

# TAXBOOK<sup>+</sup>

## Working steps of solutions

### B1 to B10

#### Capital Gains

#### Build Your Confidence (BYC)

#### CHARGEABILITY

**B1. CAPITAL ASSET – Examine whether the following are capital assets.**

#	Asset	Capital asset?	Remarks
1	Furniture and fixtures in office	Yes	Property of any kind
2	Raw material used to manufacture goods	No	Raw material
3	Building held as stock-in-trade by a real estate dealer	No	Stock-in-trade
4	House let out on rent by a lawyer	Yes	Not personal effect
5	Flat owned by a doctor but lying vacant	Yes	Not personal effect
6	Finished goods for sale	No	Stock-in-trade
7	Laptop for personal use	No	Personal effect
8	Precious work of art put up at residence	Yes	Not personal effect
9	Gold jewellery studded with precious stones	Yes	Not personal effect
10	Mobile phone used by assessee	No	Personal effect
11	Television, household appliances and furniture at home used by family	No	Personal effect
12	Copyright held by an author of books	Yes	Property of any kind
13	Barren land in rural area	Yes	Not agricultural land
14	Agricultural farm in a rural area of Nepal	Yes	Not in India

**B2. CAPITAL ASSET – AGRICULTURAL LAND – Rajesh carries out agricultural activities on a plot of land. Determine whether capital gains will arise on sale of land in the following cases.**

#	Distance (aerial) of land from local limits of municipality or cantonment board	Population of municipality or cantonment board as per last census	Capital asset?	Capital gain on sale?
1	0	8,000	No	No
2	2	9,000	No	No
3	1.5	12,000	Yes	Yes
4	2.5	20,000	No	No
5	0	80,000	Yes	Yes
6	5.5	1,25,000	Yes	Yes
7	10	9,00,000	No	No
8	7.5	15,00,000	Yes	Yes
9	8.5	25,00,000	No	No

**B3. TRANSFER – Gopi undertook the following transactions during the PY 2021-22. Whether he would be liable to capital gain on these transactions?**

#	Case	Transfer?	Comment
1	He sold a residential house to his colleague for Rs. 50 lakh	Yes	Sale
2	He transferred a machine in return for another machine	Yes	Exchange
3	He surrendered tenancy rights for Rs. 10 lakh	Yes	Relinquishment
4	He received Rs. 5 lakh on redemption of Zero Coupon Bonds of BCD Ltd.	Yes	Redemption of Zero Coupon Bond
5	His land was acquired by UP Government for construction of	Yes	Compulsory acquisition

	expressway		
6	He brought his personal jewellery into his jewellery retail business as stock-in-trade	Yes	Conversion of capital asset to stock-in-trade
7	He gave possession of a house to Mr. Z in terms of a written agreement to sell pursuant to which Mr. Z paid the sale consideration, although the transfer was pending registration in favor of Mr. Z.	Yes	Transfer allowing possession of immovable property in part performance of contract u/s 53A of TOP Act

**B4. TYPE OF CAPITAL ASSET – Determine whether capital gain arising in the following cases would be STCG or LTCG for AY 2022-23?**

#	Case	Holding period	Type
1	Z purchases a house property on 1.4.2020 and sells on 15.10.2021	Not more than 24 months	STCG
2	Z purchases equity shares of Reliance Ltd, listed on BSE, on 1.4.2020 and sells on 15.10.2021	More than 12 months	LTCG
3	Z purchases units of Axis Equity Fund, which invests 85% in equity shares, on 1.4.2019 and sells on 15.10.2021	More than 12 months	LTCG
4	Z purchases units of Reliance Equity Fund, which invests 25% in equity shares, on 1.4.2019 and sells on 15.10.2021	Not more than 36 months	STCG
5	Z purchases gold coins on 1.4.2018 and sells them on 15.10.2021	More than 36 months	LTCG
6	Z purchases shares of PQR Pvt. Ltd., an unlisted company, on 1.4.2019 and sells on 15.10.2021	More than 24 months	LTCG
7	Z purchases shares of Google, listed on NYSE in the USA, on 1.4.2020 and sells on 15.10.2021	Not more than 24 months	STCG
8	Z purchases debentures (not listed) of ABC Ltd on 1.4.2020 and sells on 15.10.2021	Not more than 36 months	STCG
9	Z purchases unquoted units of UTI on 1.4.2020 and sells on 15.10.2021	More than 12 months	LTCG
10	Z purchases Zero Coupon Bonds of an eligible corporation on 1.4.2020 which were redeemed after a period of 18 months.	More than 12 months	LTCG

**B5. COA, COI – Determine the cost of acquisition and cost of improvement that will be taken into account .....**

*Computation of COA and COI*

Particulars	COA	COI
Cost paid to seller on purchase	10,00,000	
Brokerage paid to agent @ 1%	10,000	
Registration charges @ 5%	50,000	
	10,60,000	
COA = Higher of 10,60,000 or 12,00,000 (FMV on 1.4.2001 which can't exceed SDV on this date)	12,00,000	
Construction of second floor on 1.3.2000: Not included as incurred before 1.4.2001		-
Construction of third floor on 15.8.2010		5,00,000
Routing repair and painting work on 15.9.2015 : Not included as not capital expenditure		-
		5,00,000

**B6. INDEXATION – Compute the capital gain arising in the hands of Samuel on sale of following capital assets .....**

*Computation of capital gain in the hands of Samuel*

Particulars	A	B	C
Type of capital gain	STCG	LTCG	LTCG
Full value of consideration	5,00,000	50,00,000	50,00,000
Less: Expenditure incurred wholly and exclusively in connection with transfer	(10,000)	(1,00,000)	(1,00,000)
Net consideration	4,90,000	49,00,000	49,00,000

Less: Cost of acquisition	(5,00,000)	-	-
Less: Cost of improvement	-	-	-
Less: Indexed cost of acquisition (Note 1)	-	(29,08,257)	(38,04,000)
Less: Indexed cost of improvement (Note 2)	-	(1,89,820)	(1,05,316)
<b>Capital gain (short-term)</b>	<b>(10,000)</b>	-	-
<b>Capital gain (long-term)</b>	-	<b>18,01,923</b>	<b>9,90,684</b>

**Note 1:**

Indexed cost of acquisition	B	C
Cost of acquisition	10,00,000	12,00,000 (Higher of 10 lakh or 12 lakh (FMV can't exceed SDV))
CII of year of transfer	317	317
CII of year of acquisition or 2001-02, whichever is later	109	100
Indexed cost of acquisition	$10,00,000 \times (317/109) = 29,08,257$	$12,00,000 \times (317/100) = 38,04,000$

**Note 2:**

Indexed cost of improvement	B	C
Cost of improvement before 1.4.2001	-	Ignore
Cost of improvement on 1.12.2010	1,00,000	-
Cost of improvement on 1.6.2020	-	1,00,000
• CII of year of transfer	317	317
• CII of year of improvement	167	301
• Indexed cost of improvement	$1,00,000 \times (317/167) = 1,89,820$	$1,00,000 \times (317/301) = 1,05,316$

**B7. 51 – Sunny owns a house property which he purchased on 15.10.2005 for Rs. 10 lakh. He entered into .....**

**AY 2011-12** - Sum of Rs. 3 lakh forfeited. No tax implications at the time of forfeiture in terms of section 51.

**AY 2016-17** - Sum of Rs. 4 lakh forfeited. Taxable as IFOS u/s 56(2)(ix) .

**AY 2022-23 – Computation of capital gain on sale of property**

Particulars	Rs.
Full value of consideration	50,00,000
Less: Expenditure in connection with transfer	(50,000)
Net consideration	49,50,000
Less: ICOA = COA × (CII of 2021-22/CII of 2005-06)	(18,96,581)
• COA = 10 lakh – Rs. 3 lakh forfeited during PY 2010-11	
• ICOA = 7 lakh × (317/117)	
Less: COI	Nil
<b>Long term capital gain</b>	<b>30,53,419</b>

**B7A. Section 51 – CA2016(M/N) – Suman received an advance of Rs. 3 lakh on 6.6.2021 to transfer his residential**

Yes, under the head IFOS u/s 56(2)(ix) for AY 2022-23 since amount is forfeited on or after 1.4.2014. It will not be reduced from COA u/s 51.

**B8. PREVIOUS OWNER – Compute the amount of capital gain arising in the following situations for AY 2022-23 in.....**

*Computation of capital gain for AY 2022-23 in the hands of Mrs. Q*

Particulars	A	B	C
Full value of consideration	10,00,000	10,00,000	10,00,000
Less: Expenditure in connection with transfer	Nil	Nil	Nil
Net consideration	10,00,000	10,00,000	10,00,000

<i>Less: COA:</i>			
• Case A: COA of Mr. J	(1,00,000)	-	-
• Case B: ICOA = COA × (CII of 2021-22/CII of 2001-02) = 1.5 lakh (higher of Cost or FMV) × (317/100)	-	(4,75,500)	-
• Case C: Same as Case B. Forfeiture by previous owner not reduced from COA u/s 51. Forfeiture by Mrs. Q taxable as IFOS u/s 56(2)(ix) for AY 2018-19 as it is on or after 1.4.2014.	-	-	(4,75,500)
<i>Less: COI:</i>			
Case A: Incurred by Mr. J and Mrs. Q	(60,000)	-	-
Case B & C :	-	(1,04,188)	(1,04,188)
• COI for Mr. J = Nil as incurred before 1.4.2001			
• ICOI for Mr. K = COI × (CII of 2021-22/CII of 2005-06) = 20,000 × (317/117) = 54,188			
• ICOI for Mr. Q = COI × (CII of 2021-22/CII of 2021-22) = 50,000 × (317/317) = 50,000			
<b>Short term capital gain</b>	<b>8,40,000</b>	-	-
<b>Long term capital gain</b>	-	<b>4,20,312</b>	<b>4,20,312</b>

### SPECIAL PROVISIONS FOR DEPRECIABLE ASSETS

**B9. Section 50 – Shobhit, carrying on a business, furnishes the following particulars in respect of machinery on which .....**

Particulars	I	II	III	IV
WDV of Block as on 1.4.2021	10,00,000	10,00,000	10,00,000	10,00,000
Add: Cost of assets acquired during the PY	6,00,000	6,00,000	4,00,000	4,00,000
Less: Sale of assets during the PY	(8,00,000)	(20,00,000)	(11,00,000)	(16,00,000)
WDV as on 31.3.2022 (cannot be negative)	8,00,000	Nil	3,00,000	Nil
<b>Depreciation:</b>				
50% of 15% on 4,00,000 (Machinery D put to use < 180D) + 15% on balance of 4,00,000	(90,000)	-	-	-
No depreciation since WDV is nil although Machinery B, C and D exist in the Block. Capital gain will arise.	-	Nil	-	-
No depreciation since block ceases to exist. Capital gain will arise.	-	-	Nil	Nil
<b>Closing WDV as on 31.3.2022</b>	<b>7,10,000</b>	-	-	-
<b>Capital gain:</b>				
Full value of consideration	-	20,00,000	11,00,000	16,00,000
Less: WDV as on 1.4.2021	-	(10,00,000)	(10,00,000)	(10,00,000)
Less: Assets acquired during the PY	-	(6,00,000)	(4,00,000)	(4,00,000)
<b>Short term capital gain (gain or loss)</b>	-	<b>4,00,000</b>	<b>(3,00,000)</b>	<b>2,00,000</b>

**B10. Section 50 – CA2019(M) – Keshav Enterprises, a sole proprietorship, owns four machines, put in use for .....**

*Q 1 and Q2 - Computation of depreciation and capital gain for AY 2022-23*

Particulars	Rs.
WDV of Block as on 1.4.2021	7,70,000
Add: Purchase of second hand machine during the PY (put to use < 180 days)	6,10,000
	13,80,000
Less: Sale of consideration of old machinery during the PY	(10,00,000)
WDV of Block for depreciation	3,80,000
Depreciation = 50% of 15% of 3,80,000	28,500
Capital gain does not arise since block continues to exist and WDV is positive	Nil

*Q 3 - Computation of capital gain and depreciation for AY 2022-23*

Particulars	Rs.
WDV of Block as on 1.4.2021	7,70,000

Add: Purchase of second hand machine during the PY (put to use < 180 days)	6,10,000
	13,80,000
Less: Sale of consideration of old machinery during the PY	(15,00,000)
WDV of Block for depreciation	Nil
<b>Depreciation:</b> No depreciation since WDV is nil although block continues to exist	Nil
<b>Computation of capital gain:</b>	
Full value of consideration	15,00,000
Less: WDV of Block as on 1.4.2021	(7,70,000)
Less: Purchase of second hand machine during the PY	(6,10,000)
Short term capital gain	1,20,000

*Mistake by students – Wrong computation of depreciation. Not aware that no capital gain will arise if block continues to exist and WDV is not nil.*