



RAMA UNIVERSITY

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FACULTY OF COMMERCE AND MANAGEMENT

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INCOME FROM CAPITAL GAIN

What is a Capital Gain?

Simply put, any profit or gain that arises from the sale of a 'capital asset' is a capital gain. This gain or profit is comes under the category 'income', and hence you will need to pay tax for that amount in the year in which the transfer of the capital asset takes place. This is called capital gains tax, which can be short-term or long-term.

Capital gains are not applicable to an inherited property as there is no sale, only a transfer of ownership. The Income Tax Act has specifically exempted assets received as gifts by way of an inheritance or will. However, if the person who inherited the asset decides to sell it, capital gains tax will be applicable.

Defining Capital Assets

Land, building, house property, vehicles, patents, trademarks, leasehold rights, machinery, and jewellery are a few examples of capital assets. This includes having rights in or in relation to an Indian company. It also includes the rights of management or control or any other legal right.

The following do not come under the category of capital asset:

- a. Any stock, consumables or raw material, held for the purpose of business or profession
- b. Personal goods such as clothes and furniture held for personal use
- c. Agricultural land in rural India
- d. 6½% gold bonds (1977) or 7% gold bonds (1980) or national defence gold bonds (1980) issued by the central government
- e. Special bearer bonds (1991)
- f. Gold deposit bond issued under the gold deposit scheme (1999) or deposit certificates issued under the Gold Monetisation Scheme, 2015

Definition of rural area (from AY 2014-15) – Any area which is outside the jurisdiction of a municipality or cantonment board, having a population of 10,000 or more is considered a rural area. Also, it should not fall within a distance (to be measured aerially) given below – (population is as per the last census).

Distance	Population
2 kms from local limit of municipality or cantonment board	If the population of the municipality/cantonment board is more than 10,000 but not more than 1 lakh
6 kms from local limit of	If the population of the municipality/cantonment board is more

municipality or cantonment board	than 1 lakh but not more than 10 lakh
8 kms from local limit of municipality or cantonment board	If the population of the municipality/cantonment board is more than 10 lakh

3. Types of Capital Assets?

1. Short-term capital asset An asset held for a period of 36 months or less is a short-term capital asset. The criteria of 36 months have been reduced to 24 months for immovable properties such as land, building and house property from FY 2017-18.

For instance, if you sell house property after holding it for a period of 24 months, any income arising will be treated as long-term capital gain provided that property is sold after 31st March 2017.

2. Long-term capital asset An asset that is held for more than 36 months is a long-term capital asset. The reduced period of the aforementioned 24 months is not applicable to movable property such as jewellery, debt-oriented mutual funds etc. They will be classified as a long-term capital asset if held for more than 36 months as earlier.

Some assets are considered short-term capital assets when these are held for 12 months or less. This rule is applicable if the date of transfer is after 10th July 2014 (irrespective of what the date of purchase is).

The assets are:

- a. Equity or preference shares in a company listed on a recognized stock exchange in India
- b. Securities (like debentures, bonds, govt securities etc.) listed on a recognized stock exchange in India
- c. Units of UTI, whether quoted or not
- d. Units of equity oriented mutual fund, whether quoted or not
- e. [Zero coupon bonds](#), whether quoted or not

When the above-listed assets are held for a period of more than 12 months, they are considered as long-term capital asset.

In case an asset is acquired by gift, will, succession or inheritance, the period for which the asset was held by the previous owner is also included when determining whether it's a short term or a long-term capital asset. In the case of bonus shares or rights shares, the period of holding is counted from the date of allotment of bonus shares or rights shares respectively.

Tax on Short-Term and Long-Term Capital Gains

Tax Type	Condition	Tax applicable
Long-term capital gains tax	Except on sale of equity shares/ units of equity oriented fund	20%
Long-term capital gains tax	On sale of Equity shares/ units of equity oriented fund	10% over and above Rs 1 lakh
Short-term capital gains tax	When securities transaction tax is not applicable	The short-term capital gain is added to your income tax return and the taxpayer is taxed according to his income tax slab.
Short-term capital gains tax	When securities transaction tax is applicable	15%.