UNIT 9 CAPITAL GAINS

Structure

9.0 OBJECTIVES

After studying this unit, you should be able to :

- explain the meaning of the term capital gains;
- list the capital gains exempt from tax;
- discuss the deductions allowed from long-term capital gains;
- compute the income chargeable under the head capital gains.

9.1 INTRODUCTION

You know 'capital gains' is a separate head of income and any income arising out of sale or transfer of 'a capital' asset is charged to tax under this head. In this unit, you will study the meaning of capital gains, items included in capital gains capital gains exempt from tax and the deductions allowed from capital gains. You will also study how the taxable income from capital gains is calculated.

9.2 MEANING OF CAPITAL GAINS

Any profits or gains arising from the transfer of a capital asset effected in the previous year shall be chargeable to income-tax under the head 'Capital Gains', and shall be deemed to be the income of the previous year in which the transfer took place.

The above definition can be split up into three parts:

(a) Capital Asset
(b) Transfer of Capital Asset
(c) Profits or Gains

Let us now discuss each one of them in detail:

9.2.1 Concept of Capital Asset

Capital asset means property of any kind held by an assessee whether or not connected with his business or profession. The asset may be movable, immovable, tangible or intangible. But the term capital asset does not include:

i) any stock-in-trade, consumable stores or raw materials held for the purposes of his business or profession;

ii) personal effects, that is to say, movable property (including wearing apparel and furniture but excluding jewellery) held for personal use by the assessee or any membet of his family dependent on him;

iii) agricultural land in India (situated in rural areas) not being land situated within the limits of any municipality or a cantonment board having a population of 10,000 or more or situated in areas lying within a distance not exceeding 8 kilometres from the local limits of such municipalities or cantonment boards (i.e., agricultural land situated within municipal or cantonment board limits or within a distance of eight kilometres from the local limits of a municipality or cantonment board is included in the term 'Capital Asset' and it is only the agricultural land which is situated outside such limits that is excluded from the term 'Capital Asset').

iv) 6½% Gold Bonds, 1977 or 7% Gold Bonds, 1980 or National Defence Gold Bonds, 1980, issued by the Central Government.

v) Special Bearer Bonds, 1991.

Note : Capital assets include leasehold rights, a partner's right to share in the profits of a firm and manufacturing license. For the purposes of clause (ii) jewellery includes:

a) Ornaments made of gold, silver, platinum or any other precious metal, whether or not worked or sewn into any wearing apparel.

b) Precious or semi-precious stones, whether or not set in any furniture, utensil or other article or worked or sewn into any wearing apparel.

Kinds of Capital Assets : Interestingly the classification of capital asset does not depend on their durability but the period for which they have been held. Capital assets are divided into two categories:

(i) Short-term Capital Asset and (ii) Long-term Capital Asset.

Short-term Capital Asset : Short-term Capital Asset means a capital asset held by an assessee for not more than 36 months immediately preceding the date of its transfer. In the case of a share held in a company, short-term capital asset will mean a share held by the assessee for not more than 12 months instead of 36 months in case of other assets.

Long-term Capital Asset : Long-term Capital Asset means a capital asset (other than shares in a company) held by an assessee for more than **36** months immediately preceding the date of transfer. In the case of shares held in a company, long-term capital asset will mean shares held by the assessee for more than 12 months.

Short-term and Long-term Capital Gains : Capital gains arising from the transfer of short-term Capital Assets are called short-term Capital Gains.

Capital gains arising from the transfer of long-term Capital Assets are called Long-term Capital Gains.

9.2.2 Concept of Transfer

Transfer in relation to a capital asset includes (i) sale, exchange or relinquishment of the assets, or (ii) the extinguishment of any rights therein, or (iii) the compulsory acquisition by the Government under any law, or (iv) where the asset is converted by the owner thereof into stock-in-trade of a business carried on by him, such conversion. Further, where a business is converted into a limited company, there is a transfer of capital assets, or (v) any transaction involving the allowing of the possession of any immovable property to be taken or retained in part performance of a contract of the nature referred to in the Transfer of Property Act, 1882, or (vi) any transaction which has the effect of transferring or enabling the enjoyment of any immovable property.

Transactions not regarded as transfer

The following transactions are generally not regarded as transfer for the purpose of capital gains

i) Any distribution of capital assets on the total or partial partition of a Hindu undivided family.

ii) Any transfer of a capital asset under a gift or will or an irrecoverable trust.

iii) Any transfer of a capital asset by a company to its subsidiary company, if—

a) the parent company holds the whole of the share capital of the subsidiary company, and

b) the subsidiary company is an Indian Company.

iv) Any transfer of a capital asset by a subsidiary company to the holding company, if—

a) the whole of the share capital of the subsidiary company is held by the holding company, and

b) the holding company is an Indian Company. Any transfer of a capital asset as per clause (iii) or (iv) .above shall be treated as transfer if the transfer is made after 29th February, 1968, as Stock-in-trade.

v) Any transfer, in a scheme of amalgamation, of a capital asset by the amalgamating company to the amalgamated company if the amalgamated company is an Indian Company.

vi) Any transfer by a shareholder, in a scheme of amalgamation, of a capital asset being a share or shares held by him in the amalgamating company, if—

a) the transfer is made in consideration of the allotment to him of any share or shares in the amalgamated company, and

b) the amalgamated company is an Indian Company.

vii) Any transfer oi agricultural land in India effected before 1st March, 1970.

viii) Any transfer of a capital asset, being any work of art, archaeological, scientific or art collection, book, manuscript, drawing, photograph or print, to the Government or a University or the National Museum, National Art Gallery, National Archives or any such other public museum or institution as may be notified by the Central Government in Official Gazette to be of national importance or to be of renown throughout any State or States.

Exceptions : If at any time before the expiry of eight years from the date of transfer of a capital asset referred to in clauses (iii) and (iv) above, such capital asset is converted by the transferee company into stock-in-trade of its business or the holding company ceases to hold the whole of the share capital of the subsidiary company before the expiry of the period of eight years from the date of transfer, the arnount of capital gain exempted from tax u/s 47 shall be deemed to be the income of transferor company chargeable under the head 'Capital Gains' of the year in which such transfer took place.

9.3 COMPUTATION OF CAPITAL GAINS

The income chargeable under the head 'Capital Gains' shall be computed by deducting from the full value of the consideration received or accruing as a result of the transfer of the capital asset the following amounts:

a) expenditure incurred wholly and exclusively in connection with such transfer, and

b) the cost of acquisition of the capital asset and cost of any improvement thereof.

This may be explained in the form of equation as under:

Capital Gain = Full value of consideration − (Cost of acquisition + Cost of improvement + Selling Expenses)

9.4 CAPITAL GAINS EXEMPT FROM TAX

As discussed earlier any profits or gains arising from transfer of any capital asset is chargeable under the head capital gains. But any profits or gains arising out of transfer of certain capital assets are exempt from tax i.e., such profits or gains are not included in the taxable income of the assessee.

The capital gains exempt from tax are :

i) Capital gains arising out of the transactions not regarded as transfer u/s 47.

ii) Capital gains arising from the transfer of a residential house subject to the conditions laid down u/s 53.

iii) Capital gains arising on the transfer of property used for residence and the land appurtenant thereto subject to the conditions laid down u/s 54.

iv) Capital gains arising from the transfer of agricultural land situated in an urban area are exempt subject to the provisions contained in Section 54B.

v) Any capital gains arising out of compulsory acquisition of land and buildings are exempt from tax subject to the provisions of Section 54D.

vi) Subject to the conditions of Section 54E, the capital gains arising on transfer of a long-term capital asset are exempt from tax.

vii) Any long-term capital gains arising on investment in residential houses is exempt subject to conditions laid down in Section 54F.

viii) Capital gains on shifting of industrial undertaking from urban area are exempt from tax subject to the conditions laid down in Section 54G.

Note : For the purposes of exemption u/s 53, 54, 54B, 54D, 54E, 54F and 54G capital gain shall be computed as under

Full value of consideration–(Cost of acquisition + Cost of improvement + expenditure incurred in connection with transfer)

Item number ii), iii), iv) and vi)
being more important are explained in detail.

ii) Capital Gains arising from the transfer of a residential house (Sec. 53) Under this section if the following conditions are satisfied the capital gain shall be exempt from tax:

a) The building is owned by an Individual or Hindu Undivided Family

b) The building is used for residential purposes (self-occupied or let out) and its income is chargeable under the head Income from House Property.

c) The building has been held by the assessee for more than 36 months before its transfer.

d) The assessee does not own any other residential house on the date of such transfer.

e) If the consideration received or accruing as a result of the transfer does not exceed Rs. 2 lakhs, the whole amount of capital gain is exempt. If such consideration exceeds Rs. 2 lakhs, the capital gain would be exempted proportionately. In other words, the amount of capital gain to be exempted would bear the same proportion to the amount of the capital gain arising from the transfer as the amount of Rs. 2 lakhs bears to the amount of consideration received or accruing from the transfer.

iii) Capital gains arising on the transfer of property used for **residence (Sec.** 54) : Any capital gain arising from the transfer of a house or land appurtenant thereto is exempt subject to the, following conditions:

a) The building is owned by an individual or H.U.F.

b) Such property was being used as residential house.

c) The income of such property is chargeable under the head income from house property.

d) The exemption will be available only in relation to a house property which had been held by the tax-payer for a period exceeding **36 months** befdre transfer.

e) The assessee has, within a period of one year before or two years' after the date of transfer purchased a residential house

he has within a period of three years after the date of transfer constructed a residential house.

f) The capital gains arising from the transfer of such residential house is exempt to the extent of the cost of the new residential house purchased or constructed within the specified period. It means that if, the whole capital gain is re-invested in the cost of the new house it is fully exempt from tax. If only a part of it is re-invested, the balance of it is chargeable to tax.

g) Where the amount of capital gain is not utilised by the assessee for acquisition of new house before the date of furnishing the return of income, it shall be deposited by him on or before the due date of furnishing the return of income u/s 139, in an account opened under the Capital Gains Accounts Scheme, 1988, with State Bank of India or any of its subsidiaries or with any nationalised bank authorised by the Central Government. The amount already utilised for re-investment together with the amount of deposits shall be deemed to be the cost of the new house. After such deposit he must utilise the deposit for acquiridg the new house within 3 years.

iv) Capital gain arising from **the** transfer of agricultural land (S. 54B) : Any capital gain arising on the transfer of agricultural land situated in an urban area is exempt subject to the following conditions :

a) The agricultural land is owned by an individual.

b) The agricultural land was, in the two years immediately preceding the date of transfer, being used either by the assessee or his parent for agricultural purposes.

c) The assessee has purchased within a period of two years, from the date of transfer, any other land for being used for agricultural purposes.

d) The capital gain arising from the transfer of such agricultural land is exempt to the extent of the cost of the new agricultural land purchased within the specified period mentioned in (c) above. It means that if the whole capital gain is re-invested it is fully exempt from tax. If only a part of it is re-invested the balance of it is chargeable to tax.

e) If the amount of capital gain is not utilised by the assessee for acquisition of new agricultural land before the due date for furnishing the return of income,, it shall be deposited'by him on or before the due date of furnishing the return of income in an account opened under the Capital Gains Account Scheme, 1988. The amount already utilised for re-investment together with the amount of depsoits shall be deemed to be the cost of the new agricultural land. If the amount deposited is not fully utilised for acquiring the new agricultural land within two years, the amount not so utilised shall be treated as the long-term capital gain of the previous year in which the period of two years expires.

v) Capital Gain on the transfer **of** long-term Capital Asset (Sec. 54E) : Any capital gain on the transfer of a long-term capital asset is exempt if the following 'conditions are satisfied: ,

a) The assessee has transferred a long-term capital asset.

b) The net consideration (i.e. net sale proceeds) has been invested in specified new asset by initially subscribing to such new asset within six months from the date of transfer of the asset.

c) If a part of net consideration is invested, proportionate part of the capital gain will be exempt from tax.

d) If the assessee receives some money as earnest money or advance and invests in the specified assets before the date of transfer of asset, the amounl so invested will qualify for exemption under section 54E.

e) Where the asset is transferred after 31.3.1989 the exemption will be available if the amount is invested in—

i) Securities of the Central Government specified by that government in this behalf;

ii) 'Special series of units of the Unit Trust of India specified by the Central Government in this behalf. Units issued under the Capital Gains Unit Scheme, 1983 have been notified for this purpose.

iii) Notified National Rural Development Bonds.

iv) Such debentures issued by the Housing and Urban Development Finance Corporation Limited, as the Central Government may specify in this behalf.

v) Notified Bonds issued by any public sector company.

vi) Notified debentures or bonds issued by the National Housing Bank.

f) The assessee will be required to hold the new asset for a period of three years from the date of its acquisition. The exemption will be forfeited if the assessee transfers the assets with three years and the exempted capital gain will be taxed as lang-term capital gain in the year in which the assets are transferred.

9.5 DEDUCTIONS ALLOWED FROM LONG-TERM CAPITAL GAINS

You know how the amount of capital gains is calculated. After this amount has been computed as explained in Section **9.3** certain deductions are to be made in order to calculate the taxable amount of capital gains. Before explaining the deductions we must reminded you that gains are of two types short-term and long-term capital gains.

No deduction is allowed from short-term capital gains i.e., the total amount,of short-term capital gains is taxable. As far as the long-term capital gains are concerned certain deductions are allowed u/s 48(2). The amount of deduction is calculated as follows:

i) Where the amount of long-term capital gain, does not exceed Rs. 10,000 the whole of such amount shall be deducted, or

ii) Where the amount of long-term capital gain exceeds Rs. 10,000 the following deductions shall be made.

Status of Assessee	Rates of deduction in respect of long-term capital gains relating to buildings or lands, gold bullion or jewellery	Rates of deduction in respect of long-term capital gains relating to other-Capital Assets	Rates of deduction in respect of long-term capital gains to equity shares of Venture Capital Undertakings
Non-company Assessee	Rs. 10,000 + 50% of the balance	Rs. 10,000 + 60% of the balance	Rs. 10,000 + 60% of the balance
Company Assessee	Rs. 10,000 + 10% of the balance	Rs. 10,000 + 30% of the balance	Rs. 10,000 + 30% of the balance

Proyided that where the long-term capital gain relates to both categories of capital assets referred to above, the deduction of Rs. 10,000 shall first be allowed against the long-term capital gain relating to buildings or lands or gold or bullion or jewellery and thereafter the balance, if any, of the said Rs. 10,000 shall be allowed as deduction against long-term capital gain relating to other assets.

Explanation

1) Venture capital company means a company which is engaged in providing finance to Venture Capital Undertaking mainly by way of acquiring equity shares of such undertakings or by way of advancing loans to such undertakings.

2) **A** Venture Capital Undertaking means such company as the prescribed authority approves having regards to the following factors:

'a) the total investment in the company does not exceed Rupees 10 Crores or such other higher amount as may be prescribed.

b) The company does not have adequate financial resources to undertake projects for ,which it is otherwise professionally or technically equipped; and

c) the company seeks to employ any technology which will result in significant improvement over the existing technology in India in any field and the investment in such technology involves high risk.

Deductions if there are Long-term Capital Losses (Section 48(3))

Long-term capital losses will also be scaled down as per the above deductions (i.e., these deductions will be made from long-term capital losses also in the same manner as from long-term capital gains) and the balance amount shall be net'long-term capital loss to be set-off against any other capital gain or income under any other head. The net unabsorbed long-term capital losses will be allowed to be carried forward for 8 years as business losses to be set-off against capital gains only.

9.6 COMPUTATION OF TAXABLE INCOME FROM CAPITAL GAINS

After the amount of capital gains is calculated and the deduction u/s 48(2) allowed the amount left is the income chargeable to tax under the head income from capital gains.

Let us now look at few illustrations to clearly understand the computation of income from capital gains.

Illustration 1

From the information given below compute the amount of capital gain that should be included under the head capital gains :

	Rs.
1) Purchased agricultural land in 1976	1,50,000
2) Sold the land on 1.9.1989	2,50,000
3) Purchased another agricultural land on 1.10.89	50,000

Solution	Rs.
Selling price of the agricultural land	2,50,000
Less : Cost of acquisition of the land	1,50,000
Long-term capital gain.....	1,00,000
Less : Cost of the new land purchased before the due date for furnishing the return of income (Exempt u/s 54).....	50,000"
	50,000
Less : Deduction u/s 48(2): (Rs. 10,000 + 50% of Rs. 40,000)	30,000
Capital gain for inclusion in income under the head capital gains	20,000

Illustration 2

During the year ending 31st March 1990, Mr. X sold the following assets:

	Sale Proceeds Rs.
1) House (non-residential) purchased for Rs. 28,000 in January 1974 sold on 28.2.1990	50,000
2) Machinery purchased for Rs. 50,000 in December 1982 (written down value on 1.4.1989 being Rs. 35,000) sold in January 1990	60,000
3) Office furniture purchased for Rs. 1,000 on 1.5.87 (W.D.V. on 1.4.89 Rs. 800) sold on 15th December 1989	1,300
4) Land situated in Agra purchased for Rs. 10,000 in December 1984 sold in January 1990	24,000
5) Residential house purchased 5 years back for Rs. 50,000 sold on 15th February 1990	90,000

During the year before the due date for filing the return of income he bought another house for the residential purposes for Rs. 40,000. Work out the amount of capital gain to be included in his'total income.

Solution

computation of Capital Gains

Long-term Capital Gains :		Rs.	Rs.
Non-residential house		22,000	
Residential house exempt u/s 53		Nil	
Land		14,000	
Less deduction allowed u/s 48(2)		36,000	
Initial Deduction	10,000		
50% of Rs. 26,000	13,000	23,000	13,000
Short-term Capital Gains :			
Furniture			
Sale proceeds	1,300		
Less W.D.V. on 1.4.89	800	500	
Machinery :			
Sales proceeds	60,000		
Less W.D.V. on 1.4.89	35,000	25,000	25,500
	Taxable Capital Gains		Rs. 38,500

Note : The capital gain on the sale of residential house is exempt u/s 53 as the assessee does not own any other residential house on the date of sale and the sale proceeds do not exceed Rs. 2 lakhs.

Illustration 3

A sells his only residential house in Delhi on 31st October 1989 for Rs. 16,00,000 and incurs an expenditure of Rs. 40,000 in connection with the transfer. Cost of acquisition of the house by him in 1976 is Rs. 2,10,000. On 28th February 1990 he invests Rs. 5,20,000 in the Capital Gains Units of the U.T.I. On 15th March 1990 he purchases a residential house in Delhi for Rs. 4,00,000 and deposits Rs. 1,50,000 in the Capital Gains Account Scheme. Compute the taxable Capital Gain.

Solution

		Rs.
Full value of the consideration		16,00,000
Less Expenses incurred on transfer		40,000
	Net Consideration	15,60,000
Less Cost of acquisition		2,10,000
	Capital Gain	13,50,000
Less Exemption u/s 53 for sale of residential house	$= \dfrac{13{,}50{,}000 \times 2{,}00{,}000}{15{,}60{,}000} =$	1,73,077
		11,76,923
Less Exemption u/s 54 (Rs. 4,00,000 Cost of house + Rs. 1,50,000 Deposit in C.G.A/c)		5,50,000
		6,26,923
Less Exemption u/s 54E (general)	$= \dfrac{13{,}50{,}000 \times 5{,}20{,}000}{15{,}60{,}000} =$	4,50,000
	Chargeable **C.G.**	1,76,923
Less Deduction u/s 48(2): Initial Deduction ....10,000; 50% of the balance of Rs. 1,66,923 83,461		93,461
	Taxable Capital Gain.,....Rs.	83,462

Illustration 4

Mr. R sells shares of a company on 31st July 1989 for Rs. 9,00,000, incurring an expenditure of Rs. 50,000 in connection with transfer. The cost of acquisition of shares on 15th December 1987 was Rs. 2,50,000. On 15th November 1989 he purchased the National Rural Development Bonds for Rs. 2,50,000 and capital gains units of U.T.I. for Rs. 90,000. Compute the amount of taxable capital gains.

Solution	Rs.
Full value of consideration	9,00,000
Less Expenses on Transfer	50,000
Net Consideration	8,50,000
Less Cost of acquisition	2,50,000
Capital Gain being long-term as it was held for more than 12 months before transfer	6,00,000
Less Exemption uis 54E $\left(\frac{6,00,000 \times 3,40,000}{8,50,000}\right)$	2,40,000 3,60,000
Chargeable Capital Gain	3,60,000
Less Deduction u/s 48(2). Initial Rs 10,000 + 50% of balance of Rs. 3.50,000 = Rs. 1,85,000	1,85,000
Taxable Capital Gain Rs.	1,75,000

Check Your Progress A

1) Read the, following and tick mark the correct answer in each of the following:

   i) On 31.3.90 'D' earns a profit of Rs. 50,000 by selling a piece of land in Lucknow on which vegetables were being grown and which was purchased on 30.12.1981. In his Income-tax Assessment for 1990-91 the profit would be taxable as:

      a) Short-term capital gain;
      b) Long-term capital gain;
      c) Not taxable, being profit on sale of agricultural land.

   ii) An individual invested Rs. 1 lakh in a partnership business in 1975. On retirement from the firm on 31.3.1990 he was paid Rs. 3 lakhs in full and final settlement. For 1990-91 capital gains to be included in his income-tax assessment are:

      a) Rs. 2 lakhs;
      b) Rs. 97,500;
      c) Rs. Nil.

   iii) 'A' purchased a motor-car for his personal use on 10.1.1987 for Rs. 20,000. He spent Rs. 5,000 on fittings, accessories etc. and sold it for Rs. 35,000 on 31.3.1990. The capital gains from the sale of the car to be included in total income for the assessment year 1990-91 would be:

      a) Rs. 10,000;
      b) Rs. 5,000;
      c) Nil

   iv) Mr. X sold a house used for his residence since 1969 in July 1983. On this sale he earned a capital gain of Rs. 60,000. He constructed another house for his residence for Rs. 60,000 in June 1986. The latter house was sold in December 1989 for Rs. 90,000. Capital gains assessable in his hands for assessment year 1990-91 will be:

      a) Rs. 30,000;
      b) Rs. 60,000;
      c) Rs. 90,000.

   v) In accounting year 1989-90, A sells all the three houses belonging to him for Rs. 9,000, Rs. 10,000 and Rs. 15,000, which were purchased in 1983 for Rs. 5,000, Rs. 6,000 and Rs. 8,000 respectively. For inclusion in his total income for the assessment year 1990-91 long-term capital gains would be:

      a) Rs. 15,000;
      b) Rs. 11,500;
      c) Nil
      d) Rs. 2,500.

vi) Assessee 'A' purchased a residential house on 1.5.1984 for Rs. 50,000 and started living in it. On 1.8.1989 he sold this house for Rs. 80,000. He constructed another residential house for self-occupation at a total cost of Rs. 70,000 in December 1989. Capital gains to be included in his assessment for assessment year 1990-91 are:

a) Rs. 10,000;
b) Rs. 15,000;
c) Rs. 14,400;
d) Nil

2) Fill up the blanks in the following:

i) Any distribution of capital assets on the partition of a Hindu Undivided Family is.............as transfer.

ii) Long-term Capital Asset means a capital asset held for more than.............. months.

iii) Under section 48(2), a deduction of.................is admissible regarding long-term capital gains in respect of land and buildings in the case of a non-corporate assessee.

iv) Long-term capital losses are scaled down.............as deduction is admissible from long-term capital gains.

v) Unabsorbed long-term capital losses are allowed to be carried forward for...............years.

9.7 LET US SUM UP

Any profits or gains arising from the transfer of a capital asset affected in the previous year shall be chargeable to income-tax under the head 'Capital Gains'. Capital asset means property of any kind held by an assessee whether or not connected with his business' or profession, but does not include stock-in-trade, personal effects and, agricultural land in India. Capital assets are of two types—long-term and short-term. Long-term capital assets are those which are held by the assessee for more than 36 months before transfer and short-capital assets are those which are held by the assessee for not more than 36 months before transfer.

Capital gains arising from the transfer of short-term capital assets are called short-term capital gains and capital gains arising from the transfer of long-term capital assets are called ldng-term capital gains.

Transfer of a capital asset means sale, exchange or extinguishment of any rights therein, or its compulsory acquisition under any law or its conversion into stock-in-trade etc.

The income chargeable under the head 'Capital Gains' shall be computed by deducting from the full value of the consideration received or accruing as a result of the transfer of the capital assets: (i) expenditure incurred wholly and exclusively in connection with the transfer, and (ii) the cost of acquisition of the capital asset and cost of any. improvement thereto.

Only long-term capital gains are exempt from tax under Section 53, 54, 54E, and 54F, subject to the fulfilment of certain conditions. Similarly , capital gains are also exempt under sections 54B, 54D and 54G subject to fulfilment of certain conditions.

In the case of long-term capital gains an initial deduction of Rs. 10,000 is made and thereafter on the balance of such capital gain deduction at specified percentage will be allowed on specified nature of capital gains. The net balance left thereafter shall be taxable capital gain.

In case of long-term capital losses also deduction shall be made in the same manner as is done in respect of long-term capital gains u/s 48(2) and the balance of the amount shall be net long-term capital loss to be set-off and/or carry forward.

9.8 KEY WORDS

Capital Asset : Capital asset means property of any kind held by an assessee, whether or not connected with his business or profession except stock-in-trade, personal effects and agricultural land in India.

Capital Gains : Profits or gains arising from the transfer of a capital asset is called capital gain.

Long-term capital gain : Capital gain arising from the-transfer of an asset held for more than *36* months (in case of shares for more than 12 months) is called long-term capital gain.

Short-term capital gain : Capital gain arising from the transfer of an asset held for not more than 36 months (in case of shares for not more than 12 months) is called short-term capital gain.

Transfer : Transfer in relation to a capital asset includes the sale, exchange or relinquishment of an asset, the extinguishment of any rights therein, or compulsory acquisition thereof under any law or conversion of an asset into stock-in-trade.

9.9 ANSWERS TO CHECK YOUR PROGRESS

A 1) i) **b;** ii) c; iii) c (Personal effect); iv) **a;** v) d; vi) d.

2) i) not regarded
   ii) 36
   iii) Rs. 10,000 + 50% of the balance
   iv) in the same manner
   v) eight

9.10 TERMINAL QUESTIONS AND EXERCISES

Questions

1) What does the term 'Capital Gains' signify under the Income Tax Act?
2) Explain the following terms in the context of the I.T. Act.
   i) Capital Assets;
   ii) Short-term Capital Assets
   iii) Transfer of Capital Assets
3) Discuss the provisions of the Income-tax Act regarding exemption of capital gains u/s 54E?

Exercises

1) Mr. X had two houses. The first house was occupied by himself for residence: He got this house from his uncle as a gift on 15th July, 1984. His uncle purchased this house in 1972 for Rs. 56,000. Its fair market value on April 1, 1974, was Rs. 70,000 and on January 1, 1981, it was Rs. 1,10,000. Mr X spent Rs. 5,000 on its improvement and sold it on 30th November, 1989 for Rs. 2,00,000. He purchased another house for his residence on 25th February, 1990 for Rs. 1,00,000.

He had purchased the second house for Rs. 50,000 in 1975 and had let out for residential purpose. He sold this house on 15th June, 1989, for Rs. 90,000 and purchased another residential house on 18th March, 1990, for Rs. 60,000.

He had purchased some jewellery in 1976 for Rs. 70,000. On 22nd February, 1990, he sold this jewellery for Rs. 1,50,000 and purchased on 15th March, 1990, notified National Rural Development Bonds of Rs. 75,000.

You have to determine the taxable capital gains of Mr, X for Assessment Year 1990-91. (Answer : Rs. 15,000)

2) Mr. **A** provides the following data regarding his transaction for the sale of his residential house for assessment year 1990-91. Compute the amount of Net Capital Gain to be included in his Total Income for the Assessment Year; 1990-91:

	Rs.
House purchased in 1977	4,50,000
Sold in November 1989	7,50,000
Purchased another house in September 1989	1,50,000
Invested in Notified Government Securities in January, 1990	3,00,000

(Answer : Rs. 10,000)

3) Mr. X sold his residential house for Rs. 20,00,000 on 10th June, 1989. This house was constructed in 1976 at a cost of Rs. 5,00,000. Mr. X did not own any other house on the date of this transfer. For securing exemption in respect of long-term capital gains, he made the following investments:

1) He purchased National Rural Development Bonds on 5th July, 1989 for Rs. 1,00,000.
2) He purchased a residential house on 1st December 1989 for Rs. 2,00,000.
3) He deposited Rs. 10,00,000 on 30th November 1989, in Capital Gains Account Scheme, 1988. This amount was deposited for purchasing or constructing a house. Compute the amount of taxable capital gains for the Assessment Year 1990-91.

(**Answer** : Exemption u/s 53 : Rs. 1,50,000; u/s 54 Rs. 12,00,000; and u/s 54E Rs. 75,000..Taxable Capital Gain Rs. 32,500.)

4) Mr P sold the following assets during the financial year 1989-90:

i) Sold a self residential house for Rs. 3,00,000; Rs. 20,000 were spent in connection with this sale. The house was purchased for Rs. 1,00,000 ten years back and Rs. 20,000 were spent on its renewal.

ii) Sold gold ornaments for Rs. 1,50,000. These ornaments were made in 1972 at a cost of Rs, 50,000 and their fair market value on 1st April, 1974, was Rs. 70,000.

iii) Sold an'agricultural land situated in a village for Rs 80,000. The land was bought in 1976 for Rs. 50,000.

iv) On 1st February 1990 he sold 1,000 shares in a company @ Rs. 250 per share. Half of these shares were purchased by him on 1st December 1988 @ Rs. 150 per share and half were purchased on 15th March, 1989 @ Rs. 120 per share.

Answer : STCG Rs. 65,000; LTCG Reg : House Rs. 1,60,000; Reg : Gold Ornaments Rs. 80,000; Reg : Shares Rs. 50,000 = Total LTCG Rs. 2,90,000. Deduction u/s 48(2) on House Rs. 10,000 + 75,000; On Gold Ornaments Rs. 40,000 and on Shares Rs. 30,000. Total Deduction Rs. 1,40,000. Taxable LTCG Rs. 1,50,000. Total Taxable Capital Gains LTCG+STCG=Rs. 2,15,000.

Note : These questions will help you to understand the unit better. Try to write answers for them. But 'do not submit your answers to the University. These are for your practice only.