5. CAPITAL GAINS IN SPECIAL CASES AND ITS EXEMPTIONS

CONCEPT WISE ANALYSIS OF PAST EXAM PAPERS OF IPCC AND CA INTER

Concept No.	ABC	M-09	N-09	M-10	N-10	M-11 TO M-12	N-12	M-13	N-13	M-14	N-14	M-15	N-15	M-16	N-16	M-17	N-17	M-18(O)	M-18(N)	N-18(O)	N-18(N)
1	A	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2	A	-	-	-	-	-	-	-	-	-	-	-	-	-	8	-	-	-	-	-	-

SIGNIFICANCE OF EACH PROBLEM COVERED IN THIS MATERIAL

Problem No. in this Material	Problem No. in NEW SM	Problem No. in OLD SM	Problem No. in OLD PM	RTP	MTP	Previous Exams
CR 1	PQ 9	-	PQ 23	-	-	-
CR 2	-	-	-	-	-	-
CR 3	-	-	-	-	-	-
CR 4	-	ILL 14 (90%)	-	-	-	-
CR 5	-	-	-	-	-	-
CR 6	-	-	-	-	-	-
CR 7	-	-	-	-	-	-
CR 8	PQ 5	-	PQ 29	-	-	-
CR 9	PQ 3	-	-	-	-	-
CR 10	-	-	PQ 14	M 16	-	-
CR 11	-	-	PQ 32	M 17	-	-
CR 12	PQ 2	-	PQ 39	-	-	-
AS 1	ILL 2	ILL 1	-	-	-	-
AS 2	ILL 3	ILL 2	-	-	-	-
AS 3	-	-	PQ 15	-	-	-
AS 4	ILL 24	ILL 16	-	-	-	-
AS 5	-	-	PQ 26	-	-	-
AS 6	-	ILL 17	-	-	-	-
AS 7	-	-	PQ 3	-	N 17	-
AS 8	-	-	PQ 5	-	M 17	-
AS 9	-	-	PQ 30	-	-	-
AS 10	PQ 6	-	PQ 37	N 17	-	-
AS 11	-	-	-	-	-	-
AS 12	ILL 25 (40%)	-	PQ 35	-	-	-
AS 13	-	ILL 18	-	-	-	-
AS 14	-	-	PQ 29 (100%)	-	-	-
AS 15	PQ 8 (90%)	-	PQ 40 (100%)	-	-	N 15-8M
AS 16	-	-	-	N15, M18 (N&O)	-	-
AS 17	-	-	-	N18 (N&O)	-	N 17-5M

Sec.'s to be remembered:

Sec.45(2)	Conversion of a capital Asset into SIT
Sec.45(5)	Compulsory Acquisition.
Sec.54 Series	Exemption from Capital Gains

Amendments in the Finance Act, 2018:

ADDITIONS	DELETIONS	MODIFICATIONS
-	-	Sec. 54EC

1.SEC.45 - SERIES

1.1. Sec. 45(1): Refer to first page

1.2. Sec. 45(1A):

Taxable event	Damage or Destruction of any capital Asset as a result of - **a)** Typhoon, Hurricane, Cyclone, Earth Quake etc. **b)** Riot, Civil disturbances. **c)** Accidental Fire or Explosion. **d)** Action by an enemy (or) Action taken in combating an enemy (with/ without declaration of war).
Taxable Amount	Value of money received **(or)** FMV of the asset received on the date of the receipt
Period of holding	**FROM** the date of Acquisition **TO** the date prior to the date of destruction
Year of Transfer	P.Y. of **destruction**
Year of Chargeability	P.Y. in which the **compensation** (or) **asset was received**

Note:

1. This section is an exception to Sec.45(1) (i.e. Year of chargeability = Year of Transfer).
2. If the compensation was received in respect of destroyed plant & machinery, the same will be taxed in the hands of the recipient U/S.45(1A). if the compensation has been received on account of destroyed stock, then the same shall be taxed U/S.28 (PGBP).

(Teach problem No.1 of classroom discussion)

1.3. SEC.45(2): CONVERSION OF A CAPITAL ASSET INTO STOCK IN TRADE (N12-4M)

Period of Holding	From the Date of Acquisition up to the date prior to the Date of ***Conversion***
Year of Chargeability:	Previous year in which ***Stock in trade is sold***.
Year of Transfer	Year of ***Conversion***
Consideration:	FMV on the Date of ***Conversion***
Indexation Facility:	up to the year of ***Conversion***

Note: Both Capital Gains and Business income are chargeable to tax in the year in which stock-in-trade is sold or otherwise transferred.

Illustration 10: *ABC Ltd., converts its capital asset acquired for an amount of Rs.50,000 in June, 2003 into stock - in - trade in the month of November, 2015 .he fair market value of the asset on the date of conversion is Rs.4,50,000. The stock - in - trade was sold for an amount of Rs.6,50,000 in the month of September, 2018. What will be the tax treatment?* ***(NEW SM, OLD SM)***

Solution:

Computation of Gross Total Income of ABC Ltd for the A.Y. 2019-20

Particulars	***Rs.***	***Rs.***
Profits and Gains from Business or Profession		
Sale proceeds of the stock-in-trade	*6,50,000*	
Less: *Cost of the stock-in-trade (FMV on the date of conversion)*	*4,50,000*	*2,00,000*
Long Term Capital Gains		
Full value of the consideration (FMV on the date of the conversion)	*4,50,000*	
Less: *Indexed cost of acquisition (Rs.50,000 x 254/109)*	1,16,514	3,33,486
Gross Total Income		5,33,486

Note: *For the purpose of indexation, the cost inflation index of the year in which the asset is converted into stock-in-trade should be considered.*

(Solve Problem No. 1, 2 of Assignment problems as rework)

1.4. SEC.45 (3) -TRANSFER OF A CAPITAL ASSET INTO CAPITAL CONTRIBUTION:

Period of Holding	From the Date of Acquisition up to the date prior to the Date of ***Transfer***
Year of Chargeability:	Year of ***Transfer***
Consideration:	The value of the Asset recorded in the books of the firm or AOP or BOI
Indexation Facility:	up to the year of ***Transfer***

Tit Bit 4: A is the owner of a foreign car. He starts a firm in which he and his two sons are partners. As his capital contribution, he transfers the above car to the firm. The car had cost him Rs.2,00,000. The same is being introduced in the firm at a recorded value of Rs.3,50,000. Discuss.

(ANS.: CAR IS NOT CAPITAL ASSET BUT IS A PERSONAL EFFECT)

Illustration 11: *R acquired a property by way of gift from his father in the previous year 1999-00. The father had acquired the property in the previous year 1991-92 for 2,00,000. This property was introduced as capital contribution to a firm in which R became a partner in the previous year 2018-19. The market value of the asset in 2018-19 was Rs.10,00,000, but it was recorded in the books of account of the firm at Rs.7,00,000. Comment.*

What is your answer if the property introduced as capital contribution is a personal car used by R?

Solution:

a) Computation of capital gain in the hands of Mr. R for the A.Y. 2019-20

Sale consideration	*7,00,000*
***Less**: indexed cost of acquisition (2,00,000x280 /100)*	*5,60,000*
LTCG	*1,40,000*

b) *No capital gain, since it is a personal car.*

1.5. Sec. 45(4) - DISTRIBUTION ON DISSOLUTION:

Period of Holding:	From the Date of Acquisition up to the date prior to the Date of ***Distribution***
Year of Chargeability:	Year of ***Transfer***
Consideration:	FMV as on date of ***Distribution***.
Indexation Facility:	up to the year of ***Distribution***.

Exception to above: Conversion of a partnership firm in to a LLP (Limited Liability Partnership) **provided that** there is no change in rights and obligations of partners or transfer of asset or liability after conversion.

Illustration 12: *A firm consists of 3 partners namely R, G and S.S retires from the firm on 15-10-2018. His capital balance and the profits till the date of retirement stood at Rs.15,00,000. The firm transferred its land to S in settlement of his account. The market value of the land as on that date was Rs.25,00,000. The land was acquired by the firm on 1-5-2002 for Rs.5,00,000. Compute capital gain in the hands of the firm.*

Solution:

FMV on date of transfer	*25,00,000*
***Less:** indexed cost of acquisition (5,00,000x 280 / 105)*	*13,33,333*
LTCG	*11,66,667*

1.6. SEC. 45(5) - COMPULSORY ACQUISITION:

Period of Holding	From the Date of Acquisition up to the date prior to the Date of ***Compulsory Acquisition***
Year of Chargeability:	Year of ***Initial Compensation****
Consideration:	FMV as on date of ***Initial Compensation***
Indexation Facility:	up to the year of ***Compulsory Acquisition***
Enhanced Compensation	Taxable in the PY in which the final order of the court is made.**
Reduction of Compensation	Re-Computation can be made

*If Compensation is received in Installments CG are taxable in the year of receipt of ***First*** Installment for the total Amount.

No deductions are allowed from enhanced compensation ***except* legal Expenses

Note:

1. Compensation received in pursuance of an interim order deemed as income chargeable to tax in the year of final order

2. In the case of **death of the transferor**, the enhanced compensation/ consideration shall be taxable in the hands of the recipient of such sum.

1.7 SEC. 45(5A) - Taxability of capital gains in case of Specified Agreement:

Taxable Event	An **individual / HUF** enters into a **specified agreement** for development of a project **AND transfers** his share in the project	
	AFTER the date of issue of completion certificate (CC).	**ON (OR) BEFORE** the date of issue of completion certificate (CC).
Year of Transfer	P.Y. of transfer of share in project	P.Y. of transfer of share in project
Year of Chargeability	P.Y. in which the certificate of completion for the whole / part of the project is issued	P.Y. in which the property is handed over to the developer
Value to be adopted	Sum of SDV of assessee's share in the project as on the date of issue of CC **AND** consideration received in cash, if any	**Higher** of - **a)** SDV as on the date of handing over **or** **b)** SDV as on the date of actual consideration received

(Teach problem No. 2 of classroom discussion)

2. SEC. 54 - SERIES

2.1 EXEMPTIONS FROM CAPITAL GAINS (54 SERIES)

S.NO	PARTICULARS	SECTION 54	SECTION 54B	SECTION 54D
1	**Asset Transferred**	Residential House property	Urban Agricultural Land	Compulsory acquisition of land & building forming part of industrial undertaking
2	**Available to**	Individual, HUF	Individual, HUF	Any assessee
3	**Nature of asset**	LTCA	LTCA	LTCA
4	**Condition**	Income from such property shall be taxed U/H. house property	It should be used for agriculture by him or by his parents for 2 years immediately prior to the DOT	Such land & building should be used for business purpose during the two years before the DOT
5	**New Asset to be acquired**	Residential House property	Agricultural Land	Land & building for Industrial purpose
6	**Amount to be Invested**	LTCG on transfer	CG on transfer	
7	**Amount of Exemption**	IF CG < Amount Invested = Full Amount IF CG > Amount Invested = Difference is Taxable		
8	**Time limit**	• For ***Purchase*** - within 1 year before or 2 years after the DOT • For ***Construction*** - within 3 years after DOT	Within 2 years from the DOT	3 years from the DOT
9	**If Amount not utilized till filing of return U/s 139(1)**	Deposit in Nationalized Bank under the Capital Gains Deposit Account Scheme		
10	**If deposit not utilized**	Taxable as LTCG in the PY in which the 3 years from the date of transfer of original assets expires.	Taxable as LTCG or STCG in the PY in which the 2 years from the date of transfer of original assets expires.	Taxable as LTCG or STCG in the PY in which the 3 years from the date of transfer of original assets expires.
11	**Holding period of New asset**	3 years from the date of acquisition or construction	3 years from the Date of Acquisition	
12	**Sale of new asset**	Short term Capital Gain computed as follows Sale consideration of new Asset XXX Less: COA (-) Previously exempted CG XX		

S.NO	PARTICULARS	SECTION 54EC	SECTION 54EE	SECTION 54F
1	**Asset Transferred**	Any LTCA (being land (or) building (or) both)	Any LTCA	Any LTCA other than Residential house property
2	**Available to**	ANY ASSESSEE	ANY ASSESSEE	Individual or HUF
3	**Nature of asset**	LTCA	LTCA	LTCA

4	**Condition**	No loan / advance on the basis of security of these units shall be taken	LTCA transferred on or after 1-4-2016	On the date of transfer Assessee should not own more than one residential House property.
5	**New Asset to be acquired**	NHAI bonds (issued on or after 01.04.2018 redeemable after 5 years) / RECL BONDS/ specified bonds any other bond as may be notified by the C.G	Notified units of specified funds (before 01-04-2019)	residential House property
6	**Amount to be Invested**	LTCG on transfer subject to a max. of 50L	LTCG on transfer subject to a max. of 50L	Net Consideration
7	**Amount of Exemption**	Least of • Amount invested in bonds or • Capital gains	Least of • Amount invested in bonds or • Capital gains	If the cost of new asset < Net sale consideration - $LTCG \times \frac{\text{amount invested}}{\text{Net consideration}}$ **Otherwise** the total amount invested is exempt from tax
8	**Time limit**	Within 6 months from DOT	Within 6 months from DOT	• For ***Purchase*** - within 1 year before or 2 years after the DOT • For ***Construction*** - within 3 years after DOT
9	**If Amount not utilized till filing of return U/s 139(1)**	N.A	N.A	Deposit in Nationalized Bank under the Capital Gains Deposit Account Scheme
10	**If deposit not utilized**	N.A	N.A	Taxable as LTCG in the PY in which the 3 years from the date of transfer of original assets expires.
11	**Holding period of New asset**	3 years from the Date of Acquisition	3 years from the Date of Acquisition	3 years from the date of acquisition or construction
12	**Sale of new asset**	LTCG already exempted shall be charged as LTCG in the year of sale or creation of charge on new asset	LTCG already exempted shall be charged as LTCG in the year of sale or creation of charge on new asset	a) STCG on new asset shall be taxed separately. b) LTCG exempted U/s 54Fshall be chargeable to tax as LTCG in the year of transfer.

1. **For the purpose of Sec.54F,** the assessee should not purchase / construct **any other** residential house within a period of 2 years / 3 years, respectively **from the date of transfer** of the original asset.

2. **EXTENSION OF TIME FOR REINVESTMENT IN CASE OF COMPULSORY ACQUISITION - SEC 54H:**

   a) **Initial compensation:** Capital gain is chargeable to tax in the previous year in which the compensation (or part thereof) is first received. For availing the benefit of exemption under sections 54, 54B, 54D, 54EC and 54F, the new asset should be acquired within the time limit specified for this purpose. But the specified time-limit shall be determined **from the date of receipt of compensation**. If initial compensation is received in parts, then the entire initial compensation is taxable in the year in which a part is first received, but the time-limit for acquiring the new asset under sections 54, 54B, 54D, 54EC and 54F shall be determined on the basis of dates of receipt of different parts of initial compensation.

   b) **Enhanced compensation:** If any enhanced compensation is received, it is taxable in the year in which such compensation is received and for acquiring the new asset under sections 54, 54B, 54D, 54EC and 54F, the time-limit shall be determined **from the date of receipt of additional compensation**.

3. **EXTENSION OF TIME FOR REINVESTMENT IN CASE OF CONVERSION INTO STOCK IN TRADE:** Where a capital asset is Converted into stock-in-trade, the provisions of sec. 45(2) shall apply and the capital gains arising there from is chargeable to tax in the year in which the stock-in-trade is sold or transferred. For the purpose of making investment u/s. 54EC in such a case the period of six months shall be reckoned not from the date of conversion but from the date on which such stock-in-trade is sold or otherwise transferred-CBDT Circular No.791 dated 02.06.2000.

COMMON POINT FOR SEC 54 SERIES:

Capital Gains Accounts scheme (CGAS):

a) The return of income shall be accompanied by proof of such deposit.

b) The amount deposited can be withdrawn for utilization in accordance with the scheme, for the specified purpose.

TREATMENT FOR UNUTILIZED AMOUNT IN C.G.A.S:

$$\frac{\text{Amount not utilised x Long Term Capital Gain}}{\text{Net Consideration}}$$

SOME CLARIFICATIONS FOR SEC 54 SERIES

(FOR STUDENT'S SELF-STUDY)

1. *For the purpose of Sec.54 and 54F, cost of land acquired by the assessee will also be eligible for exemption along with the cost of construction or acquisition.*

2. *For Sec.54/54F, the word house property means building or land appurtenant there to.*

3. *Conversion of joint ownership into single ownership by payment being made to other joint owners amounts to purchase.*

4. *House property does not mean an independent house property only. It includes flats in apartment & joint ownership as well.*

5. *Purchase of the house property which is already in occupation of the assessee in the capacity of the tenant is taken as an eligible purchase.*

6. *Sale of > 1 house property & purchase/construction of a single property is permissible.*

7. *Construction of 2nd floor on existing property is valid.*

8. *For the purpose Sec.54B & 54D usage as a tenant is also to be considered.*

9. *In case of Sec.54D, the assets to be sold are depreciable assets, the resulting C.G. can only be either STCG or STCL.*

10. *Expenses incurred for registration of property will be considered as investment.*

11. *Expenditure incurred for construction before the date of transfer of the asset becomes eligible for exemption u/s.54 or 54F.*

12. *The construction of the new house may start before the date of transfer, but it should be completed after the date of transfer of the original house.*

13. *Construction need not be completed in full.*

14. *Where a person who sold the house property has died, even if his legal representatives fulfils the condition as to purchase or construction of a new residential house within the stipulated period, the benefit of Sec.54 can be taken by such representatives.* ***However****, the unutilised amount in the CGA scheme is not taxable in the hands of the legal heirs of the deceased.*

15. *If the assessee complies with the conditions given in Sec.53A of the transfer of property act within given time, he is eligible for exemption even if the sale deed was not registered.*

16. *The cost of the bonds purchased under eligible issue of capital for which exemption under Sec.54EC is claimed, will not qualify for deduction under Sec.80C.*

(Teach problems No. 5 to 13 of classroom discussion)

Illustration 14: *R owned 5 acres of agricultural land within the city limits of Guntur which he had purchased on October 1, 1993 for Rs.5,00,000. On October 1, 2018 he sold the land for Rs.50,00,000. On January 1, 2019, he purchased a coffee estate for Rs.20,00,000. This estate is situated in a remote village and the nearest town is about 20 kilometers away from the estate. On February 28, 2020, he sold the estate for Rs.35,00,000. Compute the Capital Gains for the assessment years 2019-20 and 2020-21.*

Solution:

Computation of Capital Gains in the hands of Mr. R for the A.Y. 2019-20

Consideration	*50,00,000*
(-) Indexed Cost of Acquisition (5,00,000× 280/100)	*(14,00,000)*
Gross LTCG	*36,00,000*
*(-) **Exemption U/s 54B***	
Invst. 20,00,000 (or) C.G ↓	*(20,00,000)*
Net LTCG	*16,00,000*

ii) Sale of coffee estate:

Assessment year: *2020-21.* ***Sale of coffee estate:*** *Since the asset transferred is not a capital Asset nothing will be taxable as Capital Gain.*

Illustration 15: *ABC Ltd. purchased a building for an industrial undertaking on 01-01-2017 for Rs. 4,00,000. Prior to this the company had taken this building on rent for the last two years and was using it for its industrial activities. There is no other building in the block. This property was compulsorily acquired by the State Government on 14-08-2018 and a compensation of Rs. 5,00,000 was given to the company on 21-03-2019. The company purchased another building for shifting its industrial undertaking for 3,00,000 on 15-09-2019. Compute the capital gains for the A.Y. 2019-20. (Assume dep. Rate - 15%).*

Solution:

Computation of capital Gains in the hands of ABC Ltd for the A.Y 2019-20

Consideration	*5,00,000*
(-) Opening WDV: 01-04-18 (WN-1)	*(3,14,500)*
(-) Cost of Additions	*-*
Gross ST CG's	*1,85,500*
(-) Exemption u/s 54D	*(1,85,500)*
Invst. 3,00,000 (or) C.Gs' 1,85,500 ↓)	
Net taxable capital gains	*0*

Note-1: *It was given that there is only one asset in that Block. The same was sold during the previous year 2018-19. Therefore, it can be concluded that there was no single asset in that block as on the date of previous year. Sec.32 fails and Sec 50 is applicable.*

WN-1: Sec 43 (6)

Cost of the Asset	*4,00,000*
(-) Dep. [1.1.2017 to 31.3.2017] (4,00,000 ×15%× ½)	*30,000*
Closing WDV as on 31.03.17	*3,70,000*
(-) Dep. [1.4.17 to 31.3.18] (3,70,000 × 15%)	*(55,500)*
WDV as on 31.03.18	*3,14,500*

Note-2: *Usage as a tenant will also be Considered for the purpose of claiming exemption U/s 54D.*

Total period of usage = 2 years (Tenant) + 1 year 8 months (as an owner) = 3 years 8 months.

Note-3: *By application of Sec.54H. The asset can be acquired / constructed within three years from the date of receipt of compensation instead of the date of transfer.*

(Solve Problem No. 11 of Assignment problems as rework)

Illustration 16: *Mr. Chandru transferred a vacant site on 28-10-2018 for Rs.100 lakhs. The site was acquired for Rs.9,99,300 on 30-06-2000. He invested Rs.50 lakhs in eligible bonds issued by Rural Electrification Corporation Ltd. (RECL) on 20-03-2019.* ***(OLD PM)***

Again, he invested Rs.20 lakhs in eligible bonds issued by National Highways Authority of India (NHAI) on 16-04-2019.

Compute the chargeable capital gain in the hands of Chandru for the year A.Y. 2019-20

Solution:

Computation of capital gains in the hands of Mr. Chandru for the A.Y. 2019-20

Particulars	***Amount (Rs.)***	***Amount (Rs.)***
Sale consideration		*1,00,00,000*
Less: *Indexed cost of acquisition (Rs.9,99,300 × 280 /100)*		*27,98,040*
		72,01,960
Less: *Deduction under section 54EC*		
RECL bonds (issued as on 20.03.2019)	*50,00,000*	
		50,00,000
Long term capital gain		***22,01,960***

Note: *However, investments made in such bonds by an assessee during any financial year cannot exceed Rs.50 lakhs.*

PROBLEMS FOR CLASSROOM DISCUSSION

PROBLEM 1: Mr. A, is an individual carrying on business. His stock and machinery were damaged and destroyed in a fire accident. The value of stock lost (totally damaged) was Rs.6,50,000. The opening WDV of the block as on 1-4-2018 was Rs.10,80,000.

During the process of safeguarding machinery and in the firefighting operations, Mr. A lost his gold chain and a diamond ring, which he had purchased in April, 2005 for Rs.1,20,000. The market value of these two items as on the date of fire accident was Rs.1,80,000.

Mr. A received the following amount from the insurance company:

a) Towards loss of stock Rs.4,80,000

b) Towards damage of Machinery Rs.6,00,000

c) Towards gold chain and diamond ring Rs.1,80,000

You are requested to briefly comment on the tax treatment of the above three items under the provisions of the income-tax Act, 1961. ***(NEW SM, OLD PM)***

(ANS.: BUSINESS LOSS 1,70,000; STCL - RS. 4,80,000; LTCL - RS. 1,07,179)

Note:____

PROBLEM 2: (PRINTED SOLUTION AVAILABLE) Mr. X purchased a residential plot on 01.01.1998 for Rs.50,00,000. FMV of plot as on 01.04.2001 is Rs.65,00,000. Alpha builder enters into a Development Agreement with Mr. X on 01.05.2018 on the following terms and conditions:

a) Mr. X will hand over the possession of plot to Alpha Builders on 01.05.2018.

b) Alpha builders will pay a cheque of Rs.60,00,000 to Mr. X on 01.05.2018.

c) Alpha builders will construct 10 residential units on the plot of land and will give 6 units to Mr. X. The 10 units shall be completed by 30.06.2020 and on that date 6 units will be handed over to Mr. X.

d) The stamp duty value of plot as on 01.05.2018 in Rs.2 Crores.

e) The stamp duty value of each flat on 30.06.2020 is Rs.45 Lakhs

CASE I: The project completion certificate is issued by competent authority on 30.06.2020. 6 units are handed over to Mr. X on 30.06.2020.

CASE II: The project completion certificate is issued by competent authority on 30.04.2021 and on that date the stamp Duty Value of each flat is Rs.50 Lakh. 6 units are handed over to Mr. X on 30.04.2021.

(ANS.: CASE I: LTCG: RS. 1,48,00,000; CASE II: LTCG: RS. 1,78,00,000)

Note:____

PROBLEM 3: X acquired a house for Rs.20,000 in 1980-81. On his death in October 1995, the house was acquired by his son Y. The market value of the house as on 01-04-2001 was Rs. 80,000. This house was acquired by the Government on 15-03-2016 for Rs.3,00,000 and a compensation of Rs. 2,20,000 is paid to him on 25-03-2018 and the balance Rs. 80,000 on 15-04-2018. Y filed a suit against the Government challenging the quantum of compensation and the court ordered for giving of additional compensation of Rs.1,00,000. He incurred an expenditure of Rs. 2,000 in connection with the suit. The additional compensation is received on 14-03-2019. Compute the capital gains chargeable to tax. ***(ANS.: LTCG FOR A.Y. 2018-19 IS RS. 96,800 AND CAPITAL GAIN FOR A.Y. 2019-20 IS RS. 98,000)***

Note:____________________________________

PROBLEM 4: (PRINTED SOLUTION AVAILABLE) R owns a residential house which was purchased by him in 2000 for Rs. 60,000. The fair market value of the house as on 01-04-2001 was Rs.1,50,000. This house is sold by him on 16-07-2018 for a consideration of Rs.17,50,000. The brokerage and other expenses on the transfer were Rs.12,000. The due date of furnishing the return of income is 31st July, 2019. Compute the capital gain for the assessment year 2019-20, if:

a) He invests Rs. 3,00,000 for purchase of a new house on 14-05-2019

b) He purchased a piece of land for construction of a house on 21-10-2017 for 2,00,000 and deposited Rs. 1,00,000 in the Capital Gains Accounts Scheme on 15-07-2019 and a further sum of Rs. 1,50,000 on 31-07-2020.

c) He invested Rs. 3,15,000 on construction of an additional floor at a residential house already owned by him. The investment is made during the period.01-10-2018 to 31-12-2018.

d) He invested Rs.4,00,000 in Capital Gains Accounts Scheme on 29-07-2019 and 1,00,000 on 01-08-2019. He purchased a house property on 05-08-2019 for Rs. 2,50,000 by withdrawing this amount from the Scheme. No further investments were made by him.

(ANS.: GROSS LTCG: RS. 13,18,000; A) 10,18,000 B) 10,18,000; C) 10,03,000; D) 9,18,000.)

(SOLVE PROBLEM NO. 5 OF ASSIGNMENT PROBLEMS AS REWORK)

Note:____________________________________

PROBLEM 5: G sold a residential house on 28-06-2018 for Rs.10,00,000. He had purchased this house on 01-10-2003 for Rs.1,20,000 and he spend Rs. 70,000 on improvement of the house during the year 2005-06. He purchased a new house on 21-10-2018 for Rs. 3,00,000. This house was also sold by him on 16-07-2019 for Rs. 6,00,000. He purchased another house on 21-01-2019 for Rs.8,00,000. Compute the C.G.'s for the A.Y. 2019-20 and 2020-21.

(OLD SM) (ANS.: CAPITAL GAINS FOR A.Y. 2019-20: RS. 2,24,223; A.Y. 2020-21: STCG: RS. 6,00,000)

(SOLVE PROBLEM NO. 3 OF ASSIGNMENT PROBLEMS AS REWORK)

Note:____________________________________

PROBLEM 6: M sold gold ornaments on 16-07-18 for a sum of 10,00,000. This gold was purchased in 2000 for Rs.60,000 by his father. The FMV of the gold as on 01-04-2001 was Rs.1,00,000. His father gifted the gold to M on 14-07-2018. He spent Rs. 2,00,000 till 31-07-2019 (the due date for filing of the return) on construction of a house property and deposited Rs. 5,00,000 before 31-07-2019 under capital gain scheme and a further sum of Rs. 1,50,000 on 31-08-2019. He withdrew a sum of Rs.4,00,000 for construction of the house property till the stipulated time. Compute the C.G. for various relevant assessment years. ***(ANS.: AY 2019-20: LTCG: RS. 2,70,000; AY 2022-23: LTCG: RS. 90,000)***

(SOLVE PROBLEM NO.13 OF ASSIGNMENT PROBLEMS AS REWORK)

Note:____________________________________

PROBLEM 7: Ashwin owns a residential house which is self-occupied and also a house plot. He sells the house on 31.01.2019 and the house plot on 15.02.2019 for Rs.7,50,000 and Rs.5,00,000 respectively. The house was purchased on 15.01.2011 for Rs.4,00,000 and the plot on 30.3.2011 for Rs.2,00,000. Ashwin has purchased a new residential house on 25.4.2019 for Rs.10,00,000. Compute the income under "C.G." ***(ANS.: CAPITAL GAINS: NIL)***

Note:____

PROBLEM 8: Mr. 'X' furnishes the following data for the previous year ending 31.03.2019:

1. Unlisted Equity Shares of AB Ltd., 10,000 shares were sold on 31.05.2018, at Rs. 500 for each share.
2. The above shares of 10,000 were acquired by 'X' in the following manner:
   a) Received as gift from his father 01.06.2001 (5,000 shares) the market price on 01.04.2001 Rs.50 per share.
   b) Bonus shares received from AB Ltd. on 21.07.2009 (2,000 shares)
   c) Purchased on 01.02.2012 at the price of Rs.125 per share (3,000 shares)
3. Purchased one residential house at Rs.25 lakhs, on 01.05.2019 from the sale proceeds of shares.
4. 'X' is already owning a residential house, even before the purchase of above house.

You are required to compute the taxable capital gain. He has no other source of income chargeable to tax. ***(NEW SM) (ANS.: LTCG: RS.18,64,674)***

(SOLVE PROBLEM NO. 14 OF ASSIGNMENT PROBLEMS AS REWORK)

Note:____

PROBLEM 9: (PRINTED SOLUTION AVAILABLE) Mr. Malik owns a factory building on which he had been claiming depreciation for the past few years. It is the only asset in the block. The factory building and land appurtenant thereto were sold during the year. The following details are available:

Particulars	Rs.
Building completed in September, 2010 for	10,00,000
Land appurtenant thereto purchased in April, 2003 for	12,00,000
Advance received from a prospective buyer for land in May, 2004, forfeited in favour of assessee, as negotiations failed	50,000
WDV of the building block as on 1.4.2018	8,74,800
Sale value of factory building in November, 2018	8,00,000
Sale value of appurtenant land in November, 2018	40,00,000

The assessee is ready to invest in long-term specified assets under section 54EC, within specified time.

Compute the amount of taxable capital gain for the assessment year 2019-20 and the amount to be invested under section 54EC for availing the maximum exemption. ***(NEW SM) (ANS.: LTCG RS. 9,71,072)***

Note:____

PROBLEM 10: (PRINTED SOLUTION AVAILABLE) Mr. Raj kumar sold a house to his friend Mr. Dhuruv on 1st November, 2018 for a consideration of Rs.25,00,000. The sub-registrar refused to register the document for the said value, as according to him, stamp duty had to be paid on Rs.45,00,000, which was the Government guideline value. Mr. Raj kumar preferred an appeal to the revenue divisional officer, who fixed the value of the house as Rs.32,00,000 (Rs.22,00,000 for land and the balance for building portion). The differential stamp duty was paid, accepting the said value determined. What are the tax implications in the hands of Mr. Raj kumar and Mr. Dhuruv for the assessment year 2019-20? Mr. Raj kumar had purchased the land on 1st June, 2011 for Rs.5,19,000 and completed the construction of house on 1st October, 2017 for Rs.14,00,000.

Cost inflation indices may be taken as 184 for the financial year 2011-12, 272 for the financial year 2017-18, and 280 for the financial year 2018-19. ***(OLD PM, RTP-M16)***

(ANS.: RAJ KUMAR: LTCG RS. 14,10,217, DHURUV: IFOS RS.7,00,000)

(SOLVE PROBLEM NO.11, 12, 15, 16 OF ASSIGNMENT PROBLEMS AS REWORK)

Note:____

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PROBLEM 11: (PRINTED SOLUTION AVAILABLE) Mr. C inherited from his father 8 plots of land in 2000. His father had purchased the plots in 1981 for Rs. 5 lakhs. The fair market value of the plots as on 01.04.2001 was Rs. 8 lakhs (Rs.1 lakh for each plot).

On 1st June 2002, C started a business of dealer in plots and converted the 8 plots as stock in- trade of his business. He recorded the plots in his books at Rs. 45 lakhs being the fair market value on that date. In June 2007, C sold the 8 plots for Rs. 50 lakhs

In the same year, he acquired a residential house property for Rs. 35 lakhs. He invested an amount of Rs. 5 lakhs in construction of one more floor in his house in June 2008. The house was sold by him in June 2018 for Rs.75,00,000.

The valuation adopted by the registration authorities for charge of stamp duty was Rs. 98,00,000. As per the assessee's request, the Assessing Officer made a reference to a Valuation Officer. The value determined by the Valuation Officer was Rs. 1,05,00,000. Brokerage of 1 % of sale consideration was paid by C.

Give the total income & tax computation for the Assessment Year 2019-20. ***(OLD PM, RTP - M17)***

(ANS.: TOTAL INCOME: RS. 11,06,200 (ROUNDED OFF), TAX LIABILITY: RS. 1,78,090)

Note:____

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PROBLEM 12: (PRINTED SOLUTION AVAILABLE) Mr. Roy, aged 55 years owned a Residential House in Ghaziabad. It was acquired by Mr. Roy on 10.10.2008 for Rs.24,00,000. He sold it for Rs.65,00,000 on 04.11.2018. The stamp valuation authority of the State fixed value of the property at Rs.72,00,000. The assessee paid 2% of the sale consideration as brokerage on the sale of the said property.

Mr. Roy acquired a residential house property at Kolkata on 10.12.2018 for Rs.7,00,000 and deposited Rs.3,00,000 on 10.04.2019 and Rs.5,00,000 on 15.06.2019 in the capital gains bonds of Rural Electrification Corporation Ltd. He deposited Rs.4,00,000 on 06.07.2019 and Rs.9,00,000 on 01.11.2019 in the capital gain deposit scheme in a Nationalized Bank for construction of an additional floor on the residential house property in Kolkata.

Compute the Capital Gain chargeable to tax for the Assessment Year 2019-20 and income-tax chargeable thereon assuming Mr. Roy has no other income.

Cost Inflation Index for Financial Year 2008-09: 137 and Financial Year 2018-2019: 280.

(NEW SM, OLD PM) (ANS.: LONG TERM CAPITAL GAIN: RS.7,64,890, TAX LIABILITY: RS.1,07,100)

Note:____

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ASSIGNMENT PROBLEMS

PROBLEM 1: A is the owner of a car. On 1-4-2018, he starts a business of purchase and sale of motor cars. He treats the above car as part of the stock-in-trade of his new business. He sells the same on 31-3-2019 and gets a profit of Rs. 1 lakh. Discuss the tax implication.

(NEW SM, OLD SM) (ANS.: A IS NOT LIABLE)

PROBLEM 2: X converts his capital asset (acquired on June 10, 2003 for Rs. 60,000) into stock-in-trade on March 10, 2018. The fair market value on the date of the above conversion was Rs. 5,50,000. He subsequently sells the stock-in-trade so converted for Rs. 6,00,000 on June 10, 2018. Discuss the year of chargeability of capital gain. ***(NEW SM, OLD SM) (ANS.: YEAR OF CHARGEABILITY IS PY 18-19)***

PROBLEM 3: Compute the net taxable capital gains of Smt. Megha on the basis of the following information. A house was purchased on 1.5.2008 for Rs. 4,50,000 and was used as a residence by the owner. The owner had contracted to sell this property in June, 2009 for Rs. 10 lacs and had received an advance of Rs. 70,000 towards sale. The intending purchaser did not proceed with the transaction and the advance was forfeited by the owner. The property was sold in April, 2018 for Rs. 16,00,000. The owner, from out of sale proceeds, invested Rs.3 lacs in a new residential house in January, 2019. ***(OLD PM) (ANS.: LTCG RS. 5,23,358)***

PROBLEM 4: Mr. Cee purchased a residential house on July 20, 2014 for Rs. 10,00,000 and made some additions to the house incurring Rs. 2,00,000 in August 2014. He sold the house property in April 2018 for Rs. 20,00,000. Out of the sale proceeds, he spent Rs. 5,00,000 to purchase another house property in September 2018.

What is the amount of capital gains taxable in the hands of Mr. Cee for the A.Y. 2019 - 20?

(NEW SM, OLD SM) (ANS.: STCG RS.8,00,000)

PROBLEM 5: Mr. Sagar, a resident individual acquired a plot of land at a cost of Rs. 75,000 in June, 2010. He constructed a house for his residence on that land at a cost of Rs. 1,25,000 in the financial year 2012-13.

He transferred the house for Rs. 15,00,000 in May, 2018 and acquired another residential house in June, 2018 for Rs. 8,00,000.

He furnishes other particulars as under:

Insurance agency commission earned (Net of TDS of Rs. 5,000)	45,000
Investment in NSC VIII issue (i.e. on 20-3-2018)	20,000

Compute the total income of Mr. Sagar for the assessment year 2019-20. ***(OLD PM) (ANS.: RS. 4,29,251)***

PROBLEM 6: PQR Ltd., purchased a building for industrial undertaking in May 2004, at a cost of Rs. 4,00,000. The above property was compulsorily acquired by the State Government at a compensation of Rs. 12,00,000 in the month of January, 2019. The compensation was received in March, 2019. The company purchased another building for its industrial undertaking at a cost of Rs. 2,00,000 in the month of March, 2019. What is the amount of the capital gains chargeable to tax in the hands of the company for the A.Y. 2019-20? ***(OLD SM) (ANS.: LTCG RS.8,850)***

PROBLEM 7: Ms. Anshu transfers land and building on 02-01-2019 and furnishes the following information:

Particulars	Rs.
Net consideration received	23,00,000
Value adopted by Stamp Valuation Authority	25,00,000
Value ascertained by Valuation Officer on reference by the Assessing Officer	27,00,000
This land was acquired by Anshu on 1-04-2001. Fair Market Value of the land as on 01-04-2001 was	1,10,000
Anshu constructed a residential building on the land at a cost of Rs.3,20,000 (construction completed on 01-12-2003 during the financial year 2003-04) Brought forward short term capital loss incurred on sale of shares during financial year 2012-13 is.1,50,000,	

Anshu seeks your advice regarding the amount to be invested in NHAI bonds so as to be exempt from capital gain tax under the Income-tax Act, 1961. ***(OLD PM) (ANS.: LTCG RS.12,19,982)***

PROBLEM 8: Mr. Selvan, acquired a residential house in January, 2001 for Rs. 10,00,000 and made some improvements by way of additional construction to the house, incurring expenditure of Rs. 2,00,000 in October, 2005. He sold the house property in October, 2018 for Rs. 75,00,000. The value of property was adopted as Rs. 80,00,000 by the State stamp valuation authority for registration purpose. He acquired a residential house in January, 2018 for Rs. 25,00,000. He deposited Rs. 20,00,000 in capital gains bonds issued by National Highways Authority of India (NHAI) in June, 2019.

Compute the capital gain chargeable to tax for the assessment year 2019-20.

What would be the tax consequence and in which assessment year it would be taxable, if the house property acquired in January 2018 is sold for Rs. 40,00,000 in March, 2020?

(OLD PM, MTP M17) (ANS: (I) CG: RS.22,21,368; (II) STCG: RS.40,00,000)

PROBLEM 9: Ms. Vimala sold a residential building at Jodhpur for Rs. 15,00,000 on 01-07-2018.

The building was acquired for Rs. 1,50,000 on 01-06-2008.

She paid brokerage @ 2% at the time of sale of the building. She invested Rs.7 lakhs in purchase of a residential building in December 2018 and deposited Rs. 2 lakhs in NHAI Capital Gains Bond in March, 2019. Compute her taxable capital gain. ***(OLD PM) (ANS: LTCG RS.4,63,431)***

PROBLEM 10: Mr. Kumar, aged 50 years, is the owner of a residential house which was purchased in September, 2004 for Rs. 5,00,000. He sold the said house on 5th August, 2018 for Rs. 24,00,000. Valuation as per stamp valuation authority of the said residential house was Rs.43,00,000. He invested Rs. 5,00,000 in NHAI Bonds on 12th January, 2019. He purchased a residential house on 5th July, 2019 for Rs. 10,00,000. He gives other particulars as follows:

Interest on Bank Fixed Deposit	Rs. 32,000
Investment in public provident fund	Rs. 50,000

You are requested to calculate the taxable income for the assessment year 2019-20 and the tax liability, if any. ***(OLD PM) (ANS.: TOTAL INCOME RS.15,61,062 & TAX PAYABLE RS.2,20,700)***

PROBLEM 11: Ms. Gunjan purchased a land at a cost of Rs. 50 lakh in the financial year 2002-03 and held the same as her capital asset till 31st August, 2013. She started her real estate business on 1st September, 2013 and converted the said land into stock-in-trade of her business on the said date, when the fair market value of the land was Rs. 320 lakh.

She constructed 8 flats of equal size, quality and dimension. Cost of construction of each flat is Rs. 36 lakh. Construction was completed in January, 2019. She sold 5 flats at Rs. 90 lakh per flat in February, 2019.

She invested Rs. 70 lakh in bonds issued by National Highways Authority of India on 31st March, 2019.

Compute the capital gains and business income arising from the above transactions in the hands of Ms. Gunjan for Assessment Year 2019-20 indicating clearly the reasons for treatment for each item.

(RTP N14) (ANS.: LONG TERM CAPITAL GAIN RS.84,52,381 & BUSINESS INCOME RS.70,00,000)

PROBLEM 12: State with reasons whether the following statements are true or false having regard to the provisions of the Income-tax Act, 1961:

a) Capital gain of Rs.75 lakh arising from transfer of long term capital assets on 11.6.2018 will be fully exempted from tax if such capital gain is invested in the bonds redeemable after three years, issued by NHAI under section 54EC.

b) As per section 49(2A), read with section 47(xa) of the Income-tax Act, 1961, no capital gains would arise on conversion of foreign currency exchangeable bonds into shares or debentures, for facilitating the issue of FCEBs by companies.

c) Mrs. X, an individual resident woman, wanted to know whether income-tax is attracted on sale of gold and jewellery gifted to her by her parents on the occasion of her marriage in the year 1979 which as purchased at a total cost of Rs. 2,00,000? ***(OLD PM) (REFER SEC.47)***

(ANS.: A) FALSE B) TRUE; C) LONG TERM CAPITAL GAIN WILL OCCUR ON THE SALE OF JEWELLERY)

PROBLEM 13: From the following particulars, compute the taxable capital gains of Mr. D for A.Y. 2019-20

Cost of Jewellery [Purchased in F.Y. 2005-06]	Rs.1,82,000
Sale price of Jewellery sold in January 2019	Rs.11,50,000
Expenses on transfer	Rs.7,000
Residential house purchased in March 2019	Rs.5,00,000

(OLD SM) (ANS.: CG RS.3,97,976)

PROBLEM 14: Mr. Amit furnishes the following data for the previous year ending 31.3.2019:

a) Unlisted Equity Shares of Paras Ltd., 9,500 in number were sold on 31.5.2018, at Rs. 300 for each share.

b) The above shares of 9,500 were acquired by Mr. Amit in the following manner:

- **i)** Received as gift from his father on 27.09.2000 (3,500 shares), the fair market value of which on 01.04.2001 was Rs. 40 per share.
- **ii)** Bonus shares received from Paras Ltd. on 27.10.2000 (3,500 shares).
- **iii)** Purchased on 02.02.2005 at the price of Rs.100 per share (2,500 shares).

c) Purchased one residential house at Rs. 20 lakhs, on 14.04.2019 from the sale proceeds of k

d) Mr. Amit owns a residential house, even before the purchase of above house.

Compute the capital gain chargeable to tax in the hands of Mr. Amit for A.Y. 2019-20.

(OLD PM) (ANS.: LTCG RS.4,31,422)

PROBLEM 15: Resident individual sold his residential house property on 08-06-2018 for Rs. 70 lakhs which was purchased by him for Rs. 20 lakhs on 05-05-2006.

He paid Rs. 1 lakh as brokerage for the sale of said property. The stamp duty valuation assessed by sub registrar was Rs. 80 lakhs.

He bought another house property on 25-12-2018 for Rs. 15 lakhs.

He deposited Rs. 10 lakhs on 10-11-2018 in the capital gain bond of National Highway Authority of India (NHAI).

He deposited another Rs. 5 lakhs on 10-07-2018 in the capital gain deposit scheme with SBI for construction of additional floor of house property.

Compute income under the head "Capital Gains" for A.Y. 2019-20 as per Income-tax Act, 1961 and also income-tax payable on the assumption that he has no other income chargeable to tax.

Cost inflation index for Financial Year 2006-07: 22 and 2018-19: 280.

(NEW SM, OLD PM, M15 - 8M) (ANS.: TAXABLE CAPITAL GAINS: RS.3,09,840; TAX PAYABLE: 9,850)

PROBLEM 16: Mr. Jaiprakash inherited a house in Aligarh under will of his father in October, 2006. The house was purchased by his father in August, 1979 for Rs. 8,25,000. He invested an amount of Rs. 10,50,000 in construction of one more floor in this house in July, 2008.

He decided to sell the property to Mr. Suresh for Rs. 65,00,000 and received an advance of Rs. 6,50,000 in May 2012. Mr. Suresh was unable to pay the balance amount and hence, the entire advance was forfeited by Mr. Jaiprakash.

Again Mr. Jaiprakash entered into an agreement to sell the property to Mr. Mahesh for Rs. 70,00,000 and received advance money of Rs. 7,00,000 in June, 2018. But again the transfer did not materialise due to which the advance money was again forfeited. The house was finally sold by him in November, 2018 for Rs. 85,50,000 to Mr. Dinesh. The valuation adopted by the registration authorities for charge of stamp duty was Rs. 95,25,000 which was not contested by the buyer, but as per assessee's request, the Assessing Officer made a reference to Valuation Officer. The value determined by the Valuation officer was Rs.98,00,000. Brokerage @ 1% of sale consideration was paid by Mr. Jaiprakash to the agent. The fair market value of house as on 01.04.2002 was Rs. 8,30,000.

He invested Rs. 30,00,000 in 3 years bonds of NHAI in January 2019 and Rs. 35,00,000 in 3 years bonds of RECL in April 2019, out of the net consideration arising on sale of residential house.

You are required to compute the gross total income of Mr. Jaiprakash for A.Y. 2019-2020 with the help of the given information and by taking CII for the F.Y. 2006-07: 122, F.Y. 2008-09: 137, F.Y. 2012-13: 200 and for F.Y. 2018-19: 280. ***(RTP N15, SIMILAR: RTP M18 (N&O)) (ANS.: RS.25,80,400)***

PROBLEM 17: Mr. Sunil entered into an agreement with Mr. Dhaval to sell his residential house located at Mumbai on 16.08.2018 for Rs. 80,00,000.

The sale proceeds was to be paid in the following manner;

i) 20% through account payee bank draft on the date of agreement.

ii) 60% on the date of the possession of the property.

iii) Balance after the completion of the registration of the title of the property.

Mr. Dhaval was handed over the possession of the property on 15.12.2018 and the registration process was completed on 14.01.2019, He paid the sale proceeds as per the sale agreement.

The value determined by the Stamp Duty Authority on 16.08.2018 was Rs. 90,00.000 whereas, on 14.01.2019, it was Rs.91,50,000.

Mr. Sunil had acquired the property on 01.04.2001 for Rs.20,00,000. After recovering the sale proceeds from Dhaval, he purchased another residential house property for Rs.35,00,000.

Compute the income under the head "Capital Gains" for the assessment year 2019-2020.

(N17-5M, SIMILAR: RTP N18 (N&O)) (ANS.: LTCL: RS.1,00,000)

LIST OF IMPORTANT CONCEPTS: 1, 2
LIST OF IMPORTANT CLASSROOM DISCUSSION PROBLEMS: 2, 4, 8, 9, 10, 11, 12.
LIST OF IMPORTANT ASSIGNMENT PROBLEMS: 3, 5 7, 8, 10, 11, 12, 13, 15, 16, 17.

INTERESTING PAST EXAM QUESTIONS

Q.No.1. A person is chargeable to tax under the head "Capital gain" only if he has transferred a capital asset during the previous year. Is there any provision under the Income-tax Act, 1961 as to when a person is chargeable to tax under the head "Capital gain" if he purchases a capital asset? Give an example of such provision, if any?

Q.No.2. Discuss the tax implications arising consequent to conversion of a capital asset into stock-in-trade of business and its subsequent sale?

PRINTED SOLUTIONS TO SOME SELECTIVE PROBLEMS

PROBLEM NUMBERS TO WHICH SOLUTIONS ARE PROVIDED: 2, 4, 9, 10, 11, 12

PROBLEM NO. 2

a) There is a "Transfer" on 01.05.2018 in hands of Mr. X since he has given the possession of residential plot pursuant to Development Agreement.

b) However as per section 45(5A) introduced by Finance Act, 2017, the capital gains shall not be taxable in Previous Year 31.03.2019 but shall be taxable in the Previous Year in which certificate of completion is issued by competent Authority. Thus, capital gains shall be taxable.

c) Section 45(5A) is applicable since assessee is an individual

d) The holding period of residential plot shall be taken from 01.01.1998 to 30.04.2018 i.e. long term.

e) As per section 55, the COA of plot is 50,00,000 or FMV as on 01.04.2001, whichever is higher. Therefore, COA of plot is 65,00,000.

f) The sale consideration of plot shall be worked out as under as per section 45(5A):

Sale consideration = SDV on the date of issue of completion certificate of his share in land / building in project plus consideration received in cash.

- **Capital Gains shall be worked out as under:**

CASE I: In Previous Year 31.03.2021, when completion certificate is issued by Competent Authority.

Assessment Year 2021-22

Capital Gains:		
Period of holding	: 01.01.1998 to 30.04.2018	**(Long Term)**
Sales Price:		
SDV of 6 Flats on 30.06.2020 + Cash received	: 45 Lakh x 6 + Rs.60,00,000	Rs.3,30,00,000
Less: Indexed Cost of Acquisition	: 65,00,000 X 280/ 100	Rs.1,82,00,000
Long term Capital Gain		**Rs.1,48,00,000**

CASE II: In Previous Year 31.03.2021, when completion certificate is issued by Competent Authority.

Assessment Year 2022-23

Capital Gains:		
Period of holding	: 01.01.1998 to 30.04.2018	**(Long Term)**
Sales Price:		
SDV of 6 Flats on 30.04.2021 + Cash received	: 50 Lakh x 6 + Rs.60,00,000	Rs.3,60,00,000
Less: Indexed Cost of Acquisition	: 65,00,000 X 280/ 100	Rs.1,82,00,000
Long term Capital Gain		**Rs.1,78,00,000**

PROBLEM NO. 4

Computation of capital gains in the hands of Mr. R for the A.Y. 2018-19

Particulars	
Consideration	17,50,000
(-) Transfer Expenses	(12,000)
Net consideration	17,38,000
(-) Indexed cost of acquisition (1,50,000 x 280 /100)	(4,20,000)
Gross LTCG	**13,18,000**
Case A:	
Gross LTCG	**13,18,000**
(-) Exemption U/s 54 [Amt. of Investment (or) C.G ↓]	(3,00,000)
Net LTCG	**10,18,000**
Case B:	
Gross LTCG	**13,18,000**
(-) Exemption U/s 54 **(Note - 1)** (Amt. of Investment 3,00,000 (Land + Deposit) or C.G ↓)	(3,00,000)
Net LTCG	**10,18,000**
Case C:	
Gross LTCG	**13,18,000**
(-) Exemption U/s 54 (Amt. of Investment 3,15,000 (or) C.G↓)	(3,15,000)
Net LTCG	**10,03,000**
Case D:	
Gross LTCG	**13,18,000**
(-) Exemption U/s 54 **(Note - 2)** (Amt. of Investment 4,00,000 (or) C.G ↓)	(4,00,000)
Net LTCG	**9,18,000**

Note-1: Case B:

Eligible investment:

Cost of land acquired before 1 year = 2,00,000

Amount of deposit = 1,00,000

Total = **3,00,000**

Deposit made after the due date for filing the income is not eligible.

Note-2: Case D: The deposit made on 1st August will not eligible (or) qualify for exemption since it was made after the cut-off date. Unused amount = 4L - 2.5L = 1.5L

PROBLEM NO. 9

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

Particulars	Rs.	Rs.
Factory building Sale price of building	8,00,000	
Less: WDV as on 01.04.2018	(8,74,800)	
Short-term capital loss on sale of building		(-) 74,800
Land appurtenant to the above building: Sale value of land	40,00,000	
Less: Indexed cost of acquisition (Rs. 11,50,000 x 280/ 109)	(29,54,128)	
Long-term capital gains on sale of land		10,45,872
Chargeable long term capital gain		**9,71,072**

Investment under section 54EC: In this case, both land and building have been held for more than 24 months and hence, are long-term capital assets. Exemption under section 54EC is available if the capital gains arising from transfer of a long-term capital asset are invested in long-term specified assets like bonds of National Highways Authority of India and Rural Electrification Corporation Ltd. or bonds notified by Central Government in this behalf, within 6 months from the date of transfer. As per section 54EC, the amount to be invested for availing the maximum exemption is the net amount of capital gain arising from transfer of long-term capital asset, which is Rs. 9,71,072 (rounded off to Rs. 9,71,070) in this case.

Notes:

1. Where advance money has been received by the assessee, and retained by him, as a result of failure of the negotiations, section 51 will apply. The advance retained by the assessee will go to reduce the cost of acquisition. Indexation is to be done on the cost of acquisition so arrived at after reducing the advance money forfeited i.e. Rs. 12,00,000 - Rs. 50,000 = Rs. 11,50,000. It may be noted that in cases where the advance money is forfeited during the previous year 2016-17 or thereafter, the amount forfeited would be taxable under the head "Income from Other Sources" and such amount will not be deducted from the cost of acquisition of such asset while calculating capital gains.
2. Factory building on which depreciation has been claimed is a depreciable asset. Profit / loss arising on sale is deemed to be short-term capital gain/loss as per section 50, and no indexation benefit is available.
3. Land is not a depreciable asset, hence section 50 will not apply. Being a long-term capital asset (held for more than 24 months), indexation benefit is available.
4. As per section 74, short term capital loss can be set-off against any income under the head "Capital gains", long-term or short-term. Therefore, in this case, short term capital loss of Rs. 74,800 can be set-off against long-term capital gain of Rs. 10,45,872.

PROBLEM NO. 10

In the hands of Mr. Raj kumar (Seller):

Computation of capital gains in the hands of Mr. Raj kumar for A.Y. 2019-20

Particulars	Rs.
On sale of land:	
Consideration received or accruing as a result of transfer of land	22,00,000
Less: Indexed cost of acquisition Rs.5,19,000 x 280 / 184	(7,89,783)
Long-term capital gain (A)	**14,10,217**
On sale of building:	
Consideration received or accruing from transfer of building	10,00,000
Less: Cost of acquisition	(14,00,000)
Short term capital loss (B)	**4,00,000**

As per section 70, short-term capital loss can be set-off against long-term capital gains. Therefore, the net taxable long-term capital gains would be **Rs. 10,10,217 (i.e., Rs. 14,10,217 - Rs.4,00,000)**.

Note: In the given problem, land has been held for a period exceeding 24 months and building for a period less than 24 months immediately preceding the date of transfer. So land is a long-term capital asset, while building is a short-term capital asset.

In the hands of Mr. Dhuruv (Buyer):

As per section 56(2)(x), where an individual receives from a non - relative, any immovable property for a consideration which is less than the stamp duty value (or the value reduced by the appellate authority, as in this case) by an amount exceeding Rs. 50,000, then the difference between such value and actual consideration of such property is chargeable to tax as income from other sources. Therefore, Rs. 7,00,000 (i.e. Rs. 32,00,000 - Rs. 25,00,000) would be charged to tax as income from other sources under section 56(2)(x).

PROBLEM NO. 11

Computation of Total Income and Tax Liability of Mr. C for A.Y. 2019-20

Particulars	Amount	Amount
Capital Gains on sale of residential house property		
Value declared by Mr. C	75,00,000	
Value adopted by Stamp Valuation Authority	98,00,000	
Valuation as per Valuation Officer.	1,05,00,000	
Gross Sale consideration (See Note 1)		98,00,000
Less: Brokerage @ 1% of sale consideration		(75,000)
Net Sale consideration		**97,25,000**
Less: Indexed cost of acquisition (Rs. 35,00,000 × 280/ 129)	75,96,899	
Indexed cost of improvement (Rs. 5,00,000 × 280/ 137)	10,21,898	(86,18,797)
Long-term capital gains (Total Income)		**11,06,203**
Total Income Rounded off		**11,06,200**
Tax on total income (See Note 2) Long-term capital gain taxable @ 20% (Rs. 11,06,200 - Rs. 2,50,000) **Add:** Health and Education cess @ 4% Total tax liability		 1,71,240 6,850 **1,78,090**

Notes:

1. As per section 50C, in case the value of sale consideration declared by the assessee is less than the value adopted by the Stamp Valuation Authority for the purpose of charging stamp duty, then, the value adopted by the Stamp Valuation Authority shall be taken to be the full value of consideration. In case the valuation is referred to the Valuation Officer and the value determined is more than the value adopted by the Stamp Valuation Authority, the value determined by the Valuation Officer shall be ignored. Therefore, in the present case, the sale consideration would be the stamp valuation of Rs.98,00,000, since the same is more than the sale value declared by Mr. C and less than the value determined by the Valuation Officer.
2. As per section 112, the unexhausted basic exemption limit can be exhausted against the long-term capital gains. Since Mr. C does not have any other income in the current year, the whole of the basic exemption limit of Rs. 2,50,000 is exhausted against the long-term capital gains of Rs. 11,06,203, Mr. C is a resident individual below the age of 60 years.

PROBLEM NO.12

Computation of Capital Gains in the hands of Mr. Roy for the A.Y. 2019-20

Particulars	Rs.	Rs.
Gross Sale Consideration on transfer of residential house **(W.N: 1)**		72,00,000
Less: Brokerage @ 2% of actual sale consideration of Rs. 65,00,000		(1,30,000)
Net Sale Consideration		70,70,000
Less: Indexed cost of acquisition [Rs. 24,00,000 x 280/ 137]		(49,05,109),
Long-term capital gain		21,64,891
Less: Exemption under section 54 **(W.N: 2)**	11,00,000	
Exemption under section 54EC **(W.N: 3)**	3,00,000	14,00,000
Long-term capital gain (rounded off)		**7,64,890**

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

Particulars	Rs.	Rs.
L.T.C.G	7,64,890	
Less: Basic Exemption Limit	(2,50,000)	
	5,14,890	
Tax @ 20% on 5,14,890		1,02,978

Add: Health and Education Cess @ 4%		4,119
Tax liability		**1,07,097**
Rounded off		**1,07,100**

W.N: 1: As per section 50C, in case the actual sale consideration is lower than the stamp duty value fixed by the stamp valuation authority, the stamp duty value shall be deemed as the full value of consideration.

W.N: 2: Eligible Amount u/s 54:

Acquisition of residential house property at Kolkata on 10.12.2018 (i.e., within the prescribed time of two years from 04.11.2018, being the date of transfer of residential house at Ghaziabad).	7,00,000
Amount deposited in Capital Gains Accounts Scheme on or before the due date of filing return of income for construction of additional floor on the residential house property at Kolkata. Since Mr. Roy has no other source of income, his due date for filing return of income is 31st July, 2019. [Therefore, Rs. 4,00,000 deposited on 06.07.2019 will be eligible for exemption whereas Rs. 9,00,000 deposited on 01.11.2019 will not be eligible for exemption under section 54]	4,00,000
	11,00,000

Amount of Exemption u/s 54:

L.T.C.G
or
Eligible Amount

Whichever is lower

i.e., 21,64,891 (OR) 11,00,000, Whichever is lower = 11,00,000

W.N: 3:

Exemption under section 54EC: Amount deposited in capital gains bonds of RECL within six months from the date of transfer (i.e., on or before 03.05.2019) would qualify for exemption.

[Therefore, in this case, Rs. 3,00,000 deposited in capital gains bonds of RECL on 10.04.2019 would be eligible for exemption under section 54EC, whereas Rs. 5,00,000 deposited on 15.06.2019 would not qualify for exemption].

THE END