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FACULTY OF COMMERCE AND MANAGEMENT

COURSE: B.COM III SEM.

SUBJECT: Direct Tax Laws and Practice

SUBJECT CODE: BCH 302

LECTURE: 20

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LECTURE-20

INCOME FROM CAPITAL GAIN cont….

Calculating Capital Gains

Capital gains are calculated differently for assets held for a longer period and for those held over a shorter period.

Terms You Need to Know:

Full value consideration The consideration received or to be received by the seller as a result of transfer of his capital assets. Capital gains are chargeable to tax in the year of transfer, even if no consideration has been received.
Cost of acquisition The value for which the capital asset was acquired by the seller.
Cost of improvement Expenses of a capital nature incurred in making any additions or alterations to the capital asset by the seller. Note that improvements made before April 1, 2001, is never taken into consideration.
NOTE: In certain cases where the capital asset becomes the property of the taxpayer otherwise than by an outright purchase by the taxpayer, the cost of acquisition and cost of improvement incurred by the previous owner would also be included.

How to Calculate Short-Term Capital Gains?

Step 1: Start with the full value of consideration

Step 2: Deduct the following:

- Expenditure incurred wholly and exclusively in connection with such transfer
- Cost of acquisition
- Cost of improvement

Step 3: This amount is a short-term capital gain

Short term capital gain = Full value consideration *Less* expenses incurred exclusively for such transfer *Less* cost of acquisition *Less* cost of improvement.

How to Calculate Long-Term Capital Gains?

Step 1: Start with the full value of consideration

Step 2: Deduct the following:

- Expenditure incurred wholly and exclusively in connection with such transfer
- Indexed cost of acquisition
- Indexed cost of improvement

Step 3: From this resulting number, deduct exemptions provided under sections 54, 54EC, 54F, and 54B

Long-term capital gain= Full value consideration
Less : Expenses incurred exclusively for such transfer
Less: Indexed cost of acquisition
Less: Indexed cost of improvement
*Less:*expenses that can be deducted from full value for consideration*
*(*Expenses from sale proceeds from a capital asset, that wholly and directly relate to the sale or transfer of the capital asset are allowed to be deducted. These are the expenses which are necessary for the transfer to take place.)*
As per Budget 2018, long term capital gains on the sale of equity shares/ units of equity oriented fund, realised after 31st March 2018, will remain exempt up to Rs. 1 lakh per annum. Moreover, tax at @ 10% will be levied only on LTCG on shares/units of equity oriented fund exceeding Rs 1 lakh in one financial year without the benefit of indexation.
In the case of sale of house property:
These expenses are deductible from the total sale price:
a. Brokerage or commission paid for securing a purchaser

b. Cost of stamp papers

c. Travelling expenses in connection with the transfer – these may be incurred after the transfer has been affected.

d. Where property has been inherited, expenditure incurred with respect to procedures associated with the will and inheritance, obtaining succession certificate, costs of the executor, may also be allowed in some cases.

In the case of sale of shares:
You may be allowed to deduct these expenses:

a. Broker's commission related to the shares sold

b. STT or securities transaction tax is **not allowed** as a deductible expense

Where jewellery is sold:

Here, and a broker's services were involved in securing a buyer, the cost of these services can be deducted.Note that expenses deducted from the sale price of assets for calculating capital gains are not allowed as a deduction under any other head of income tax return, and you can claim the only once.

Indexed Cost of Acquisition/Improvement

Cost of acquisition and improvement is indexed by applying CII (cost inflation index). It is done to adjust for inflation over the years of holding of the asset. This increases one's cost base and lowers the capital gains. Refer to this page for the complete list of CII.

Indexed cost of acquisition is calculated as **Cost of acquisition / Cost inflation index (CII) for the year in which the asset was first held by the seller, or 2001-02, whichever is later X cost inflation index for the year in which the asset is transferred.**