT is not paid on conversion into stock-in-trade)	(15,60,600)	(10,40,400)	-
Long term capital loss	(2,40,600)	(1,60,400)	-
<b>Business income on sale of 1,000 shares held as stock-in-trade – Taxable in AY 2022-23</b>			
Sale consideration @ 2,400 per share	14,40,000	9,60,000	-
Less: Cost = FMV on date of conversion	(13,20,000)	(8,80,000)	-
Business income <sup>1</sup>	1,20,000	80,000	-
<b>Long term capital gain on sale of 800 bonus shares – Taxable in AY 2022-23</b>			
Full value of consideration @ Rs. 2,400 per share	-	-	19,20,000
Less: COA (indexation not allowed since sale is covered u/s 112A) = Higher of (a) COA of Rs. 900 and (b) lower of FMV on 31.1.2018 of Rs. 2,000 or FVC of Rs. 2,400. COA = Rs. 2,000 per share	-	-	(16,00,000)
Long term capital gain u/s 112A	-	-	3,20,000
<b>Computation of total income for AY 2022-23</b>			
Business income = Rs. 1,20,000 + Rs. 80,000			2,00,000
Long term capital gain of Rs. 3,20,000 less set off of long term capital loss of Rs. 4,01,000 (Rs. 2,40,600 + Rs. 1,60,400) = Loss of Rs. 81,000 to be carried forward to next AY u/s 74 (see para 191)			-
<b>Total income</b>			<b>2,00,000</b>

**Note:** FMV on 31.1.2018 is not relevant in determining FMV on 31.1.2020. As per section 2(22B) (see para 130), fair market value, 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. Since the highest and closing prices are given in the question, FMV for the purpose of this solution has been taken to be the highest price. Alternatively, closing price can also be taken.

<sup>1</sup> STT @ 1% is deductible u/s 36(1)(xv) in computing business income since income is taxable as PGBP. However, it has not been deducted in the ICAI suggested answer.