

# TAXBOOK<sup>+</sup>

## Working steps of solutions

### B51

#### Capital Gains

#### Build Your Confidence (BYC)

#### COMPREHENSIVE

**B51. COMPREHENSIVE – Compute the tax liability of Swarn, a resident individual aged 45 years, staying in his self.....**

#### Computation of tax liability of Swarn for the assessment year 2022-23

Particulars	Rs.	Rs.	Rs.
<b>Computation of total income</b>			
<b>Short term capital gain chargeable u/s 111A</b>			
Sale of equity shares of Jayman Ltd. (Note 14)		5,00,000	5,00,000
<b>Other short term capital gain</b>			
Conversion of painting into stock-in-trade (Note 1)		20,000	
Sale and buy back of unlisted shares of BCD Pvt. Ltd. (Note 7)		4,00,000	
Sale of shares of Rich Bank (Note 8)		5,000	
Transfer of depreciable assets (Note 11)		30,000	4,55,000
<b>Long term capital gain chargeable u/s 112A</b>			
Sale of units of Reliance equity fund (Note 6)		50,000	
Sale of shares of Rich Bank (Note 8)		56,000	
Sale of shares of Jack and Jill Ltd. received under ESOP (Note 9)		3,00,000	4,06,000
<b>Long term capital gain chargeable u/s 112</b>			
Sale of wardrobe (no capital gain since the furniture is personal effect used by dependant family member)		-	
Sale of land in village outside Ranchi (Note 2)	16,29,946		
• Less: Exemption u/s 54EC (Note 15)	(16,29,946)	Nil	
Exchange of silver ornaments (Note 3)		13,44,777	
Compulsory acquisition of residential house (Note 4)	25,85,015		
• Less: Exemption u/s 54, 54EC (Note 15)	(21,70,054)	4,14,961	
Sale of listed bonds (Note 5)		50,000	
Transfer of gold jewellery to friend (Note 10)		3,66,000	
Sale of brand name and license (Note 12)		12,01,818	
Sale of independent division of business (Note 13)		15,00,000	48,77,556
<b>Income under the head 'Profits and gains of business or profession'</b>			
Business income on sale of painting = Rs. 50,000 (sale price) – Rs. 45,000 (FMV on date of conversion)		5,000	
Other business income		1,00,000	1,05,000
<b>Income under the head 'Income from other sources'</b>			
Interest on delayed compensation u/s 56(2)(viii) = 30,000 less 50% deduction			15,000
Gross total income			63,58,556
Less: Deduction u/s 80C for deposit in PPF (not allowed from income u/s 111A, 112A and 112)			(1,50,000)

<b>Total income</b>		<b>62,08,556</b>
<b>Computation of tax liability</b>		
On short term capital gain u/s 111A of 5,00,000 @ 15%		75,000
On long term capital gain u/s 112A of 3,06,000 @ 10% (4,06,000 - Exemption of 1,00,000)		30,600
On long term capital gain u/s 112 on sale of listed corporate bonds of Rs. 50,000 @ 10% (without indexation)		5,000
On long term capital gain u/s 112 (other than on sale of listed corporate bonds) of Rs. 48,27,556 @ 20%		9,65,511
On other income of 4,25,000 (total income – incomes taxable above at special rates)		8,750
<b>Tax on total income</b>		<b>10,84,861</b>
Less: Rebate u/s 87A (not available since total income > 5 lakh)		-
		10,84,861
Add: Surcharge @ 10% since total income exceeds 50 lakh and is up to 1 crore		1,08,486
		11,93,347
Add: HEC @ 4%		47,734
<b>Tax liability</b>		<b>12,41,081</b>
<b>Tax liability (rounded off)</b>		<b>12,41,080</b>

**Computation of capital gain for AY 2025-26 for defaults committed u/s 54**

Particulars	Rs.	Rs.
<b>Long term capital gain on unutilized CGAS deposited within 3 years from receipt of compensation (October 2021) = 8 lakh – 7 lakh. Since capital gain on house is not more than Rs. 2 crore, Swarn can purchase 2 residential houses in India u/s 54 within two years from receipt of compensation. It is assumed that he exercised this once in a lifetime option.</b>		1,00,000
<b>Sale of new asset u/s 54 (house in Hyderabad) within 3 years of its acquisition</b>		
Full value of consideration u/s 50C = Consideration, since SDV is not more than 110% of consideration	14,00,000	
Less: Cost of acquisition = Cost (10 lakh) – Capital gain exempted earlier (10 lakh)	Nil	
Long term capital gain (since house held for more than 24 months)	14,00,000	14,00,000
<b>Total long term capital gain for AY 2025-26</b>		<b>15,00,000</b>

*Note 1 – Capital gain on conversion of painting into stock-in-trade, taxable for AY 2022-23, i.e., the year in which stock-in-trade is sold*

Particulars	Rs.
Full value of consideration: FMV on date of conversion u/s 45(2)	45,000
Less: Cost of acquisition (indexation not available since asset held for not more than 36 months till date of conversion)	(25,000)
<b>Short term capital gain (since period of holding till date of conversion is not more than 36 months)</b>	<b>20,000</b>

*Note 2 – Capital gain on sale of urban agricultural land (since situated within 8 km aerial distance from local limit of Ranchi and used for rice farming)*

Particulars	Rs.
Full value of consideration u/s 50C = SDV of 35 lakh since it is > 110% of 30 lakh of consideration. SDV on date of agreement taken since part consideration received on this date by a specified mode. But since DVO value of 34 lakh is less than SDV, 34 lakh is taken as full value of consideration.	34,00,000
Less: Expenditure on transfer: Brokerage of 1% of 30 lakh	(30,000)
Net consideration	33,70,000
Less: Indexed cost of acquisition = COA × (CII of 2021-22 / CII of 2011-12) = 10.10 lakh × (317/184). Brokerage of 1% added to COA. Advance money forfeited on or after 1.4.2014 is taxable as IFOS in the year of forfeiture (AY 2019-20 in this case) and is not reduced from COA u/s 51.	(17,40,054)
<b>Long term capital gain (since period of holding is more than 24 months)</b>	<b>16,29,946</b>

*Note 3 – Capital gain on exchange of silver ornaments for gold jewellery*

Particulars	Rs.
Full value of consideration: FMV of gold jewellery on date of transfer since it is a case of exchange	20,00,000
Less: Indexed cost of acquisition = COA × (CII of 2021-22 / CII of 2016-17) = 5 lakh × (317/264). Cost of acquisition to the last previous owner taken who acquired it by a mode other than that referred u/s 49(1). Period of holding and indexation computed accordingly.	(6,00,379)
Less: Indexed cost of improvement: COI × (CII of 2021-22 / CII of 2019-20) = 50,000 × (317/289). Cost of improvement incurred by previous owner is considered.	(54,844)
<b>Long term capital gain (since period of holding by Swarn and previous owners is more than 36 months)</b>	<b>13,44,777</b>

*Note 4 – Capital gain on compulsory acquisition of residential house, taxable in AY 2022-23, i.e. year in which compensation received*

Particulars	Rs.
Full value of consideration: Initial compensation of 50 lakh + interim compensation of 10 lakh (included since final order passed in PY 2021-22). Final additional compensation of 5 lakh is taxable in AY 2023-24 in which it is received.	60,00,000
Less: Litigation expenses	(50,000)
Net consideration	59,50,000
Less: Indexed cost of acquisition = COA × (CII of 2020-21) / CII of 2001-02) = 10 lakh × (301/100). COA = Higher of cost (10 lakh + 3% stamp duty and brokerage) or FMV on 1.4.2001 (which can't exceed SDV on this date). This is Rs. 12 lakh. From this, reduce advance money forfeited before 1.4.2014 of Rs. 2 lakh u/s 51. COA = 10 lakh. Year of transfer for computing indexed COA and COI is the year of compulsory acquisition.	(30,10,000)
Less: Indexed cost of improvement:	
• Construction of floor before 1.4.2001: Not considered	-
• Addition of room on 1.6.2014: COI × (CII of 2020-21 / CII of 2014-15) = 2 lakh × (301/240)	(2,50,833)
• Significant alterations on 15.3.2020: COI × (CII of 2020-21 / CII of 2019-20) = 1 lakh × (301/289)	(1,04,152)
• Cost of painting and routine repair work: Not considered since not capital expenditure	-
<b>Long term capital gain (since house held for more than 24 months)</b>	<b>25,85,015</b>

*Note 5 – Capital gain on sale of listed bonds*

Particulars	Rs.
Full value of consideration	1,50,000
Less: Cost of acquisition (indexation is not available on bonds)	(1,00,000)
<b>Long term capital gain (since bonds are listed and held for more than 12 months)</b>	<b>50,000</b>

*Note 6 – Capital gain on sale of units of Reliance equity fund (being an equity oriented fund since at least 65% proceeds are invested in listed equity shares of domestic companies) – Covered u/s 112A since units are of EOF and STT paid on sale*

Particulars	Rs.
Full value of consideration for 1,000 units @ 150 per unit	1,50,000
Less: Expenditure on transfer (STT is not deductible)	-
Net consideration	1,50,000
Less: Cost of acquisition: Since units of EOF covered u/s 112A are acquired before 1.2.2018, COA is higher of (A) cost of 100 or (B) lower of FMV on 31.1.2018 of 90 or FVC of 150. Thus, COA is 100 per unit. Indexation not allowed u/s 112A	(1,00,000)
<b>Long term capital gain u/s 112A (since units of EOF held for more than 12 months)</b>	<b>50,000</b>

*Note 7 – Capital gain on sale and buy back of unlisted shares of BCD Pvt. Ltd.*

Particulars	Rs.
<b>Sale of shares on 1.4.2021</b>	
Full value of consideration = 5,000 shares @ Rs. 150 per share (i.e., FMV u/s 50CA since it is more than actual consideration) 1,000 preference shares were converted to 2,000 equity shares (no capital gain on conversion u/s 47(xb)). Sub-division of 2,000 equity shares into 10,000 equity shares (no capital gain on sub-division). Capital gain arise on sale of 50% holding, i.e., 5,000 shares	7,50,000
Less: Cost of acquisition: COA and period of holding is determined with reference to original preference shares. No indexation since gain is short-term as asset (unlisted shares) held for not more than 24 months. COA = 50%	(3,50,000)

of 7,50,000 (1,000 preference shares @ 750 per share)	
<b>Short term capital gain</b>	<b>4,00,000</b>
<b>Buy back of shares on 1.8.2021</b>	
Buy back of shares by a domestic company is exempt in the hands of shareholder u/s 10(34A). BCD Pvt. Ltd. will be liable to tax on distributed income u/s 115QA.	-

*Note 8 – Capital gain on sale of listed shares of Rich Bank Ltd.*

Particulars	Rs.	Rs.
<b>Shares acquired:</b>		
1. Original purchase - 100 shares		
2. Bonus shares - 50 shares		
3. Right shares – 25 shares (50% of 50 shares)		
Shares sold in the order they were first acquired, i.e., 100 original and 40 bonus shares		
<b>Long term capital gain on sale of 100 original shares (chargeable u/s 112A since STT paid on sale; STT not payable on purchase since acquisition before 1.10.2004, i.e., before STT law was enacted)</b>		
Full value of consideration @ 1,000 per share	1,00,000	
Less: Expenditure on transfer: STT paid not deductible	-	
Net consideration	1,00,000	
Less: Cost of acquisition (since equity shares referred u/s 112A acquired before 1.2.2018) = Higher of (a) cost (300, i.e., higher of 200 or FMV on 1.4.2001 of 300) or (b) lower of FMV on 31.1.2018 (600) or FVC (1,000) = 600 per share. Indexation not available u/s 112A.	(60,000)	
Long term capital gain u/s 112A	40,000	40,000
<b>Long term capital gain on sale of 40 bonus shares (chargeable u/s 112A since STT paid on sale; STT not payable on acquisition since issued by company)</b>		
Full value of consideration @ 1,000 per share	40,000	
Less: Expenditure on transfer: STT paid not deductible	-	
Net consideration	40,000	
Less: Cost of acquisition (since equity shares referred u/s 112A acquired before 1.2.2018) = Higher of (a) cost (nil) or (b) lower of FMV on 31.1.2018 (600) or FVC (1,000) = 600 per share. Indexation not available u/s 112A.	(24,000)	
Long term capital gain u/s 112A	16,000	16,000
<b>Total long term capital gain u/s 112A</b>		<b>56,000</b>
<b>Short term capital gain on renouncement of right entitlement</b>		
Full value of consideration: 25 shares @ 200 per share		5,000
Less: Cost of acquisition		Nil
<b>Short term capital gain</b>		<b>5,000</b>

*Note 9 – Capital gain on sale of shares of Jack and Jill Ltd. received under ESOP (chargeable u/s 112A since STT paid on sale (not payable on acquisition) and gain is long-term as shares held for more than 12 months)*

Particulars	Rs.
Full value of consideration = 1,000 shares @ 1,500 per share	15,00,000
Less: Expenditure on transfer: STT paid not deductible	-
Net consideration	15,00,000
Less: Cost of acquisition (since equity shares referred u/s 112A acquired before 1.2.2018) = Higher of (a) cost (500 being FMV on date of exercise of option) or (b) lower of FMV on 31.1.2018 (1,200 being highest quoted price on day immediately preceding 31.1.2018) or FVC (1,500) = 1,200 per share. Indexation not available u/s 112A.	(12,00,000)
<b>Long term capital gain u/s 112A</b>	<b>3,00,000</b>

*Note 10 – Capital gain on transfer of gold jewellery to friend*

Particulars	Rs.
Full value of consideration = FMV of asset transferred on date of transfer of Rs. 9 lakh (u/s 50D) since full value	10,00,000

of consideration is not ascertainable. However, AO can refer valuation to VO u/s 55A since he is of the opinion that FMV (9.5 lakh) exceeds value claimed by more than 15% or 25,000. Thus, FVC u/s 55A is value determined by VO.	
Less: Indexed cost of acquisition = COA (higher of cost or FMV on 1.4.2001) × (CII of 2021-22 / CII of 2001-02) = 2 lakh × (317/100).	(6,34,000)
<b>Long term capital gain</b>	<b>3,66,000</b>

*Note 11 – Capital gain on transfer of depreciable assets*

Particulars	Rs.
WDV of Block of machinery (15% depreciation) as on 1.4.2021	1,00,000
Add: Cost of Machine G acquired on 1.3.2022 and put to use on 15.3.2022	25,000
Less: Moneys payable for Machine D sold during the year (sale price)	(80,000)
Less: Moneys payable for Machine C destroyed during the year (insurance compensation)	(75,000)
WDV of Block for depreciation (cannot be negative)	Nil
<b>Depreciation: No depreciation since WDV is nil though block continues to exist. Capital gains arise.</b>	
<b>Computation of capital gain:</b>	
Full value of consideration	1,55,000
Less: Expenditure on transfer (insurance premium is not expenditure on transfer)	-
Net consideration	1,55,000
Less: WDV of Block as on 1.4.2021	(1,00,000)
Less: Cost of Machine G acquired during the year	(25,000)
<b>Short term capital gain</b>	<b>30,000</b>

*Note 12 – Capital gain on transfer of brand name and license*

Particulars	Rs.	Rs.
<b>Sale of self generated brand name of business</b>		
Full value of consideration	10,00,000	
Less: Expenditure on transfer	(10,000)	
Net consideration	9,90,000	
Less: Cost of acquisition	Nil	
Long term capital gain	9,90,000	9,90,000
<b>Sale of business license</b>		
Full value of consideration	5,00,000	
Less: Indexed cost of acquisition = COA × (CII of 2021-22 / CII of 2013-14) = 2 lakh × (317/220).	(2,88,182)	
Long term capital gain	2,11,818	2,11,818
<b>Total long term capital gain (since both assets held for more than 36 months)</b>		<b>12,01,818</b>

*Note 13 – Capital gain on slump sale of business division u/s 50B*

Particulars	Rs.
Full value of consideration: FMV of division as on 15.12.2021	50,00,000
Less: Cost of acquisition and improvement = Net worth of division = WDV of block of depreciable assets (10 lakh) + Book value of other assets (30 lakh, i.e., 35 lakh less revaluation of 5 lakh) – Value of liabilities as per books (5 lakh). Indexation not allowed u/s 50B	(35,00,000)
<b>Long term capital gain (since division held for more than 36 months)</b>	<b>15,00,000</b>

*Note 14 – Capital gain on sale of equity shares of Jayman Ltd. (transfer on amalgamation is exempt u/s 47(vii), subsequent sale is liable to capital gain, chargeable u/s 111A since shares are not held for more than 12 months (including period held in Cayman Ltd.) and STT is chargeable on sale)*

Particulars	Rs.
Full value of consideration: 2,000 shares @ 750 per share	15,00,000
Less: Expenditure on transfer (STT not deductible)	-
Net consideration	15,00,000
Less: Cost of acquisition (with reference to Cayman Ltd.) = 1,000 shares @ 1,000 per share	(10,00,000)
<b>Short term capital gain u/s 111A</b>	<b>5,00,000</b>

*Note 15 – Exemptions from capital gain*

<b>Particulars</b>	<b>Land</b>	<b>House</b>
Eligible exemptions:		
1. U/s 54EC – On long term capital gain on sale of land and house – Purchase of bonds of NHAI and RECL		
2. U/s 54 – On long term capital gain on sale of house – Purchase of house		
3. U/s 54F – On long term capital gain on sale of any asset (other than house) – Purchase of house		
<b>Long term capital gain</b>	<b>16,29,946</b>	<b>25,85,015</b>
<i>Less exemption u/s 54F:</i> Not advisable since Swarn already owns a residential house in Delhi and would own an extra house in Surat, other than the house in Hyderabad. On purchase of house in Surat, exemption u/s 54F would be forfeited and would be taxable as LTCG.	-	-
<i>Less exemption u/s 54EC:</i> Since 54EC exemption can be applied both for sale of land and house but 54 exemption can be applied only for sale of house, it is advisable to exhaust 54EC exemption first. <ul style="list-style-type: none"> <li>Exemption for RECL bonds: Not available for purchase of bonds on 15.8.2022 since not within 6 months from sale of land on 10.2.2022 and receipt of compensation for house on 25.10.2021 and 1.12.2021</li> <li>Exemption for NHAI bonds = 20 lakh being purchase of bonds on 15.3.2022 (i.e., within 6 months from sale of land on 10.2.2022 and receipt of compensation for house on 25.10.2021 and 1.12.2021)</li> </ul>	(16,29,946)	(3,70,054)
	Nil	22,14,961
<i>Less exemption u/s 54:</i> Cost of new asset = House in Hyderabad purchased within 2 years of receipt of compensation (10 lakh) + CGAS deposit (8 lakh), by the ROI due date	-	(18,00,000)
<b>Balance long term capital gain</b>	<b>Nil</b>	<b>4,14,961</b>