4. CAPITAL GAINS

ASSIGNMENT SOLUTIONS

PROBLEM NO.1

For Students Self-study

PROBLEM NO.2

We know that capital gains arise only when we transfer a capital asset. The liability of capital gains tax in the situations given 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.3

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**

<u>**Note**</u>: 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.4

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.5

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
Total income (Short term Capital Gains)	**3,96,000**
Tax Liability	
15% of (Rs.3,96,000-Rs.3,00,000)	14,400
Add: Education cess @ 2%	288

Secondary and higher education cess @ 1%	144
Tax payable	**14,832**
Tax payable (Rounded off)	**14,830**

Notes:

1. Long-term capital gains on sale of original shares through a recognized stock exchange (STT paid) is exempt under section 10(38).
2. 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.
3. Dividend income is exempt under section 10(34).
4. 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).
5. Cost of bonus shares will be Nil as such shares are allotted after 1.04.2001.
6. Securities transaction tax is not allowable as deduction.

PROBLEM NO.6

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 (1,45,000X280/117)	3,47,009
Long term capital loss	**1,42,009**

PROBLEM NO.7

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.8

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.9

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

Particulars	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	**3,40,000**

Note: Since the value of the block as on 31.3.2019 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	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.10

a) Assessing officer is not correct. Since the value determined by the valuation officer is more than the value adopted by the assessing authority.

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

Particulars	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.11

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

Particulars	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.12

Computation of Capital gains in the hands of Mr. X for the A.Y. 2019-20

Particulars	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	40,000
Cost for the purposes of indexation	11,50,000

Indexed cost of acquisition (Rs.11,50,000 x 280/100) 32,20,000

Note 2: Any improvement cost incurred prior to 1.4.2001 is to be ignored when fair market value as on 1.4.2001 is taken into consideration.

PROBLEM NO.13

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)	7,76,642
Long term capital gain	8,23,358
Less: Exemption under section 54 (See Note 1 below)	3,00,000
Taxable long term capital gain	**5,23,358**

WORKING NOTE:

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

Notes:

1. 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.
2. 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.14

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.
2. 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.15

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 280/167)	1,25,749	
Indexed cost of building (Rs 1,25,000 X 280/200)	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		**4,69,251**

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.16

Computation of Long term Capital Gain for A.Y. 2019-20.

Particulars	Rs.	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 lacs		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.

PROBLEM NO.17

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]	9,91,150
	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.18

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 x 280/100)	3,08,000	
Indexed Cost of building (Rs 3,20,000 x 280/109)	8,22,018	11,30,018
Long-term capital gain		13,69,982
Less: Brought forward short-term capital loss set off [See Note (iv) below]		1,50,000
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 1.4.2001 is not given in the question, the fair market value as on 1.4.2001 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.

v) 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.19

a) 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)	4,78,632	32,78,632
		47,21,368
Less: Exemption under section 54 (Note 2)		25,00,000
Taxable Capital Gains		**22,21,368**

Notes:

1. 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.

2. 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.

3.

   i) 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.

   ii) 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 (A.Y.2020-21)	Rs.
Sale consideration	40,00,000
Less: Cost of acquisition	Nil
Short-term capital gains	40,00,000

PROBLEM NO.20

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 section 54 for purchase of new residential house in December, 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 1.7.2018 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.21

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	12,38,938	
	30,61,062	
Less: Exemption under section 54 **Rs.** 10,00,000		
Exemption under section 54EC **Rs.** 5,00,000	15,00,000	
Long-term capital gains		15,61,062
Income from other sources:		
Interest on bank deposits		32,000
Gross Total Income		**15,93,062**
Less: Deduction under Chapter VI-A Section 80C - Deposit in PPF (restricted to **Rs.** 32,000)		32,000
Total Income		**15,61,062**

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

Tax on Rs 13,02,294 @ 20% [i.e. long term capital gain less basic exemption limit (Rs.15,61,062 - Rs 2,50,000)]	**2,62,212**
Add: Education Cess @ 2% & SHEC @ 1%	7,866
Tax Payable	**2,70,078**

Notes:

1. The basic exemption limit of Rs. 2,50,000 can be adjusted against long term capital gains.
2. Deduction under section 80C should be restricted to gross total income excluding long term capital gain.

PROBLEM NO.22

Computation of capital gains and business income of Ms. Gunjan for A.Y. 2019-20

Particulars	Amount(Rs.)
Capital Gains: Fair market value of land on the date of conversion deemed as the full value of consideration for the purposes of section 45(2)	3,20,00,000
Less: Indexed cost of acquisition [**Rs.** 50,00,000 × 220/105]	1,04,76,190
	2,15,23,810
Proportionate capital gains arising during the A.Y. 2019-20 (2,15,23,810 x 5/8)	1,34,52,381
Less: Exemption under section 54EC (restricted to Rs. 50 lakh)	50,00,000
Capital gains chargeable to tax for A.Y. 2018-19	**84,52,381**
Business Income: Sale price of flats [5 × Rs. 90 lakh]	4,50,00,000
Less: Cost of flats Fair market value of land on the date of conversion (3,20,00,000 x 5/8)	2,00,00,000
Cost of construction of flats [5 × Rs. 36 lakh]	1,80,00,000
	70,00,000

Notes:

1. The conversion of a capital asset into stock-in-trade is treated as a transfer under section 2(47). It would be treated as a transfer in the year in which the capital asset is converted into stock-in-trade.
2. However, as per section 45(2), the capital gains arising from the transfer by way of conversion of capital assets into stock-in-trade will be chargeable to tax only in the year in which the stock-in-trade is sold.
3. The indexation benefit for computing indexed cost of acquisition would be available only up to the year of conversion of capital asset to stock-in-trade and not up to the year of sale of stock-in-trade.
4. For the purpose of computing capital gains in such cases, the fair market value of the capital asset on the date on which it was converted into stock-in-trade shall be deemed to be the full value of consideration received or accruing as a result of the transfer of the capital asset.

   In this case, since only 5/8th of stock-in trade (5 flats out of 8 flats) is sold in the P.Y. 2018-19 only proportionate capital gains (i.e. 5/8th) would be chargeable to tax in the A.Y. 2019-20.
5. On sale of such stock-in-trade (i.e., flats, in this case), business income would arise. The business income chargeable to tax would be the price at which the flats are sold as reduced by the fair market value on the date of conversion of the capital asset (i.e., land) into stock-in-trade and the cost of construction of flats.
6. In case of conversion of capital asset into stock-in-trade and subsequent sale of stock-in-trade, the period of 6 months, for the purpose of exemption under section 54EC, is to be reckoned from the date of sale of stock-in-trade [CBDT Circular No.791 dated 2.6.2000]. In this case, since the investment in bonds of NHAI has been made within 6 months of sale of flats, the same qualifies for exemption under section 54EC, subject to a maximum of Rs. 50 lakh.

PROBLEM NO.23

a) **False:** The exemption under section 54EC has been restricted, by limiting the maximum investment in long term specified assets (i.e. bonds of NHAI or RECL, redeemable after 3 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.24

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
Taxable capital gains	**3,97,976**

PROBLEM NO.25

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 27.9.2000 Indexed cost - **Rs.** 7000 x 40 x 280/100 **(b)** 2500 shares purchased on 2.2.2005 @ Rs. 100 per share. The indexed cost is 2,500 x 100 x 280/113	 7,84,000 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**

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

a) The assessee should not own more than one residential house on the date of transfer of the long-term capital asset;

b) 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.26

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.27

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) 79,00,000	
Less: Indexed cost of acquisition [20,00,000 x 280 / 122]	45,90,164	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 - 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.	15,00,000 10,00,000	
	25,00,000	
Exemption under section 54EC: - Investment in capital gains bond of NHAI within 6 months from the date of transfer (i.e., before 8.12.2018) **Taxable Capital Gains / Total Income**	5,00,000	30,00,000 **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
Tax Payable (rounded off)	**9,468**

Notes:

1. 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.3.5 lakh, he is eligible for rebate under section 87A.

2. 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.28

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) Indexed Cost of acquisition-building (Rs.15,00,000 × 280/ 117) (Note 3) Indexed Cost of improvement-building (Rs.5,00,000 x 280/137)	(7,70,642) (35,89,744) (10,21,898)	(53,82,284)
LTCG		**11,17,716**

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 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.
2. 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.

PROBLEM NO.29

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.

PROBLEM NO.30

Section 56(2)(x) would get attracted in case of transfer of immovable property for inadequate consideration, since the difference between the stamp duty value and sale consideration is more than Rs. 50,000 and therefore Rs. 1,75,000 (i.e. Rs. 6,00,000 - Rs. 4,25,000) will be taxed under the head "Income from other sources" in the hands of transferee, i.e., Ms. Dayama. Further, for the transferor, Ms. Chhaya, the value adopted for stamp duty purpose will be taken as the deemed sale consideration under section 50C for computation of capital gains.

Particulars	Chhaya (Transferor) Rs.	Dayama (Transferee) Rs.
Capital gains Deemed sale consideration under section 50C	 6,00,000	

Less: Indexed cost of acquisition	(4,00,000)	
	2,00,000	
Income from other sources Difference between stamp duty value and sale consideration of immovable property, taxable under section 56(2)(x) **Other income (computed)**	 50,000	 1,75,000 2,05,000
Total Income	**2,50,000**	**3,80,000**

PROBLEM NO.31

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)** **Less:** Expenses incurred on transfer being brokerage @ 1% of sale consideration of Rs.85,50,000		95,25,000 (85,500)
 Less: Indexed cost of acquisition (**Note 2**) (Rs. 1,80,000 × 280/122) Indexed cost of improvement (Rs. 10,50,000 × 280/137)	 (4,13,115) (21,45,985)	94,39,500 (25,59,100)
 Less: Deduction under section 54EC (Note 3)		68,80,400 (50,00,000)
LTCG **Income from Other Sources** - Advance received and forfeited on or after 01.04.2014 **(Note 4)**		18,80,400 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 **Less:** Advance taken in the previous year 2012-13 and forfeited	8,30,000 (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.

PROBLEM NO.32

In the given case, the residential house property was held by Mr. Sunil for more than 24 months immediately preceding the date of its transfer. So the resulting capital gains are long term capital gains.

Computation of income chargeable under the head "Capital Gains" for A.Y. 2019-20

Particulars	Rs.	Rs.
Actual sale consideration	80,00,000	
Value adopted by Stamp Valuation Authority	90,00,000	
Full value of sale consideration [Higher of the above] **(Note 1)**		90,00,000
Less: Indexed cost of acquisition of residential house [Rs. 20 lakhs x 280/100]		56,00,000
Long-term capital gains		**34,00,000**
Less: Exemption u/s 54 **(Note 2)**		35,00,000
Long term capital loss chargeable to tax		**(1,00,000)**

Note:

1. As per section 50C, in case the actual sale consideration declared by the assessee is less than the Stamp Duty Value (SDV), then the SDV shall be deemed to be the full value of consideration (Sec.50C).

In a case where the date of agreement is different from the date of registration, the SDV on the date of agreement can be considered provided the whole or part of the consideration is paid by way of account payee cheque/bank draft or by way of ECS through bank account on or before the date of agreement. In this case, since 20% of Rs. 80 lakhs is paid through account payee bank draft on the date of agreement, stamp duty value on the date of agreement can be adopted as the full value of consideration.

2. 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 one residential house property in India within one year before or two years after the date of transfer of original asset. It is assumed that he purchased the residential house property in India within the time limit stipulated u/s 54.

THE END