CAPITAL GAIN

Meaning of capital gain:

Any gain arising from the transfer of a capital asset during a previous year is called capital gain.

Types of capital gain:

 Normally capital gain is classified in to two different types. They are as follows.

 i) Short term capital gain

 ii) Long term capital gain

Meaning of long term capital gain:

 If any profit or gain arising from sale of capital assets after 36 months from the date of acquisition is known as long term capital gain.

Meaning of short term capital gain:

 If any gain arising from the transfer of capital assets within 36 months of acquisition is known as short term capital gain.

Meaning of capital assets:

 Capital asset is include property of any kind, whether fixed or circulating movable or immovable and tangible or intangible.

Types of capital assets:

1. Short-term capital assets
2. Long –term capital assets

Meaning of short –term capital assets:

 A Non- Financial capital asset held by an assessee for not more than 36 months immediately preceding the date of transfer is a short –term capital asset.

Meaning of long – term capital assets:

 Any non-financial capital asset held by an assessee for more than 36 months immediately preceding the date of transfer is a long – term capital asset.

Cost of acquisition [section 55(2)(b)]

 Cost of acquisition refers to the cost for which the asset was purchased by the assessee.

 Cost of improvement[section 55(1)(b)]

 Cost of improvement refers to any capital expenditure spent towards additions or improvements to the existing capital assets.

Indexed cost [section 48]

 Indexed cost refers to cost, which has been proportionately converted with the cost inflation index, it includes both cost of acquisition as well as cost improvement.

The indexed cost should be calculated as follows:

 cost acquisition

Indexed cost = \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ \* index of the year of sale

 Indexof the year of acquisition

 How to calculate indexed cost of improvement

 cost improvement

 Indexed cost improvement = \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ \* index of the year of sale

 Indexof the year of improvement

**Format for computation of short-term capital gain**

 **Rs . Rs.**

Full sale consideration \*\*\*

Less: expenses related to sale or transfer \*\*\*

 Net sale consideration \*\*\*

Less: cost of acquisition \*\*\*

Less: cost of improvement \*\*\* \*\*\*

 Short term capital gain \*\*\*

 \_\_

Less: Exemption \*\*\*

 Net short term capital gain \*\*\*

**Format for computation of Long-term capital gain:**

 **Rs . Rs.**

Sale consideration \*\*\*

Less: expenses related to sale or transfer \*\*\*

 Net sale consideration \*\*\*

Less: indexed cost of acquisition \*\*\*

Less: indexed cost of improvement \*\*\* \*\*\*

 Long term capital gain \*\*\*

 \_\_

Less: Exemption \*\*\*

 Net Long term capital gain \*\*\*

Cost inflation index:

 **Financial year Cost inflation index**

2001-2002 100

2002-03 105

2003-04 109

2004-05 113

2005-06 117

2006-07 122

2007-08 129

2008-09 137

2009-10 148

2010-11 167

2011-12 184

2012-13 200

2013-14 220

2014-15 240

2015-16 254

2016-17 264

2017-18 272

2018-19 280

2019-20 289

**Problem related to short term capital Gain:**

 **Mr. Raman furnishes following details of various transaction:**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **s.no** | **Nature of asset**  | **Date of purchase**  | **Date of sale**  | **Cost of purchase**  | **expenses on purchase Rs.** | **Sale value.** | **Exp.on sale Rs.** |
| **1.****2****3****4** | Shares of P.S.coUnlisted shares of R.M.coDebentures of X.ltdDebentures of Y.ltd | 1.2.20191.10.20191.12.20191.6.2019 | 4.10.201931.12.20195.3.201931.12.2019 | 2000040,00050,00060,000 | 200300-- | 40,00070,00040,00080,000 | 500600200500 |

**Solution:**

 **Computation of short term capital gain of Mr. Raman**

|  |  |  |
| --- | --- | --- |
| **Particulars**  |  **P.Y.2018-19** | **A.Y.2018-19** |
| **Shares of** **P.S.co** | **Shares of** **R.M.co** | **Debentures of X.ltd** | **Debentures of Y.ltd** |
| Sale ValueLess: exp on salesNet sale considerationLess:cost of acquisitionShort term capital gain | **40,000** 500 | **70,000** 600 | **40,000** 200 | **80,000** 500 |
| **39,500**20,000 | **69,400**40,300 | **39,800**50,000 | **79,500**60,000 |
| **19,300** | **29,100** | **(-)10,200** | **19,500** |

**Problem related to Long term capital Gain of financial assets**

 **Mr. Raman furnishes following details of various transaction:**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **s.no** | **Nature of asset**  | **Date of acquisition** | **Date of sale**  | **Cost** rs | **FMV ON 1-4-2001** | **Sale value.** |
| **1.****2****3****4**56 | Shares of P.S.coDebentures of X.ltdDebentures of Y.ltdHouse propertyLandJewellery | 1.7.20001.08.20001.10.20021.7.721.1.20081.8.2010 | 4.10.20195.3.201931.12.20191.2.20191.3.20184.2.2018 | 1000030,0004,00,00010,00,00010,00,00040,000 | -60000---- | 20000050,0005,00,0001,40,00,00040,00,00050,000 |

**Solution:**

 **Computation of long term capital gain of financial assets**

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Shares of** **P.S.co** | **Debentures of X.ltd** | **Debentures of Y.ltd** |
| Sale ValueLess: exp & saleLess: indexed cost of acquisitionlong term capital gain/loss | **2,00,000** - | **50,000**- | **5,00,000**- |
| **2,00,000** 28,900 | **50,000**60,000 | **5,00,000**4,00,000 |
| **171100** | **(-)10,000** | **1,00,000** |

 **Computation of long term capital gain of non-financial assets**

|  |  |  |  |
| --- | --- | --- | --- |
|  | **House property**  | **plot** | **jewellery** |
| Sale ValueLess: indexed cost of acquisitionlong term capital gain/loss | **1,40,00,000** 28,90,000 | **40,00,000**22,40,310 | **50,000**69,222 |
| **1,11,10,000**   | **17,59,690** | **(-)19222** |