

3. CAPITAL GAINS

ASSIGNMENT SOLUTIONS

PROBLEM NO.1

Answer provided in the material itself

PROBLEM NO.2

Computation of Capital Gains of Mr. B for the A.Y.2019-20

Particulars	Rs.
Sale consideration	15,00,000
Less: Expenses on transfer i.e. Brokerage paid	50,000
Net consideration	14,50,000
Less: Indexed cost of acquisition (Rs.5,00,000 x 280/109)	12,84,404
Long term capital Loss	1,65,596

Note: For the purpose of computing capital gains, the holding period is considered from the date of purchase of convertible debentures i.e., August 2003 - August 2018.

PROBLEM NO.3

Section 10(37) exempts the capital gains arising to an individual or a Hindu Undivided Family from transfer of agricultural land by way of compulsory acquisition, or a transfer, the consideration for which is determined or approved by the RBI or the Central Government.

Such exemption is available where the compensation or the enhanced compensation or consideration, as the case may be, is received on or after 1st April, 2004 and the land has been used for agricultural purposes during the preceding two years by such individual or a parent of his or by such Hindu undivided family.

Since all the above conditions are fulfilled in this case, Cheeku is entitled to exemption under section 10(37) of the entire capital gains arising on sale of agricultural land.

PROBLEM NO.4

Computation of total income and tax liability of Mr. Mithun for A.Y. 2019-20

Particulars	Rs.
Short term capital gains on sale of bonus shares:	
Gross sale consideration (100 x Rs.4,000)	4,00,000
Less: Brokerage @ 1%	4,000
Net sale consideration	3,96,000
Less: Cost of acquisition of bonus shares	NIL
Short-Term Capital Gains (I)	3,96,000
Long term Capital gain on Sale of shares issued on 01/04/2018 u/s 112A:	
Gross Sale Consideration (100 x Rs.4,000)	4,00,000
Less: Brokerage @ 1%	4,000
Net Sale Consideration	3,96,000
Less: Cost of Acquisition of such shares (100*2000)(Note 2)	(2,00,000)
Long-Term Capital Gains (II)	1,93,000
Total Income (I + II)	5,92,000
Total Income (Rounded off)	5,62,490
Tax Liability:	
Short-Term Capital Gain 15% of (Rs.3,96,000 - Rs.3,00,000)	14,400

Long-Term Capital Gain @ 10% u/s 112A over & above Rs.1,00,000(i.e., on Rs.96,000)	9,600
Total	24,000
Add: Health and Education cess @ 4%	960
Tax payable	24,960

Notes:

- Long-term capital gains exceeding Rs.1 lakh on sale of original shares through a recognized stock exchange (STT paid at the time of acquisition and sale) is taxable under section 112A at a concessional rate of 10%, without indexation benefit.
- Cost of acquisition of such equity shares acquired before 1.2.2018 is higher of
 - Cost of acquisition i.e., Rs.1,000 per share and
 - lower of
 - Fair market value of such asset i.e., Rs.2,000 per share and
 - Full value of consideration i.e., Rs.4,000 per share.
 So, the cost of acquisition of original share is Rs.2,000 per share.
- Since bonus shares are held for less than 12 months before sale, the gain arising there from is a short term capital gain chargeable to tax @ 15% as per section 111A after adjusting the unexhausted basic exemption limit. Since Mr. Mithun is over 60 years of age, he is entitled for a higher basic exemption limit of Rs. 3,00,000 for A.Y. 2019-20.
- Dividend income is exempt under section 10(34).
- Brokerage paid is allowable as deduction since it is an expenditure incurred wholly and exclusively in connection with the transfer. Hence, it qualifies for deduction under section 48(i).
- Cost of bonus shares will be Nil as such shares are allotted after 1.04.2001.
- Securities transaction tax is not allowable as deduction.

PROBLEM NO.5**Computation of business loss**

Particulars	Amount (Rs.)
Insurance compensation	5,15,000
Less: value of goods	7,30,000
PGBP Loss	2,15,000

Computation of capital loss for loss of machinery

Particulars	Amount (Rs.)
Full value of consideration	8,07,000
Less: WDV of the machinery	12,35,000
Short term capital loss	4,28,000

Computation capital loss for loss for Jewellery

Particulars	Amount (Rs.)
Full value of consideration	2,05,000
Less: Indexed cost of acquisition (1,45,000 x 280/117)	3,47,009
Long term capital loss	1,42,009

PROBLEM NO. 6

Since car is a personal asset, conversion or treatment of the same as the stock-in-trade of his business will not be trapped by the provisions of section 45(2). Hence A is not liable to capital gains tax.

PROBLEM NO.7

a) Computation of depreciation for the A.Y. 2019 - 20:

Particulars	Amount (Rs.)
Opening WDV as on 01.04.2018	6,50,000
Add: additions as on 30.11.2018	6,50,000
Less: sale of asset on 10.06.2018	9,00,000
Depreciable value	4,00,000
Less: Depreciation (See note)	30,000
Closing WDV as on 31.03.2019	3,70,000

Note: Since the value of the block as on 31.03.2019 comprises of a new asset which has been put to use for less than 180 days, depreciation is restricted to 50% of the prescribed percentage of 15% i.e. depreciation is restricted to 7½%. Therefore, the depreciation allowable for the year is Rs.30,000, being 7½ % of Rs. 4,00,000.

b) Computation of capital gain for the A.Y. 2019 - 20

Particulars	Amount (Rs.)
Sale proceeds	14,00,000
Less: opening WDV + additions	13,00,000
Short term capital gain	1,00,000

Note: There is no depreciable value if the capital asset is sold for Rs.14,00,000. Then sec.50 is applicable.

PROBLEM NO.8

a) Assessing officer is not correct. Since the value determined by the valuation officer is more than the value adopted by the assessing authority as per Sec. 50C.

b) Computation of capital gain of Mr. X for the A.Y. 2019-20

Particulars	Amount (Rs.)
Full value of consideration	
Sale proceeds or stamp duty value whichever is higher	12,50,000
Less: Expenses in connection with transfer	Nil
Net consideration	12,50,000
Less: Indexed cost of acquisition (2,25,000 x 280/148)	(4,25,676)
Long term capital gain	8,24,324

PROBLEM NO.9

Computation of capital gains of M/s. Bala kumari for the A.Y. 2019-20

Particulars	Amount (Rs.)
Deemed sale consideration as per section 50C	13,00,000
Less: Indexed cost of acquisition (Rs 1,50,000 x 280/122)	3,44,262
Taxable long term capital gain	9,55,738

Note: According to section 50C(1), where the consideration received or accruing as a result of the transfer of land or building or both is less than the value adopted or assessed or assessable by the State Stamp Valuation Authority for the purpose of payment of stamp duty in respect of such transfer, then the value so adopted or assessed or assessable by the State Stamp Valuation Authority shall be deemed to be the full value of the consideration received or accruing as a result of the transfer.

In this case, since the consideration of Rs.7,00,000 received on transfer of land is less than the value of Rs 13,00,000 fixed by the State Stamp Valuation Authority, the value adopted by the State Stamp Valuation Authority is deemed to be the full value of consideration and capital gains is calculated accordingly.

PROBLEM NO.10**Computation of Capital gains in the hands of Mr. X for the A.Y. 2019-20**

Particulars	Amount (Rs.)
Sale proceeds	52,00,000
Less: Indexed cost of acquisition [Note 1]	32,20,000
Indexed cost of improvement [Note 2]	-
Long term capital gain	19,80,000

Note 1: Computation of Indexed Cost of Acquisition:

Cost of acquisition	11,90,000
(Higher of fair market value as on April 1, 2001 and the actual cost of acquisition)	
Less: Advance taken and forfeited	<u>40,000</u>
Cost for the purposes of Indexation	<u>11,50,000</u>
Indexed cost of acquisition (Rs.11,50,000 x 280/100)	32,20,000

Note 2: Any improvement cost incurred prior to 01.04.2001 is to be ignored when fair market value as on 01.04.2001 is taken into consideration.

PROBLEM NO. 11**Computation of Net taxable capital gains of Smt. Megha for the A.Y. 2019-20**

Particulars	Rs.
Sale consideration	16,00,000
Less: Indexed cost of acquisition (See Working note below)	<u>7,76,642</u>
Long term capital gain	8,23,358
Less: Exemption under section 54 (See Note 1 below)	<u>3,00,000</u>
Taxable Long term capital gain	<u>5,23,358</u>

WORKING NOTE:

Indexed cost of acquisition	Rs.
Purchase price	4,50,000
Less: Amount forfeited (See Note 2 below)	<u>70,000</u>
Cost of acquisition	<u>3,80,000</u>
Indexed cost of acquisition Rs. 3,80,000 X 280/137	7,76,642

Notes:

- Exemption under section 54 is available if one new residential house is purchased within two years from the date of transfer of existing residential house, which is a long-term capital asset. Since the cost of new residential house is less than the long-term capital gains, capital gains to the extent of cost of new house, i.e., Rs. 3 lakh, is exempt under section 54.
- As per section 51, any advance received and retained by the assessee on or before 01.04.2014, as a result of earlier negotiations for sale of the asset, shall be deducted from the purchase price for computing the cost of acquisition of the asset.

PROBLEM NO. 12

The house is sold before 24 months from the date of purchase. Hence, the house is a short term capital asset and no benefit of indexation would be available.

Particulars	Rs.
Sale consideration	20,00,000
Less: Cost of acquisition	10,00,000
Cost of improvement	2,00,000
Short term capital gain	8,00,000

Note:

1. The exemption of capital gains under section 54 is available only in case of long-term capital asset. As the house is short-term capital asset, Mr. Cee cannot claim exemption under section 54. Thus, the amount of taxable short-term capital gains is Rs 8,00,000.

Students are advised to change the question containing the dates 20th July 2014, August 2014 as 20th July 2016 and August 2016, respectively.

PROBLEM NO. 13**Computation of capital gains in the hands of PQR Ltd. for the A.Y.2019-20**

Particulars	Rs.
Sale proceeds (Compensation received)	12,00,000
Less: Indexed cost of acquisition [Rs. 4,00,000 × 280/113]	<u>9,91,150</u>
	2,08,850
Less: Exemption under section 54D (Cost of acquisition of new undertaking)	2,00,000
Taxable Long Term Capital Gain	8,850

PROBLEM NO. 14**Computation of Capital Gains of Ms. Anshu for the A.Y. 2019-20**

Particulars	Rs.	Rs.
Full value of consideration [See Notes (i) & (ii) below]		25,00,000
Less: Indexed Cost of acquisition [See Note (iii) below]		
Indexed Cost of land (Rs 1,10,000 × 280/100)	3,08,000	
Indexed Cost of building (Rs 3,20,000 × 280/100)	<u>8,22,018</u>	<u>11,30,018</u>
Long-term capital gain		13,69,982
Less: Brought forward short-term capital loss set off [See Note (iv) below]		<u>1,50,000</u>
Taxable capital gains (Amount to be invested in NHAI bonds to get full exemption for tax on capital gains) [See Note (v) below]		12,19,982

Notes:

- i) As per section 50C (1), where the consideration received or accruing as a result of transfer of a capital asset, being land or building or both, is less than the value adopted by the Stamp Valuation Authority for the purpose of payment of stamp duty, such value adopted by the Stamp Valuation Authority shall be deemed to be the full value of the consideration received or accruing as a result of such transfer. Accordingly, full value of consideration would be Rs 25 lacs in this case.
- ii) As per section 50C (3), where the valuation is referred by the Assessing Officer to Valuation Officer and the value ascertained by such Valuation Officer exceeds the value adopted by the Stamp Valuation Authority for the purpose of payment of stamp duty, the value adopted by the Stamp Valuation Authority shall be taken as the full value of the consideration received or accruing as a result of the transfer. Since the value ascertained by the Valuation Officer (i.e. Rs 27 lakhs), is higher than the value adopted by the Stamp Valuation Authority (i.e. Rs. 25 lakhs), the full value of consideration in this case would be Rs. 25 lakhs.
- iii) Since the cost of land acquired by Anshu on 01.04.2001 is not given in the question, the fair market value as on 01.4.2001 is taken as the cost of acquisition. Indexation benefit is available since land and building are both long-term capital assets, as they are held by Anshu for more than 24 months.
- iv) As per section 74, brought forward unabsorbed short term capital loss can be set off against any capital gains, short term or long term, for 8 assessment years immediately succeeding the assessment year for which the loss was first computed. Therefore, short term capital loss on sale of shares during the F.Y.2012-13 can be set-off against the current year long-term capital gains on sale of land and building.

As per section 54EC, an assessee can avail exemption in respect of long-term capital gains, if such capital gains are invested in the bonds issued by the NHAI redeemable after 3 years. Such investment is required to be made within a period of 6 months from the date of transfer of the asset. The exemption shall be the amount of capital gains or the amount of such investment made, whichever is less. Therefore, in this case, if Anshu invests the entire capital gains in bonds of NHAI, she can get full exemption from tax on capital gains.

PROBLEM NO.15a) **Computation of Capital Gains Chargeable to tax for A.Y. 2019-20**

Particulars	Rs.	Rs.
Sale consideration (i.e. Stamp Duty Value) (Note 1)		80,00,000
Less: Indexed Cost of Acquisition (Rs. 10,00,000 X 280/100)	28,00,000	
Indexed Cost of Improvement (Rs. 2,00,000 X 280/117)	<u>4,78,632</u>	<u>32,78,632</u>
		47,21,368
Less: Exemption under section 54 (Note 2)		<u>25,00,000</u>
Taxable Capital Gains		<u>22,21,368</u>

Notes:

- As per the provisions of section 50C, in case the stamp duty value adopted by the stamp valuation authority is higher than the actual sale consideration, the stamp duty value shall be deemed as the full value of consideration.
- Exemption under section 54 is available if a new residential house is purchased within one year before or two years after the date of transfer. Since the cost of new residential house is less than the capital gain, capital gain to the extent of cost of new asset is exempt under section 54.
- Exemption under section 54EC is available in respect of investment in bonds of National Highways Authority of India only if the investment is made within a period of six months after the date of such transfer. In this case, since the investment is made after six months, exemption under section 54EC would not be available.
 - If the new asset purchased by the assessee on the basis of which exemption under section 54 is claimed, is transferred within 3 years from the date of its acquisition, then for computing the taxable short-term capital gain on such transfer, the cost of acquisition of such asset shall be taken as Nil.

b) **Computation of Capital Gains Chargeable to tax for A.Y. 2020-21**

Particulars	Rs.
Sale consideration	40,00,000
Less: Cost of acquisition	Nil
Short-term capital gains	<u>40,00,000</u>

PROBLEM NO. 16**Computation of total income of Mr. Kumar for the A.Y.2019-20**

Particulars	Rs.	Rs.
Capital Gains:		
Sale price of the residential house	24,00,000	
Valuation as per Stamp Valuation authority (Value to be taken is the higher of actual sale price or valuation adopted for stamp duty purpose as per section 50C)	43,00,000	
Therefore, Consideration for the purpose of Capital Gains	43,00,000	
Less: Indexed Cost of Acquisition (Rs.5,00,000 x 280/113)	<u>12,38,938</u>	
	30,61,062	
Less: Exemption under section 54	Rs. 10,00,000	
Exemption under section 54EC	Rs. <u>5,00,000</u>	<u>15,00,000</u>
Long-term capital gains		15,61,062
Income from other sources:		
Interest on bank deposits		<u>32,000</u>
Gross Total Income		<u>15,93,062</u>
Less: Deduction under Chapter VI-A Section 80C - Deposit in PPF (restricted to Rs. 32,000)		<u>32,000</u>
Total Income		<u>15,61,062</u>

Computation of Tax liability of Mr. Kumar for A.Y. 2019-20

Tax on Rs 13,11,062 @ 20% [i.e. long term capital gain less basic exemption limit (Rs.15,61,062 - Rs 2,50,000)]	2,12,212
Add: Health and Education Cess @ 4%	8,488
Tax Payable	2,20,700

Notes:

1. The basic exemption limit of Rs. 2,50,000 can be adjusted against long term capital gains.

Deduction under section 80C should be restricted to gross total income excluding long term capital gain.

PROBLEM NO. 17

Computation of taxable capital gains for A.Y. 2019-20

Particulars	Rs.
Gross Consideration	11,50,000
Less: Expenses on transfer	7,000
Net consideration	11,43,000
Less: Indexed cost of acquisition (Rs.1,82,000 x 280/117)	4,35,556
	7,07,444
Less: Exemption under section 54F (Rs.7,07,444 x Rs.5,00,000/ Rs. 11,43,000)	3,09,468
Long Term Capital Gain	3,97,976

PROBLEM NO. 18

Computation of taxable capital gain of Mr. Amit for A.Y. 2019-20

Particulars	Rs.	Rs.
Sale consideration received on sale of 9,500 shares @ Rs. 300 each		28,50,000
Less: Indexed cost of acquisition		
a) 7,000 shares (including bonus shares of 3,500) received as gift from father on 27.09.2000 Indexed cost: Rs. 7,000 x 40 x 280/100	7,84,000	
b) 2500 shares purchased on 02.02.2005 @ Rs. 100 per share. The Indexed Cost is 2,500 x 100 x 280/113	6,19,469	14,03,469
Long term capital gain		14,46,531
Less: Exemption under section 54F (See Note below) Rs. 14,46,531 x Rs. 20,00,000 / Rs. 28,50,000		10,15,109
Taxable Long term capital gain		4,31,422

Note: Exemption under section 54F can be availed by the assessee subject to fulfillment of both the following conditions:

- The assessee should not own more than one residential house on the date of transfer of the long-term capital asset;
- The assessee should purchase a residential house within a period of 1 year before or 2 years after the date of transfer or construct a residential house within a period of 3 years from the date of transfer of the long-term capital asset.

In this case, Mr. Amit has fulfilled the two conditions mentioned above. Therefore, he is entitled to exemption under section 54F.

PROBLEM NO. 19

Particulars	Rs.	Rs.
Long-term capital gain		
Full value of consideration [As per section 50C, in case the actual sale consideration (i.e., Rs.70 lakhs, in this case) is less than the stamp duty value (i.e., Rs.80 lakhs, in this case) assessed by the stamp valuation authority (Sub-registrar, in this case), the stamp duty value shall be deemed as the full value of consideration]	80,00,000	

Less: Expenses in connection with transfer (brokerage paid for sale of property)	(1,00,000)	
	<u>79,00,000</u>	
Less: Indexed cost of acquisition [20,00,000 x 280 / 122]	<u>45,90,164</u>	33,09,836
Less: Exemption under section 54:		
- Purchase of new residential house property within two years from the date of sale of residential house	15,00,000	
- Deposit in Capital Gains Accounts Scheme on or before the due date of filing of return of income u/s 139(1) for construction of additional floor on such house property.	<u>5,00,000</u>	
	20,00,000	
Exemption under section 54EC:		
- Investment in capital gains bond of NHA1 within 6 months from the date of transfer (i.e., before 08.12.2018)	<u>10,00,000</u>	<u>30,00,000</u>
Taxable Capital Gains / Total Income		3,09,836
Total Income (rounded off)		3,09,840

Computation of tax liability of Mr. Martin for A.Y. 2019-20

Particulars	Rs.
Tax on Rs. 59,840 @ 20% [i.e., long term capital gain less basic exemption limit (3,09,840 - 2,50,000)]	11,968
Less: Rebate under section 87A limited to tax payable	2,500
	9,468
Add: Health and Education Cess @ 4%	379
Total Tax Payable	9,847
Total Tax Payable (Rounded off)	9,850

Notes:

- Since Mr. Martin is a resident individual, the basic exemption limit of Rs. 2,50,000 has been adjusted against long term capital gains and the balance long term capital gains is chargeable to tax @ 20% under section 112. Further, since his total income is less than Rs. 3,50,000, he is eligible for rebate under section 87A.
- Exemption under section 54 is available in respect of reinvestment of capital gains on sale of residential house in one residential house in India. In this case, exemption would be available for amount invested in purchase of new residential house and amount deposited for construction of additional floor in the same house, since they together constitute one residential house.

PROBLEM NO.20

Computation of long term capital gain of Mr. Dinesh for the A.Y. 2019-20

Particulars	Rs.	Rs.
Full value of consideration		65,00,000
Less: Indexed cost of acquisition-land (Rs.3,00,000 × 280/109) (Note 2 & 3)	(7,70,642)	
Indexed Cost of acquisition-building (Rs.15,00,000 × 280/117)(Note 3)	(35,89,744)	
Indexed Cost of improvement-building (Rs.5,00,000 × 280/137)	(10,21,898)	(53,82,284)
LTCG		11,17,716

Notes:

- As per section 50C, where the consideration received or accruing as a result of transfer of a capital asset, being land or building or both, is less than the value adopted by the Stamp Valuation Authority, such value adopted by the Stamp Valuation Authority shall be deemed to be the full value of the consideration received or accruing as a result of such transfer. Accordingly, full value of consideration will be Rs. 65 lakhs in this case.
- Since Dinesh has acquired the asset by way of gift, therefore, as per section 49(1), cost of the asset to Dinesh shall be deemed to be cost for which the previous owner acquired the asset i.e., Rs. 3,00,000, in this case.

3. Indexation benefit is available since both land and building are long-term capital assets. However, as per the definition of indexed cost of acquisition under clause (iii) of Explanation below section 48, indexation benefit for land will be available only from the previous year in which Mr. Dinesh first held the land i.e., P.Y. 2002-03.

Alternative view: In the case of CIT v. Manjula J. Shah 16 Taxmann 42 (Bom.), the Bombay High court held that indexation cost of acquisition in case of gifted asset can be computed with reference to the year in which the previous owner first held the asset.

Note: Students are advised to rectify the Hint answer in our material as per above computation.

PROBLEM NO. 21

Computation of Gross Total Income of Mr. Jai Prakash for A.Y. 2019-20

Particulars	Rs.	Rs.
Sale consideration as per section 50C (Note 1)		95,25,000
Less: Expenses incurred on transfer being brokerage @ 1% of sale consideration of Rs. 85,50,000		(85,500)
		94,39,500
Less: Indexed cost of acquisition (Note 2) (Rs. 1,80,000 × 280/122)	(4,13,115)	
Indexed cost of improvement (Rs. 10,50,000 × 280/137)	<u>(21,45,985)</u>	<u>(25,59,100)</u>
		68,80,400
Less: Deduction under section 54EC (Note 3)		(50,00,000)
LTCG:		18,80,400
Income from Other Sources:		
Advance received and forfeited on or after 01.04.2014 (Note 4)		7,00,000
Gross Total Income		25,80,400

Notes:

1. As per section 50C, where the consideration received or accruing as a result of transfer of a capital asset, being land or building or both, is less than the valuation by the stamp valuation authority, such value adopted or assessed by the stamp valuation authority shall be deemed to be the full value of consideration. Where a reference is made to the Valuation Officer, and the value ascertained by the Valuation Officer exceeds the value adopted by the stamp valuation authority, the value adopted by the stamp valuation authority shall be taken as the full value of consideration.

Sale consideration Rs. 85,50,000

Valuation made by registration authority for stamp duty Rs. 95,25,000

Valuation made by the Valuation Officer on a reference Rs. 98,00,000

Applying the provisions of section 50C in the present case, Rs. 95,25,000, being, the value adopted by the registration authority for stamp duty, shall be taken as the full value of consideration for the purpose of computing capital gains.

2. Since the house was inherited by Mr. Jai Prakash under the will of his father and his father, the previous owner, had purchased the house before 01.04.2001, Mr. Jai Prakash has the option to adopt cost incurred by the previous owner or fair market value as on 01.04.2001 as cost of acquisition as per section 55(2)(b)(ii). In this case, it is more beneficial to him to adopt the FMV on 01.04.2001 as the cost of acquisition of the house property. However, indexation benefit will be given effect from the year in which Mr. Jai Prakash first held the asset i.e., P.Y.2006-07. As per section 51, the advance money forfeited and retained before 01.04.2014, as a result of failure of the negotiations, would be reduced from the cost of acquisition for determining the indexed cost of acquisition for the purpose of computing capital gains.

Computation of Indexed cost of acquisition

Particulars	Rs.
Cost of acquisition	8,30,000
Less: Advance taken in the previous year 2012-13 and forfeited	(6,50,000)
Cost for the purpose on indexation	1,80,000

3. Exemption under section 54EC is available if the capital gains arising from transfer of long-term capital assets are invested in long-term specified assets, namely, bonds of National Highways Authority of India and Rural Electrification Corporation Ltd. within 6 months from the date of transfer. As per second proviso to section 54EC(1), out of capital gains arising from transfer of one or more capital assets in a financial year, the investment eligible for exemption cannot exceed Rs. 50 lakhs, whether such investment is made in the same financial year or in the subsequent financial year or in both the years in this case, Mr. Jai Prakash has invested Rs. 30 lakhs in RECL bonds and Rs. 35 lakhs in NHAI bonds in the F.Y. 2018-19, both within six months from the date of transfer. However, he would be eligible for exemption of only Rs. 50 lakhs under section 54EC for investment in such bonds.
4. Advance of Rs. 7,00,000 taken by Mr. Jai Prakash in June, 2018, which was forfeited due to the transaction not materializing, is taxable under section 56(2)(ix). Hence, such amount would not be reduced to compute the indexed cost of acquisition while computing capital gains on sale of the property in November, 2018.

Note: Students are advised to rectify 01.04.2002 as 01.04.2001 at Fair Market Value of the house in the problem given in our material.

PROBLEM NO. 22

Computation of Capital Gain of Mr. Raghu for A/Y 2019 – 20

Particulars	Amount (Rs.)
Full value of consideration	99,00,000
<u>Less:</u> Expenses on Transfer	(1,00,000)
Net Sale Consideration	98,00,000
<u>Less:</u> Indexed Cost of acquisition [Note 1] (13,00,000x280/100)	(36,40,000)
<u>Less:</u> Indexed Cost of improvement in 2003-04 (1,30,000x280/109)	(3,33,945)
<u>Less:</u> Indexed Cost of improvement in 2013-14 (2,75,000x280/220)	(3,50,000)
Long Term Capital Gain	54,76,055

Note :

- Since the cost of acquisition on 15.05.1975 is less than the Fair Market Value as on 01.04.2001, FMV of Rs.13,00,000/- is considered.
- Cost of construction of first floor (Cost of Improvement) incurred before 01.04.2001 shall be taken as NIL.

PROBLEM NO. 23

Determination of PGBP & CG of Mr. X for the A.Y. 19 - 20

Particulars	Amount (Rs.)
Capital Gains :	
Full value of consideration	4,80,000
<u>Less:</u> Indexed Cost of acquisition (70,000 x 129/105)	86,000
Long Term Capital Gain	3,94,000
PGBP :	
Sale Consideration	18,00,000
<u>Less:</u> FMV as on the date of conversion	(4,80,000)
Amount taxable under the head PGBP	13,20,000

Note :

- As per section 45(2), Both Capital Gains and Business income arising from the transfer by way of conversion of capital assets into stock-in-trade are chargeable to tax only in the year in which the stock-in-trade is sold.
- Period of holding = From the Date of Acquisition up to the date prior to the Date of Conversion (Sec 45(2)).

For indexation benefit :

- Year of Transfer = PY 2007-08
- Year of Chargeability = PY 2018-19

PROBLEM NO. 24

Computation of Capital Gain of Mr. X for A.Y. 19 - 20

Particulars	Amount (Rs.)
Full value of consideration	18,00,000
<u>Less:</u> Indexed Cost of acquisition (2,50,000x280/117)	5,98,291
Long Term Capital Gain	12,01,709

Note :

- As per Sec 45(3), Where a person transfers a capital asset to a firm, AOP or BOI in which he is already a partner/member or is to become a partner/member by way of capital contribution or otherwise, the profits or gains arising from such transfer will be chargeable to tax as income of the previous year in which such transfer takes place. For this purpose, the value of the consideration will be the amount recorded in the books of account of the firm, AOP or BOI as the value of the capital asset.
- Period of holding = From the Date of Acquisition up to the date prior to the Date of Distribution (Sec 45(3))
- Year of Transfer = PY 2018-19
- Year of Chargeability = PY 2018-19

PROBLEM NO. 25

Calculation of Capital Gains of Mr. X for the A.Y. 19 - 20

Particulars	Amount (Rs.)
Full value of consideration	66,00,000
<u>Less:</u> Indexed Cost of acquisition (36,00,000 x 280/184)	54,78,261
Long Term Capital Gain	11,21,739

Note :

- As per Sec 45(4), the profits or gains arising from the transfer of capital assets by way of distribution of capital assets on the dissolution of a firm or AOP or BOI or otherwise shall be chargeable to tax as the income of the firm etc. of the previous year in which such transfer takes place.
For this purpose, the fair market value of the asset on the date of such transfer shall be the full value of consideration.
- Period of holding = From the Date of Acquisition up to the date prior to the Date of Conversion (Sec 45(4))
- Year of Transfer = PY 2018-19
- Year of Chargeability = PY 2018-19

Note :

Students are advised to change the date "March 5,201" in the question as "March 5, 2012".

PROBLEM NO. 26

Calculation of Capital Gains of Mr. X for A.Y. 2019 - 20

Particulars	Amount (Rs.)
Full value of consideration	16,00,000

<u>Less:</u> Indexed Cost of acquisition (3,00,000x254/129)	5,90,697
Long Term Capital Gain (A) Taxable in the PY 2018-19	10,09,303
Additional Compensation Received	12,00,000
<u>Less:</u> Legal Expenditure	(10,000)
Long Term Capital Gain (B) Taxable in the year of PY 2021-2022	11,90,000

Note:

- Period of holding = From the Date of Acquisition up to the date prior to the Date of Compulsory Acquisition (Sec 45(5))
- Year of Transfer = PY 2015-16
- Year of Chargeability = PY 2018-19
- Enhanced Compensation = Taxable in the PY in which the same is received from the Govt.
- No deductions are allowed from enhanced compensation except legal Expenses
- If Compensation is received in Installments CG are taxable in the year of receipt of First Installment for the total Amount

PROBLEM NO. 27**Computation of Capital Gains of X Ent. For the Assessment Year 2019 - 20**

Particulars	Amount (Rs. in Lakh)
Full value of consideration	930
<u>Less:</u> Cost of acquisition (Net Worth – Working Note)	(870)
Long Term Capital Gain	60

Working Note:

(Rs. in Lakh)

Particulars	Amount	Amount
WDV of Fixed Assets	460	
Land	110	570
Other Assets		440
Total Assets		1010
<u>Less:</u> Liabilities		(140)
Net Worth		870

Note :

- As per section 50B, for the purposes of computation of net worth, the written down value determined as per section 43(6) has to be considered in the case of depreciable assets.
- Since the Unit R is held for more than 36 months, capital gain arising would be long term capital gain. However, indexation benefit is not available in case of slump sale.
- **Students are advised to rectify the question where it is given that “The W.D.V of the Assets Rs. 430 Lakhs” as “The Market Value of the Assets Rs.430 Lakhs”**

PROBLEM NO. 28**Computation of Long Term Capital Gain of Mr. X**

Particulars	Amount (Rs.)
Full value of consideration	10,31,000
<u>Less:</u> Brokerage @ 2%	(20,620)
Net Sale Consideration	10,10,380

Less: Indexed Cost of acquisition (3,88,728x280/129)	(8,43,751)
Long Term Capital Gain	1,66,629
<u>Less: Exemption u/s 54B (Note : 1)</u>	(1,10,000)
<u>Less: Exemption u/s 54F (Note : 2)</u>	(82,459)
LTCG	NIL

Note :

1. Since the Capital asset transferred is an Urban Agricultural Land which is a LTCA as the holding period is more than 24 Months, the assessee being an individual is eligible for exemption u/s 54B & the amount to the extent invested in another agricultural land will be allowed as exemption.
2. Since the asset transferred is a LTCA & the individual does not hold more than one residential House Property as on the date of transfer, the assessee is eligible for exemption u/s54F.

However, since the amount of Net Consideration is not completely invested, the exemption will be given proportionately.

$$\text{Exemption u/s 54F} = \text{LTCG} * \frac{\text{Amount invested in residential property}}{\text{Net Sale Consideration}} = 1,66,629 * \frac{5,00,000}{10,10,380}$$

PROBLEM NO. 29**Amount of long-term capital gain chargeable to tax for the Assessment year 2019-2020**

Particulars	Amount (Rs.)
Full value of consideration (Note)	65,00,000
<u>Less: Indexed Cost of acquisition</u>	(34,00,000)
Long Term Capital Gain	31,00,000

Note :

- a) As per Sec.50C, When sales consideration is less than stamp duty value (SDV) of land and building, SDV shall be deemed as Sales Consideration for the purpose of computation of capital gain.
- b) However, the stamp duty value on the date of agreement can be adopted **only** in a case where the amount of consideration, or a part thereof, has been paid by way of an **account payee cheque or account payee bank draft or use of electronic clearing system through a bank account**, on or before the date of the agreement for the transfer of such immovable property.
- c) However, where the stamp duty value does not exceed 105% of the sale consideration received or accruing as result of the transfer, the consideration so received or accruing shall be deemed to be the full value of the consideration.

Here, Mr. X received advance payment as on the date of agreement by an account payee cheque, therefore, SDV as on the date of agreement i.e., 68,00,000 should be considered.

$$105\% \text{ of consideration received} = 65,00,000 * 105\% = \text{Rs.}68,25,000.$$

$$\text{SDV Rs.}68,00,000 < \text{Rs.}68,25,000$$

$$\text{Therefore, FVOC} = \text{Rs.}65,00,000.$$

PROBLEM NO. 30

(a)

Particulars	Amount (Rs.)
Full value of consideration (Note)	5,50,000
<u>Less: Indexed Cost of acquisition (73,382 x 280/109)</u>	(1,88,504)
Long Term Capital Gain	3,61,496

Note :

Since the assessee did not dispute the SDV (Rs.5,50,000) determined by the Stamp Duty Authority, it is considered as FVOC [SDV exceeds 105% of the consideration (Rs.4,00,000) so received].

(b)

Particulars	Amount (Rs.)
Full value of consideration	4,90,000
<u>Less:</u> Indexed Cost of acquisition (73,382 x 280/109)	(1,88,504)
Long Term Capital Gain	3,01,496

Note :

Since the SDV determined by Allahabad High Court as Rs.4,90,000, it is considered as FVOC.

(c)

Particulars	Amount (Rs.)
Full value of consideration (Note)	5,25,000
<u>Less:</u> Indexed Cost of acquisition (73,382 x 280/109)	(1,88,504)
Long Term Capital Gain	3,36,496

Note :

In this case, the SDV determined by Valuation Officer shall be considered as FVOC.

(d)

Particulars	Amount (Rs.)
Full value of consideration (Note)	5,60,000
<u>Less:</u> Indexed Cost of acquisition (73,382 x 280/109)	(1,88,504)
Long Term Capital Gain	3,71,496

Note :

Though the SDV determined by Valuation Officer is greater than the value determined by the Stamp Duty Authority, It shall not consider it as FVOC. Hence FVOC shall be taken as Rs.5,60,000 instead of Rs.6,10,000.

SOLUTIONS TO ADDITIONAL PROBLEMS FOR STUDENT'S SELF PRACTICE

PROBLEM NO. 1

Income from capital gain of R

a) Capital gain on sale of house		
Short term capital gain		10,500
b) capital gain from sale of equity shares of Thapar Ltd. Exempt u/s 112A (as LTCG is less than Rs. 1,00,000)		Exempt
c) Refer Note		
d) Capital gain on sale of flat:		
Sale consideration	11,82,500	
<u>Less:</u> Indexed cost of acquisition (Rs 3,80,000 x 280/100)	10,64,000	
Long-term capital gain		1,18,500
Taxable Income from capital gain		1,28,500

Note: Rural agricultural land is not a capital asset land there will be no capital gain on transfer of such rural agricultural land.

PROBLEM NO. 2

Capital gain in the hands of X:

For the A.Y.16 – 17 :

X has transferred gold on January 20, 2016 by gift. Transfer by gift is not treated as "transfer" for the purpose of calculating capital gain. Consequently, in the hands of X nothing is chargeable to tax.

Capital gain in the hands of Y:

For the A.Y.16 – 17 :

Since the asset was acquired by Y by gift in the P.Y 2015-16. So According to Section 56(2)(x), If movable property received without consideration, the aggregate fair market value of such property on date of receipt would be taxed as the income of recipient, if it exceeds Rs. 50,000.

Here, The FMV of gold is Rs. 1, 40,000 and it exceeds Rs. 50,000. The entire amount Rs. 1, 40,000 would be taxable in the hands of Y under head Income from Other Sources in the A.Y 2016-17

For the A.Y.19 – 20 :

According to Section 2(14), Capital asset excludes personal effects but includes a) Jewellery (even held for personal purpose)

According to Section 2(42A), gold held less than 36 months so it comes under Short term capital asset.

Particulars	Amount (Rs.)
Full value of consideration	4,90,000
Less: Cost of acquisition of gold	(1,40,000)
Short term capital gain	3,50,000

This Short term capital gain would be taxable under head applicable slab rates.

PROBLEM NO. 3

Case 1:

In this case, net income (as reduced by long-term capital gain) is Rs. 2,75,000. Exemption limit is Rs. 3,00,000. Y is unable to fully utilize his exemption limit. Unutilized exemption limit is Rs. 25,000 which will be deducted from capital gain of Rs.1,80,000. In other words, out of long-term capital gain of Rs. 1,80,000, amount chargeable to tax under section 112A, is Rs. 1,55,000. Tax will be calculated as follows:

Tax on long-term capital gain under section 112A:

[10% of (Long-term capital gain exceeding Rs. 1,00,000)] 5,500

Add: Health and Education cess @ 4% 220

Tax liability 5,720

Case 2:

In this case, net income (as reduced by long-term capital gain) is Rs. 60,000. Exemption limit is Rs. 2,50,000. Z is unable to fully utilise his exemption limit. Unutilised exemption limit is Rs. 1,90,000 which will be deducted from capital gain of Rs. 1,25,00,000. In other words, out of long-term capital gain of Rs. 1,25,00,000, amount chargeable to tax under section 112A is Rs. 1,23,10,000. Tax will be calculated as follows:

Amount (Rs.)

Tax on long-term capital gain under section 112A:

[10% of (long-term capital gain exceeding Rs. 1,00,000)] 12,21,000

Tax on other income Nil

Tax **12,21,000**

Add: Surcharge @ 15% 1,83,150

Tax and surcharge **14,04,150**

Add: Health and education cess @ 4% 56,166

Tax liability (rounded off) **14,60,320**

PROBLEM NO. 4

Particulars	Shares (Rs.)	Debentures (Rs.)
Sale consideration	18,00,000	3,10,000
Less: Indexed cost of acquisition (Rs. 60 x 2,000 shares x 280 / 113)	2,97,345	-
Less: Cost of acquisition of debentures (Rs. 80 x 1,000, indexation benefit is not available in the case of debentures)	-	80,000
Long-term capital gains	15,02,655	2,30,000

PROBLEM NO. 5

Different situations	Sale consideration (Rs.)	105% of sale consideration (Rs.)	Stamp duty value (Rs.)	Full value of consideration [see Note] (Rs.)	Indexed cost of acquisition (Rs.)	Long-term capital gain [Column 5-Column 6] (Rs.)
Situation 1	60,00,000	63,00,000	65,00,000	65,00,000	8,00,000	57,00,000
Situation 2	60,00,000	63,00,000	63,00,000	60,00,000	8,00,000	52,00,000
Situation 3	60,00,000	63,00,000	61,00,000	60,00,000	8,00,000	52,00,000

Note: Stamp duty value at the time of transfer is taken as full value of consideration, if it exceeds "105% of actual sale consideration". In other words, if Column 4 is more than Column 3, Column 4 value will be taken, otherwise section 50C is not applicable and value of Column 2 will be taken.

PROBLEM NO. 6

- a) This problem is based on a case decided by the Delhi High Court in CIT vs. Mithilesh Kumari (1973) 92 ITR 9 in which the court held that:

"Interest paid by the assessee on money borrowed for the purchase of an open plot of land constituted part of actual cost of the assessee for the purpose of- determining the capital gain derived from the sale of the land. Further, ground rent paid by the assessee was incurred not for the purpose of the acquisition of the capital asset but was incurred for keeping the capital in the assessee's possession and was in the nature of any other expenditure the assessee might have incurred to maintain the capital asset. Such, an item of expenditure did not constitute part of the actual cost to the assessee and could not be deducted in computing the capital gain arising from the sale of the capital asset". In view, of the above said case, the long-term capital gain would be calculated as follows:

Particulars	Workings	Amount (Rs.)	Amount (Rs.)
Full Value of consideration			17,00,000
Less: Indexed cost of acquisition			
Purchase price (1,40,000 x 280/100)		3,92,000	
Interest @ 9%:			
2001-02 (for 9 months)	9,450 x 280/100	26,460	
2002-03	12,600 x 280/105	33,600	
2003-04	12,600 x 280/109	32,370	
2004-05	12,600 x 280/112	31,500	4,83,560
Long-term capital gain			12,16,440

- b) Exemption under section 54 can be availed only when the house property is owned by an individual or Hindu Undivided Family. In view of this, the firm cannot claim deduction under section 54. Further, the partners of the firm also cannot claim tax exemption under section 54 as the asset has been transferred by the firms and not by the partners.

PROBLEM NO. 7**Capital gain to B**

Particulars	Amount (Rs.)	Amount (Rs.)
Sale consideration (Amount recorded in books)		13,00,000
Less: Indexed cost of acquisition (4,25,000 x 280/100)		(11,90,000)
Long-term capital gain		1,10,000
Tax @ 20%		22,000
L.T.C.G. without indexation		
Sale consideration		13,00,000
Less: Cost		4,25,000
Long term capital gain		8,75,000
Tax @10%		87,500
Tax payable minimum of above two		22,000
Add: Health and education cess @ 4%		880
Total tax (rounded off)		22,880
Business income of the firm		
Sale price		7,00,000
Less: Cost of share - 50% of recorded price	6,50,000	
Securities Transaction Tax	650	6,50,650
Business income		49,350

PROBLEM NO. 8

	Amount (Rs.)
Sale consideration	10,31,000
Less: Brokerage (2% of Rs. 10,31,000)	20,620
Less: Indexed cost of acquisition (i.e., Rs. 3,88,795 x 280/129)	8,43,750
Long-term capital gain	1,66,630
Less: Exemptions Under section 54B	1,66,630
Long-term capital gains	NIL

PROBLEM NO. 9**Assessment year 2019-20**

Particulars	Land	Plant and machinery
Full Value of consideration (Amount recorded in books of accounts)	18,00,000	12,04,000
Less: Indexed cost of acquisition (Rs.3,60,000 x 280/100)	10,08,000	-
Cost of acquisition WDV as on 01.04.2016	-	5,16,000
Long-term capital gain	7,92,000	-
Short-term capital gain	-	6,88,000
Less: Capital gain exempt		
u/s 54F (Rs.7,92,000 x 9,00,000/18,00,000)	3,96,000	-
Long-term capital gain	3,96,000	
Short-term capital gain		6,88,000

Assessment year 2020-21

Particulars	Amount (Rs.)
Sale price of residential house property	9,80,000
Less: Cost of acquisition	9,00,000
Short-term capital gain	80,000

In addition, Rs.3,96,000 exempt u/s 54F earlier will be taxable as long-term capital gain in the assessment year 2020-21.

PROBLEM NO. 10

We know that capital gains arises only when we transfer a capital asset. The liability of capital gains tax in the situations given above is discussed as follows:

- (i) As per the provisions of section 47(iii), transfer of a capital asset under a gift is not regarded as transfer for the purpose of capital gains. Therefore, capital gains tax liability does not arise in the given situation.
- (ii) As per the provisions of section 47(i), transfer of a capital asset (being in kind) on the total or partial partition of Hindu undivided family is not regarded as transfer for the purpose of capital gains. Therefore, capital gains tax liability does not arise in the given situation.
- (iii) As per the provisions of section 47(x), transfer by way of conversion of bonds or debentures, debenture stock or deposit certificates in any form of a company into shares or debentures of that company is not regarded as transfer for the purpose of capital gains. Therefore, capital gains tax liability does not arise in the given situation.

PROBLEM NO. 11

Since the capital asset is converted into stock-in-trade during the previous year relevant to the A.Y. 2018-19, it will be a transfer under section 2(47) during the P.Y. 2017-18.

However, the profits or gains arising from the above conversion will be chargeable to tax during the A.Y. 2019-20, since the stock-in-trade has been sold only on June 10, 2018.

For this purpose, the fair market value on the date of such conversion (i.e. 10th March, 2018) will be the full value of consideration.

PROBLEM NO. 12**Computation of total income of Mr. Sagar for the A.Y. 2019-20**

Particulars	Rs.	Rs.
Capital Gains		
Sale consideration		15,00,000
Less: Indexed cost of land (Rs. 75,000 x 289/107)	1,25,749	
Indexed cost of building (Rs 1,25,000 x 289/100)	1,75,000	3,00,749
		11,99,251
Less: Exemption under section 54 (See Note 2 below)		8,00,000
Long-term capital gain		3,99,251
Profit and gains from business or profession / Income from other sources		
Insurance agency commission earned (Gross) (Rs 45,000 + Rs 5,000)		50,000
Gross Total Income		4,49,251
Less: Deduction under Chapter VI-A		
Section 80C - Investment in NSC VIII		20,000
Total Income		4,29,251

Notes:

1. Since the building and the land are held for more than 24 months, the same are long-term capital assets and the capital gain arising on sale of such assets is a long-term capital gain.
2. As per the provisions of section 54, the capital gain arising on transfer of a long-term residential property shall not be chargeable to tax to the extent such capital gain is invested in the purchase of a residential house property one year before or two years after the date of transfer of original asset or constructed a residential house property within three years after such date. Since Mr. Parri has purchased another residential house in June, 2018 for Rs.8,00,000, the capital gain arising on transfer of residential house property in May, 2018 is exempt under section 54 to that extent.

PROBLEM NO. 13**Computation of Long term Capital Gain for A.Y. 2019-20.**

Particulars	Amount (Rs.)	Amount (Rs.)
Sale consideration as per section 50C (Note-1)		47,25,000
Less: Expenses incurred on transfer being brokerage @ 1% of sale consideration of Rs.37.50 lakhs		37,500
		46,87,500
Less: Indexed cost of acquisition (Note-2) (Rs. 2,70,000 x 280/113)	6,69,027	
Indexed cost of improvement (Rs.7,00,000 x 280/122)	16,06,557	(22,75,584)
Long term capital gain		24,11,916

Notes:

1. As per section 50C, where the consideration received or accruing as a result of transfer of a capital asset, being land or building or both, is less than the valuation by the stamp valuation authority, such value adopted or assessed by the stamp valuation authority shall be deemed to be the full value of consideration. Where a reference is made to the valuation officer, and the value ascertained by the valuation officer exceeds the value adopted by the stamp valuation authority, the value adopted by the stamp valuation authority shall be taken as the full value of consideration.

Sale consideration Rs.37,50,000

Valuation made by registration authority for stamp duty Rs.47,25,000

Valuation made by the valuation officer on a reference Rs.47,50,000

Applying the provisions of section 50C to the present case, Rs.47,25,000

Applying the provisions of section 50C to the present case, Rs.47,25,000, being the value adopted by the registration authority for stamp duty, shall be taken as the sale consideration for the purpose of charge of capital gain.

2. The house was inherited by Mr. Thomas under the will of his father and therefore, the cost incurred by the previous owner shall be taken as the cost. Fair market value as on 01.04.2001, accordingly, shall be adopted as the cost of acquisition of the house property. However, indexation benefit will be given from the year in which Mr. Thomas first held the asset i.e. P.Y.2004-05.

Note: Students are advised to rectify 01.04.2002 in problem as 01.04.2001.

PROBLEM NO. 14**Computation of taxable capital gain of Ms. Vimala for A.Y. 2019-20**

Particulars	Rs.	Rs.
Sale price of residential building	15,00,000	
Less: Brokerage @ 2%	30,000	
Net consideration		14,70,000
Less: Indexed cost of acquisition (Rs.1,50,000 X 280/137)		(3,06,569)
		11,63,431
Less: Deduction under sec.54 for purchase of new residential house in Dec. 2015		(7,00,000)
Taxable long term capital gain		4,63,431

Note: One of the conditions for claiming exemption under section 54EC for the investment in RECL/NHAI Capital Gains bonds is that the deposit should be made within 6 months from the date of transfer. In this case, the transfer took place on 01.07.2018 and the 6 months period within which the deposit should be made for the purpose of section 54EC would expire by 31.12.2018. The investment in REC/NHAI Capital Gains bonds was made only in March 2019. Therefore, the assessee is not eligible for exemption under section 54EC.

PROBLEM NO. 15

- a) **False:** The exemption under section 54EC has been restricted, by limiting the maximum investment in long term specified assets (i.e. bonds of NHA or RECL, redeemable after 5 years) to Rs. 50 lakh during any financial year.
Therefore, in this case, the exemption under section 54EC can be availed only to the extent of Rs. 50 lakh, provided the investment is made within six months from the date of transfer.
- b) **True:** As per section 47(xa), any transfer by way of conversion of bonds referred to in section 115AC into shares and debentures of any company is not regarded as transfer. Therefore, there will be no capital gains on conversion of foreign currency exchangeable bonds into shares or debentures.
- c) The definition of capital asset under section 2(14) includes jewellery. Therefore, capital gains are attracted on sale of jewellery, since jewellery is excluded from personal effects. The cost to the previous owner or the fair market value as on 1.4.2001, whichever is more beneficial to the assessee, would be treated as the cost of acquisition. Accordingly, in this case, long term capital gain @ 20% will be attracted in the year in which the gold and jewellery is sold by Mrs. X.

PROBLEM NO. 16

- (i) **False:** As per section 47(xvi), such alienation in a transaction of reverse mortgage under a scheme made and notified by the Central Government is not regarded as "transfer" for the purpose of capital gains.
- (ii) **True:** Section 2(42A) defines the term 'short-term capital asset'. Under the proviso to section 2(42A), zero coupon bond held for not more than 12 months will be treated as a short-term capital asset. Consequently, such bond held for more than 12 months will be a long-term capital asset.
- (iii) **False:** In view of the provisions of section 56(2)(i), dividend income is taxable under the head "Income from other sources" in the case of all assessees.
- (iv) **False:** As per section 10(37), where an individual owns urban agricultural land which has been used for agricultural purposes for a period of two years immediately preceding the date of transfer, and the same is compulsorily acquired under any law and the compensation is determined or approved by the Central Government or the Reserve Bank of India, resultant capital gain will be exempt.
In this case, the compensation has been fixed by the State Government and hence the exemption will not be available.
- (v) **True:** As per section 2(48), 'Zero Coupon Bond' means a bond issued by any infrastructure capital company or infrastructure capital fund or a public sector company, or Scheduled Bank on or after 1st June 2005, in respect of which no payment and benefit is received or receivable before maturity or redemption from such issuing entity and which the Central Government may notify in this behalf.
- (vi) **False:** Only 60% of the income derived from the sale of tea grown and manufactured by the seller in India is treated as agricultural income and the balance 40% of the income shall be non-agricultural income chargeable to tax [Rule 8 of Income-tax Rules, 1962].

PROBLEM NO. 17

- i) Section 72A(6A), provides that where a private company is succeeded by a LLP fulfilling the conditions laid down in the proviso to section 47(xiiib), then, notwithstanding anything contained in any other provision of the Income-tax Act, 1961, the accumulated loss and unabsorbed depreciation of the predecessor company shall be deemed to be the loss or allowance for depreciation of the successor LLP for the purpose of the previous year in which the business re-organisation was effected and other provisions of the Act relating to set-off and carry forward of losses and depreciation allowance shall apply accordingly. Therefore, All Trade LLP can carry forward and set-off the business loss of Rs. 6 lakh of erstwhile X Co (P) Ltd. against its business income for the F.Y.2018-19. The unabsorbed business loss of Rs. 1 lakh, relating to A.Y. 2018-19, will be carried forward to the next year.
- ii) Section 47(xiiib) requires that the shareholders of the company become partners of the LLP in the same proportion as their shareholding in the company. Further, the aggregate of the profit sharing ratio of the shareholders of the company in the LLP should be not less than 50% at any time during the period of 5 years from the date of conversion. If the entity fails to fulfill this condition, the benefit of set-off of business loss availed by the LLP would be deemed to be the profits and gains of the LLP chargeable to tax in the previous year in which the LLP fails to fulfill the condition.

Note: Students are advised to rectify AY 2018-19 as AY 2019-20 in Hint answer given in our Material.

The End