CAPITAL GAINS.

Lec. #5

[25/07/2015.]

Transfer of capital assets in the previous year.

Types of transfer.

1. Sale, exchange and relinquishment.
2. Extinguishment.
3. Conversion of asset into stock in trade.
4. Compulsary acquisition.
5. Partnership asset.
6. Part performance.
7. Co-op socities [Allotment of flat in co-op]
8. Zero Coupon Bonds.

Long-Term

Assets more than 36 months old are Long Term assets.

Following assets are Long Term if they are more than 12 months old.

1. Listed shares - equity / preferential
2. Listed Securities.
3. Units of UTI - Listed or Not Listed
4. Equity Oriented Mutual Funds [EOMF]
5. Zero Coupon Bonds.

Computation of Capital Gains:-

I) Short Term

Selling Price

Less: Transfer Expenses.

Net Consideration

(14)

Less: Cost of Acquisition.
Less: Cost of Improvement
Short Term Capital Gains: ______

Imp:- Asset acquired by means of Gift, will or inherit

Eg: Father Bought → 1.4.2000
Gifts to son → 1.5.2005
Asset sold → 1.7.2005.

Then, the asset sold is a long term asset, since the asset was purchased in 2000 and passed to son in 2005 with no monetary exchange
∴ Period of Holding [POH] of previous owner will be considered.

Computation of Long Term Capital Gains:

1 Selling Price
2 Less: Transfer Expenses
3 Net consideration
4 Less: Indexed cost of Acquisition
5 Less: " " " Improvement.
6 Capital Gains ______

Indexation :-

$$\frac{\text{Cost of Acquisition} \times \text{CII of year of Transfer}}{\text{CII of year of acquisition.}}$$

CII → Cost of Inflation Index.
Base of CII was 1/4/1981.

7. Less: Exemptions.
8. Taxable Long Term Capital Gains. ______

No indexation for:
i Short Term Assets.
ii Bonds and Debentures.
iii Shares & Debentures of an Indian Company sold by Non Resident.

Situation 2 :- Asset acquired before 1/4/81 and sold after 1/4/81, then there is a choice of: Actual cost of acquisition or Fmv {whichever is ↑}

Eg:-

Acquisition on	31.5.77	→	1,00,000
Improvement on	30.6.80	→	20,000
Fmv on	1.4.81	→	1,70,000.

∴ Fmv is considered.

When Fmv is considered as the cost of acquisition then the cost of improvement will be ignored when such an improvement is done before 1/4/81.

Illustration [Slide 20].

Purchase of house property for Rs. 1,06,000 on May, 15, 1963. The following expenses are incurred by him for additions/alterations

a. Cost of construction of 1^{st} floor in 72-73 = 1,35,000
b. Cost of construction of 2^{nd} floor in 83-84 = 3,10,000
c. Reconstruction in 92-93 = 2,50,000

Fmv on April, 1, 1989 = Rs. 450000.
Sold on 10, August 2011 for Rs. 80,00,000 [add:

Transfer Exp. Rs. 50,000]. Compute Capital Gain. for AY 2012-13.

F.Y.	C I I.
81-82	100
83-84	116
92-93	223
11-12	785

Sol :-

Capital Asset : House Property.
P. O. H : From May 15, 1963 till August 10, 2011 [L.T.

	Selling Price		80,00,000
Less:	Transfer Expenses	50,000	
	∴ Net Consideration		79,50,000
(WN1)	Less: Indexed Cost of Acquisition:	35,32,500	
	Improvement	Nil.	
	2nd floor	20,97,845	
	Reconstruction	8,80,045	
		65,10,390	

∴ Taxable Long Term Capital Gains = 14,39,610.

Working Notes :-

1) Cost of Acquisition

$$\frac{4,50,000 \times 785}{100} = 35,32,500.$$

{CII of 2011-12; CII of 81-82}

2) Cost of Improvement:

i) 1st improvement → ignore.

ii) 2nd improvement → $3,10,000 \times \frac{785}{\cancel{100}\ 116} = 20,97,845$

iii) Reconstruction → $2,50,000 \times \frac{785}{223} = 8,80,045.$

∵ FMV is considered as cost of acquisition 1st improvement is ignored.

Situation 3 :- Asset acquired on previous year after 01/04/81 and also by assessee after 1/4/81

∴ P.O.H. and cost of acquisition will be considered from the dates of previous year.

Illustration. { Slide 24 }.

X owns following assets:

	Non-Listed shares	H.P.
Cost of Acquisition	50,000 Rs.	70,000 Rs.
Date of -"-	10/03/92	10/03/09.

These are gifted to S on 01/04/09. On July 7, 2011 they are transferred by S for consideration of Rs. 4,50,500 { shares = 2,15,700 & H.P. = 2,34,800 }.

Compute taxable capital gains in case of S for 2012-13.

CII : 91-92 = 199

08 - 09 = 582

09 - 10 = 632

11 - 12 785.

Sol :-

Capital Asset : Non - Listed shares.
P. O. H : 10/03/92 to 7/7/11 (LT)

		₹
Sale Consideration		2,15,000
Less: Indexed COA : $50,000 \times \frac{785}{199}$	1,97,236	
∴ Long Term Capital Gain		18,464.

Capital Asset : House Property.
P. O. H : 10/03/2009 to 7/7/11 (ST)

Sale Consideration	2,34,800
Less: COA	70,000
Short Term Capital Gain	1,64,800

Situation 5 : Sale of Business Fixed Assets.

Eg : 1)

Opening WDV	(5 assets)	10,00,000
Add: Purchase	(1 asset)	1,00,000
Less: Sales	(2 assets)	4,00,000
Closing WDV	(4 assets)	7,00,000.

2)

WDV	(5)	10,00,000	
Add:	(1)	1,00,000	11,00,000
Less: Sale	(6)		13,00,000
S. T. C. G.			→ (2,00,000)

3)

WDV	(5)	10,00,000	
Add: Purc	(1)	1,00,000	11,00,000
Sales	(6)		8,00,000
S. T. capital Loss.			3,00,000

Ascertaining full value of sale consideration :-

If stamp duty is higher than sale value then it will be considered.

Eg. 31.7.10 → Assessee

Sale	80
Less: COA	30
	50

31.3.12 → ITO

Sale	100
Less: COA	30
	70

Jan 2015 → Appeal

Sale	90
COA	30
	60

∴ Refund of 10 to assessee.

Sale	SDV	Valuation officer
100	120	110 //
100	120 //	130
100 //	120	90

Lec-6. 28/7/2015.

Illustration {Slide 39}

1) A purchased 1000 shares of X co. Ltd on 10-6-87 fo Rs. 45,000. He was allotted bonus shares of the said company on 10-12-2005. He sold the entire lot o 2000 shares on 07-04-2011. and STT paid is NIL. The net sale proceeds received Rs. 2,40,000 Compute CG for AY 2012-13.

FY	CII
87-88	150
11-12	785.

Sol :-

Asset : Original Shares
Bonus shares

P.O.H : Original → 10.6.87 to 7.4.11 (LT)
Bonus → 10.12.05 to 7.4.11 (LT)

	Sale consideration	2,40,000
Less:	Indexed COA → $450000 \times \frac{785}{100}$	2,35,000
	COA of Bonus Shares	0
	L.T.C.G.	4,500

2) Illustration - 2 {Slide 45}

Mr. R holds 1000 shares in ABC Ltd acquired in 81-82 at cost of Rs. 25,000. He has been offered right shares by the company in August 2011 at 40/share, in the ratio of 2 for every 5 held. He retains 50% of the shares and renounces balance right shares in favour of Mr. Q for Rs. 10 per share in Sept. 2011. All the shares are sold by Mr. R for Rs. 200 per share in Jan 2012 and Mr. Q sells his shares in Dec. 2011 at Rs. 130 per share. Compute C.G. taxable for Mr. Q and Mr. R.

FY	CII
81-82	100
11-12	785

Sol :- Mr. R.

Asset :- Original Shares.
P.O.H : 1981-82 to Jan 2012 → (LT)

	Sale Consideration :	1000 × 200	2,00,000.
Less:	Indexed COA =	$25000 \times \frac{785}{100}$	1,96,250
	Taxable L.T.C.G.		3,750.

Asset : Right shares.
P.O.H : Aug. 2011 to Jan 2012 → (ST)

	Sale Consideration :	200 × 200	40,000
Less:	COA	200 × 40	8000
	∴ S.T.C.G.		32,000

Asset : 200 Right shares renounced to Mr. Q.
POH : Aug 2011 - Sept 2011 → (ST).

	Sa. Consideration →	200 × 10	2,000
Le:	COA →		0
	S.T.C.G.		2,000

∴ Total Capital Gains.
Long Term Capital Gains — Rs. 3750.
Short Term Capital Gains
= 32000 + 2000 = Rs. 34000.

Mr Q

Asset: Renounced Shares from Mr. R.
P.O.H: Sept 2011 - Dec 2011 → (ST).

Sale Consideration → 200 X 130 — 26,000
Less.
COA → Paid to R → 200 X 10 = 2000
Paid to company → 200 X 40 = 8000 — 10,000

S.T.C.G. — 16,000

Exemptions Under Capital Gains.
Section 54, Section 54 EC, Section 54 F
No exemptions for short Term capital Gains.

Sec. 54 → Sale of Residential House Property
Entitlement → Individual & HUF
Buy or construct another House Property.
Buy → 1 year before or 2 years after] ⇒ Sale of House prop.
Construct → 3 years after

Amount of Exemption :-
Amount invested or Capital Gain, whichever is lower.
Hold new house property for 3 years from the date you become the owner.

If new house property sold before 3 years then
COA = Actual COA - Exempt on capital Gains.

Eg:- Original House

Sold on	1.4.2010	Rs. 10,00,000
LTCG		Rs. 6,00,000

New House

Bought on	1.6.2011	Rs. 7,00,000
C.G. Exemption [U/s 54]		Rs. 6,00,000

New House

Sold on	1.7.2012.	Rs. 11,00,000
∴ COA = 7,00,000 - 6,00,000		Rs. 100,000
∴ S.T.C.G.		10,00,000

{∵ COA = Actual COA - Exemption
= 700000 - 600000 = 1,00,000}.

Sec. 54 EC. → Any Long Term Asset.
Entitlement : Any Assessee.

Within 6 months of selling the asset, purchase certain bonds [REC & NHAI]
REC → Rural Electrification Corporation
NHAI → National Highway Authority of India.

Amount of Exemption.
Capital Gains or Subscription, whichever is lower.
Hold the bonds for 3 years i.e. cannot sell or take a loan against bonds

C.G. on sale of bonds = Actual C.G + Exemption claimed Earlier.

Eg:- Sold Jewellery on 01/01/13 Rs. 5,00,000
L.T.C.G. on Sale 3,00,000

Invest upto 30.6.2013 in REC / NHAI 4,00,000

∴ Capital Gain Exemption = 3,00,000
Sold on. 1/8/13 5,00,000

C.G. on sale of REC:-

S.P	5,00,000	
COA	4,00,000	1,00,000
Add: LTCG Claimed Earlier [u/s 54EC]		3,00,000
~~COA~~ →		4,00,000
∴ S.T.C.G.		1,00,000

Max. Investment upto Rs. 50 Lacs.

$\boxed{\text{Sec. 54F}}$: All assets other than Residential H.P.
Entitlement: Individual & HUF

Amount of Exemption

Eg:-

Sale Consideration	Buy House.	C.G.	Exemption
10,00,000	10,00,000	3,00,000	3,00,000
10,00,000	12,00,000	3,00,000	3,00,000
10,00,000	2,00,000	3,00,000	60,000

$\therefore \frac{200000}{1000000} \times 300000 = 60,000$

1) Hold new property for 3 years.
If held for less than 3 years.
C.G. → Actual CG + Exemption claimed earlier
2) Should have 0 or 1 House property.
3) Within the period prescribed, should buy or construct only 1 House property in India.

Lecture # 7 | 04/08/2015.

I	Shares	EOMF	LTCG	STCG
	STT Paid (Sec. 10 (38))		Nil	15% + SC + cess

LTCG Nil → When shares & EOMF and STT Paid.
Rs. 250000 → No Tax.

Eg:- Salaries → 2,00,000
STCG → 1,00,000
3,00,000

∴ Balance = 3,00,000 − 2,50,000
= 50,000
∴ Tax @ 15%.

When Salary = 12,00,000
STCG = 1,00,000
13,00,000 — 12,00,000 @ 30%. ~~100,000 @ 15%.~~

Note: On 2.5L Nil
2.5 − 5.0 L @ 10%. 25,000
5L − 10 L @ 20%. 1,00,000
2L @ 30%. 60,000
1,85,000

on STCG @ 15% → 15,000

2,00,000

II. Listed Securities [Bonds, Govt. securities]
Shares, EOMF, UTI units, zero coupon Bonds.

LTCG: 10% without indexation OR
20% with indexation + SC + cess, whichever
is lower.
STCG : Normal slabs.

INCOME FROM PROFITS OR GAINS FROM BUSINESS OR PROFESSION

Business :- Trading, Manufacturing, commerce or adventure or concern in the nature of trade, commerce or manufacture.

Imp :-
Dist-inction { Commercial Profits :- As per books of a/c or P&L A/c
Taxable Profits

P&L A/c.

Opening Stock	1,00,000	Sales	7,00,00
Purchases	12,00,000	Interest	2,00,00
Exp 1	50,000	Closing stock	6,00,0
Exp 2	25,000		
Depreciation	120000		
Profit	5000		
	15,00,000		15,00,000