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KNOW ALL ABOUT CAPITAL GAINS

Find out how to distinguish between short-term and long-term capital assets, calculate the gain in each case and the taxation that these gains are subjected to, says Riju Mehta.

CAPITAL GAIN

The profit resulting from sale or transfer of a capital asset is called capital gain. There is no gain if the asset is inherited.

CAPITAL ASSET

Any property, movable or immovable, that is held by a person is termed as asset. This can include land, building, house, securities (stocks, mutual funds, bonds, debentures), jewellery, vehicles, patents, trademarks and machinery.

What is not a capital asset...

- a** Stock in trade, consumable stores or raw material for business or profession.
- b** Personal effects, such as movable property (excluding jewellery, archaeological collections, drawings, paintings, sculptures or work of art), for personal use.
- c** Agricultural land, except land situated within or in area up to 8 km, from a municipality, municipal corporation, notified area committee, town committee or a cantonment board with population of at least 10,000.
- d** 6.5% gold bonds, national defence gold bonds and special bearer bonds.
- e** Gold deposit bonds under the Gold Deposit Scheme 1999.

Short-term capital asset

An asset that is held for 36 months or less. Some assets are considered short-term if held for less than 12 months. These include equity or preference shares in a company listed on a recognised stock exchange in India, securities (debentures, bonds, government securities), equity oriented mutual funds, zero coupon bonds.

Long-term capital asset

An asset that is held for more than 36 months. However, from 2017-18, the holding period has been reduced to 24 months in the case of immovable property. If the specified assets (mentioned under short-term capital asset) are held for more than 12 months, they are considered long-term assets.

TYPES OF CAPITAL ASSETS

The holding period of an asset determines whether it is considered short-term or long-term capital asset.

If the asset is received as inheritance, gift or succession, the period for which the asset was held by the previous owner is also included while deciding if it's a short term or a long-term asset.

CALCULATING LONG-TERM & SHORT-TERM CAPITAL GAINS

Short-term capital gain

The gain from transfer of a short-term capital asset. The gain on a depreciable asset is always taxed as short-term capital gain.

For instance, if Mr A bought gold for ₹2.5 lakh in 2015 and sold it for ₹2.75 lakh in 2016, his capital gain will be:

STCG	Value (₹)
Full value of consideration	2.75 lakh
Less: Expenditure incurred*	5,000
Less: Cost of acquisition	2.5 lakh
Less: Cost of improvement	Nil
Less: Tax exemption under Sections 54, 54F, 54EC, 54B#	Nil
Short-term capital gain	20,000

Long-term capital gain

The gain arising from transfer of long-term capital asset.

For instance, if Mr B bought a house for ₹10 lakh in February 1995 and sold it for ₹50.1 lakh in January 2016, his capital gain will be:

LTCG	Value (₹)
Full value of consideration	50.1 lakh
Less: Expenditure incurred*	10,000
Less: Indexed cost of acquisition**	38.5 lakh
Less: Cost of improvement	1 lakh
Less: Tax exemption under Sections 54, 54F, 54EC, 54B#	Nil
Long-term capital gain	10.5 lakh

* Expenditure incurred

For sale of house
From sale price, deduct brokerage or commission paid, cost of stamp paper and travelling expenses.

For sale of shares
deduct broker's commission. Securities transaction tax cannot be deducted.

For sale of jewellery
broker's services can be deducted.

** Calculating indexed cost of acquisition

Indexed cost of acquisition = $\frac{\text{Actual cost of acquisition} \times \text{Cost Inflation Index (CII) of the year in which asset was sold}}{\text{Cost Inflation Index (CII) of the year in which asset was purchased}}$

Indexed cost of improvement = $\frac{\text{Cost of improvement} \times \text{CII of the year in which improvement took place}}{\text{CII of the year in which asset was sold}}$

For Cost Inflation Index (CII) figures, check <http://www.incometaxindia.gov.in/charts/2012/20table/cost-inflation-index.htm>

Tax exemption under Sections 54, 54F, 54EC, 54B

Section 54
When capital gain from the sale of house is reinvested to buy another house.

Section 54EC
When capital gain from sale of first property is reinvested in specific bonds.

Section 54B
When STCG or LTCG is from transfer of agricultural land, the amount, investment in new asset or capital gain, whichever is lower, is reinvested in a new agricultural land within two years from the date of transfer, it is exempt.

Section 54F
When capital gain from sale of a long-term asset other than a house, along with the entire sale proceeds, is invested in a new house.

TAXATION

Short-term capital gain

If securities transaction tax is not applicable
It is added to income and taxed as per the tax slab.

Equity funds
15%

Debt funds
At individual's tax slab rate

Capital gain taxation for mutual funds

Short-term gain → **Long-term gain**

Long-term capital gain

This is taxed at 20%, along with surcharge and cess.

Equity & balanced funds
Nil

Debt funds
20% with indexation