UNIVERSITY OF DELHI

INCOME TAX

LAW AND PRACTICE

DSC 5.1

B.Com (Hons.) | B.Com (Prog.) — Third Year, Semester V

UNIT 3 — PART B

CAPITAL GAINS

Basis of Charge · Capital Assets · Personal Effects · Stock
Short-Term and Long-Term • Transfer, and What Is Not a Transfer
Consideration · Cost of Acquisition · Improvement · Previous Owner
Depreciable Assets · Advance Money Forfeited · Firm and Partner
Bonus and Right Shares · Debentures · Demat · Compulsory Acquisition
Cost Inflation Index • Grandfathering as on 31 January 2018
Exemptions — Residential House · Bonds · Agricultural Land
Shifting an Industrial Undertaking · Deposit Scheme
Eleven Worked Problems • Eleven Unsolved Problems

BUILT ON THE BARE TEXT OF SECTIONS 67 TO 91

Governed by the INCOME-TAX ACT, 2025

(Act No. 30 of 2025, as amended by the Finance Act, 2026)

TAX YEAR 2026-27

1 April 2026 to 31 March 2027

Academic Year 2026-27

Compiled by

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Preface

What Changed, and Which Act Changed It

This booklet has been written from the bare Act. Sections 67 to 91 of the Income-tax Act, 2025 replace sections 45 to 55A of the Income-tax Act, 1961, and sections 196, 197 and 198 replace sections 111A, 112 and 112A.

The renumbering is almost the whole of what the 2025 Act has done to this head. The rates, the holding periods and the availability of indexation were recast by the FINANCE (No. 2) ACT, 2024, with effect from 23 July 2024 — that is, by amendment of the 1961 Act itself. Those figures were already the law for the assessment year 2026-27. Sections 196, 197 and 198 reproduce sections 111A, 112 and 112A as they stood on 31 March 2026, and change nothing.

One — the rates, and where the change came from

The three special rates were changed by the Finance (No. 2) Act, 2024, with effect from 23 July 2024, by amending sections 111A, 112 and 112A of the 1961 Act. They applied in that form for the whole of the assessment year 2026-27. Sections 196, 197 and 198 of the 2025 Act carry them forward without alteration.

Gain	1961 Act	2025 Act	Rate before 23 July 2024	Rate now, and for AY 2026-27
Short-term on equity shares, units of an equity oriented fund or of a business trust, where securities transaction tax is paid	Section 111A	Section 196	15%	20%
Long-term, generally	Section 112	Section 197	20% with indexation	12.5%, without indexation
Long-term on the same equity shares and units	Section 112A	Section 198	10% above ₹1,00,000	12.5% above ₹1,25,000

Two — the holding periods, and there are now only two

Changed by the same Finance (No. 2) Act, 2024, and likewise already the law for the assessment year 2026-27. Section 2(101) of the 2025 Act reproduces the amended section 2(42A).

Section 2(101) gives **twenty-four months** as the general period, reduced to **twelve months** for a security listed on a recognised stock exchange in India, a unit of the Unit Trust of India, a unit of an equity oriented fund, and a zero-coupon bond.

The thirty-six month category has gone altogether. Unlisted shares, immovable property, gold, jewellery and every other asset are long-term after twenty-four months. There is no longer any asset for which the period is three years.

Three — indexation survives in exactly one place

Also the work of the Finance (No. 2) Act, 2024. Section 197(1)(b) charges long-term gains at 12.5% on the gain computed without indexation. Section 197(3) then gives one relief, and one only:

- **a resident individual or Hindu undivided family**, transferring **land or building, or both**, which was **acquired before 23 July 2024**, computes the tax twice — at 12.5% on the unindexed gain, and at 20% on the indexed gain — and the excess of the first over the second is ignored.

So he pays the lower of the two. Nobody else gets indexation on anything. The Cost Inflation Index survives in section 72(8) to serve this comparison and the fair market value option of 1 April 2001, and for nothing else. Problem 1 in Chapter 9 works the comparison in full.

What the 2025 Act itself has not changed

Everything else, so far as this head goes. The definition of a capital asset, with its exclusions for personal effects, stock-in-trade and rural agricultural land; the long list of transactions that are not transfers; the previous owner's cost; the treatment of bonus and right shares; the advance money forfeited; the grandfathering of 31 January 2018; and all exemptions — each is carried forward, renumbered but otherwise intact. The table at paragraph 10.1 converts the numbering in fifty rows.

The Cost Inflation Index for the Tax Year 2026-27 is 384

The Index is notified by the Central Government under section 72(8)(a). The notified figure for the Tax Year 2026-27 is **384**, and every problem in this booklet uses it. The Index for the earlier year is given in each question.

About this booklet, and a request

This booklet has been prepared by Artificial Intelligence — Claude Opus 5.0 (Anthropic) — under the guidance and supervision of Advocate Dr. S. B. Rathore in the first week of August 2026, from the bare text of the Income-tax Act, 2025 and the Income-tax Rules, 2026 as downloaded from incometaxindia.gov.in.

Suggestions on presentation, and reports of any discrepancy, are warmly invited.

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The Prescribed Syllabus

Income Tax Law and Practice — DSC-5.1

Where this booklet sits

Unit III of the prescribed syllabus covers two heads. Part A dealt with Profits and gains of business or profession, in sections 26 to 66. This Part B completes the Unit with Capital gains, in sections 67 to 91. With it, Units 1, 2 and 3 of the syllabus are complete.

Unit	Prescribed content	Where dealt with
Unit 1	Introduction — basic concepts: income, agricultural income, person, assessee, tax year; residential status and scope of total income; incomes exempt from tax	Unit 1 booklet (Introduction)
Unit 2	Computation of Income under Different Heads-1 — income from salaries; income from house property	Unit 2 Part A (Salaries); Unit 2 Part B (House Property)
Unit 3	Computation of Income under Different Heads-2 — profits and gains of business or profession; capital gains	Unit 3 Part A (Business or Profession); Unit 3 Part B (Capital Gains) — this booklet
Unit 4	Income from other sources; income of other persons included in the assessee's total income; set-off and carry forward of losses	Unit 4 Part A (Other Sources); Unit 4 Part B (Clubbing and Set-off)
Unit 5 (A)	Deductions from gross total income; rebates and reliefs	Unit 5 Part A (Deductions, Rebates and Reliefs)
Unit 5 (B)	Computation of total income and tax liability of individuals; filing of returns of income on-line and TDS	Unit 5 Part B (Total Income and Tax Liability)

What this Part covers, against the topics prescribed

Topic	Where in this booklet
Basis of charge; capital assets; personal effects; stock-in-trade	Chapter 1
Short-term and long-term capital assets	Chapter 1, paragraph 1.7
Transfer of capital assets	Chapter 2
Computation — consideration, cost of acquisition, cost of improvement	Chapters 3 and 4
Cost to the previous owner	Chapter 4, paragraph 4.2
Depreciable assets	Chapter 6, paragraph 6.1
Advance money forfeited	Chapter 4, paragraph 4.5
Capital asset transferred to a partner by a firm	Chapter 6, paragraph 6.6
Compulsory acquisition	Chapter 6, paragraph 6.7; Chapter 7, paragraph 7.3
Right shares, bonus shares, conversion of debentures, dematerialisation	Chapter 5
Land and building; shares; equity oriented mutual fund units	Chapters 5, 6 and 8
Exemptions — residential house, deposit scheme, capital gain bonds, agricultural land, shifting an industrial undertaking	Chapter 7
Cost Inflation Index; the grandfathering date of 31 January 2018	Chapter 3, paragraph 3.5; Chapter 5, paragraph 5.5
Short-term and long-term capital gains — the rates	Chapter 8

Suggested readings

- Ahuja, G., & Gupta, R. Simplified Approach to Income Tax. Delhi: Flair Publications Pvt. Ltd.
- Mittal, N. Concept Building Approach to Income Tax Law and Practice. Delhi: Cengage Learning India Pvt. Ltd.
- Singhania, V. K., & Singhania, M. Students' Guide to Income Tax | University Edition. Delhi: Taxmann Publications Pvt. Ltd.
- The bare Income-tax Act, 2025, free at incometaxindia.gov.in.

Latest edition of books is to be followed. Suggested readings will be updated by the Department of Commerce and uploaded on the Department's website.

A note on the reading list

Every title on the prescribed list was written for the Income-tax Act, 1961, and an edition printed before April 2026 necessarily carries the section numbers, the rule numbers and the figures that were in force when it went to press. These are standard works and the reasoning in them holds good.

Until their 2026 editions reach you, take the section numbers, the rule numbers and the figures from this booklet, or from the bare Income-tax Act, 2025 and the Income-tax Rules, 2026.

The teachers' meeting of 4 August 2026

At a joint meeting of the Department of Commerce, Delhi School of Economics and the Department of Commerce, Shri Ram College of Commerce, held on 4 August 2026 under the Department-College Interface, guidelines were settled for this paper "in order to have uniformity and consistency in teaching". Those that bear on this booklet are set out below.

Unit 3: Computation of Income from Business or Profession and Capital Gains (11 hours)

Not to be covered. Conversion of a capital asset into stock-in-trade [67(6)]; transfer by a partner to a firm [67(9)]; shares or debentures of an Indian company transferred by a non-resident [72(6)]; sweat equity shares and ESOPs; a joint development agreement [67(14)]; distribution by a company in liquidation [68]; the full value of consideration for a share other than a quoted share [79]; and a slump sale [77].

To be covered. Buy-back of shares [section 69], and section 78.

Exemptions. Sections 82, 83, 85 and 86. Only simple questions on section 86.

Two points were recorded for the whole paper. First, the Income-tax Act, 2025 applies from 1 April 2026, so the academic session 2026-27 is an exceptional year and the provisions for the tax year 2026-27 are what is to be taught; it was suggested that tax year 2026-27 be taught in 2027-28 as well. Second, ITR-1 will be done in the academic session 2026-27.

Contents

How this booklet is arranged

Chapter 1

Basis of Charge, and What Is a Capital Asset

1.1 Where the law is

Sections	What they do
67	Basis of charge, and the special cases of insurance money and a unit linked insurance policy
69	Buy-back of shares
70, 71	Transactions not regarded as transfers, and the withdrawal of that relief
72	The computation — full value of consideration, transfer expenditure, cost of acquisition and improvement, and the Cost Inflation Index
73	Cost with reference to certain modes of acquisition — the previous owner
74, 75	Depreciable assets
76	Market linked debentures, specified mutual funds, unlisted bonds and debentures
78, 80	The stamp duty value; consideration not ascertainable; consideration not ascertainable
81	Advance money received and forfeited
82 to 89	The exemptions
90, 91	The meaning of cost of acquisition and cost of improvement; reference to a Valuation Officer
196, 197, 198	The special rates of tax

1.2 Basis of charge [Section 67]

> **Section 67(1)**
> *Any profits or gains arising from the transfer of a capital asset effected in a tax year shall, save as otherwise provided in sections 82, 83, 84, 85, 86, 87, 88 and 89, be chargeable to income-tax under the head "Capital gains" and shall be deemed to be the income of the tax year in which the transfer took place.*

Four conditions must all be satisfied before anything is charged under this head.

	Condition	Where it is defined
1	There must be a capital asset	Section 2(22)
2	There must be a transfer of it	Section 2, and section 70 for what is not a transfer
3	The transfer must be effected during the tax year	Section 67(1) — the gain is income of the year of TRANSFER, not of receipt
4	There must be profits or gains arising from it	Computed under section 72

The year of charge is the year of transfer
Not the year the money is received. A plot sold in March 2027 for which the price is paid in June 2027 is charged in the Tax Year 2026-27. The two exceptions are compulsory acquisition, where the gain is charged in the year the compensation is first received, and the insurance money of section 67(2), charged in the year of receipt.

1.3 Capital asset [Section 2(22)]

A capital asset means property of any kind held by an assessee, whether or not connected with his business or profession; securities held by a Foreign Institutional Investor or a specified investment fund; and a unit linked insurance policy not exempt under Schedule II. The definition then excludes six classes.

	What is excluded	The point
(i)	Stock-in-trade, consumable stores or raw materials held for the business or profession	Their sale is business income, not capital gains. But securities held by a Foreign Institutional Investor are capital assets even as stock
(ii)	Personal effects	See paragraph 1.4
(iii)	Agricultural land in India, not being urban land	See paragraph 1.6
(iv) to (vi)	Gold Deposit Bonds under the 1999 Scheme, deposit certificates under the Gold Monetisation Scheme 2015, and the other specified instruments	Expressly outside the definition, so no charge arises at all

1.4 Personal effects

What is, and what is not
Personal effects are movable property held for the personal use of the assessee or of a member of his family dependent on him — wearing apparel, furniture, a television set, a motor car used privately, kitchen utensils.

But the following are **expressly excluded** from personal effects and therefore ARE capital assets:
- jewellery;
- archaeological collections;
- drawings;
- paintings;
- sculptures; and
- any work of art.

Two consequences follow. Gold ornaments are a capital asset however personal their use, so their sale is charged. And “jewellery” includes ornaments of gold, silver, platinum or any other precious metal, and precious or semi-precious stones, whether or not set in any furniture or apparel.

The asset must also be movable. A residential house used personally is immovable, so it is never a personal effect; its sale is always charged under this head, subject to the exemption in section 82.

1.5 Stock-in-trade

Stock is excluded because its sale produces business profit, charged under Part D. One crossing point is worth fixing.

- **Conversion of stock-in-trade into a capital asset.** Section 26(2)(j) charges the fair market value on the date of conversion as business income, and that value becomes the cost of acquisition for the capital gains computation on a later sale.

1.6 Rural agricultural land

Agricultural land in India is a capital asset only if it is urban. It is urban if it is within the jurisdiction of a municipality or cantonment board with a population of not less than ten thousand, or within the aerial distance from such limits prescribed by the Table in section 2(22)(iii) by reference to population.

Population of the municipality or cantonment board	Land is urban if within this aerial distance
More than 10,000 but not more than 1,00,000	2 kilometres
More than 1,00,000 but not more than 10,00,000	6 kilometres
More than 10,00,000	8 kilometres

Rural agricultural land is not a capital asset at all

So its sale produces no capital gain, and no exemption is needed. Do not go looking for section 83; that section is for land which IS a capital asset — urban agricultural land — and gives an exemption where the proceeds are put into other agricultural land. Where the land is rural, the answer is one line: it is not a capital asset under section 2(22)(iii), so nothing is charged.

1.7 Short-term and long-term [Sections 2(101) and 2(67)]

Section 2(101)

(a) "short-term capital asset" means a capital asset held by an assessee for not more than twenty-four months immediately preceding the date of its transfer; and

(b) where the capital asset is a — (i) security listed in a recognised stock exchange in India; or (ii) unit of the Unit Trust of India; or (iii) unit of an equity-oriented fund; or (iv) zero-coupon bond, the provisions of sub-clause (a) shall have effect as if for the words "twenty-four months", the words "twelve months" had been substituted.

Section 2(67) then defines a long-term capital asset simply as a capital asset which is not a short-term capital asset.

Asset	Long-term after
A security listed on a recognised stock exchange in India — equity or preference shares, debentures, government securities	12 months
A unit of the Unit Trust of India	12 months
A unit of an equity oriented fund	12 months
A zero-coupon bond	12 months
Unlisted shares	24 months
Land, building, or both	24 months
Gold, jewellery, a work of art	24 months
A unit of a debt-oriented fund, and every other asset	24 months

How the period is counted [Section 2(101)(c)]

- The period is counted up to the date immediately preceding the date of transfer.
- For a share in a company in liquidation, the period after the company goes into liquidation is EXCLUDED.
- Where the asset became the assessee's property in one of the circumstances in section 73(1), Table, Serial number 1 — gift, will, inheritance, partition, and the rest — the period for which the PREVIOUS OWNER held it is INCLUDED.
- For shares in an amalgamated company, the period for which the shares in the amalgamating company were held is included; likewise on a demerger.

1.8 Money or assets received under insurance [Section 67(2)]

Where a capital asset is damaged or destroyed and the assessee receives money or other assets from an insurer, the gain is charged in the year of RECEIPT, and the money received, or the fair market value of the assets received, is deemed to be the full value of the consideration. The circumstances are listed exhaustively in section 67(3): flood, typhoon, hurricane, cyclone, earthquake or other convulsion of nature; riot or civil disturbance; accidental fire or explosion; and action by or against an enemy.

Chapter 2

Transfer, and What Is Not a Transfer

2.1 What amounts to a transfer

Transfer, in relation to a capital asset, includes the sale, exchange or relinquishment of the asset; the extinguishment of any rights in it; its compulsory acquisition under any law; its conversion into stock-in-trade; the maturity or redemption of a zero-coupon bond; the allowing of possession in part performance of a contract under section 53A of the Transfer of Property Act, 1882; and any transaction which has the effect of transferring, or enabling the enjoyment of, immovable property.

- Relinquishment is the giving up of a right by the owner while the asset continues to exist — abandoning a right to subscribe to a rights issue, for example.
- Extinguishment covers the destruction of rights: the reduction of share capital, the redemption of preference shares, the surrender of a tenancy.
- Conversion into stock-in-trade is a transfer even though the asset does not leave the assessee's hands.
- A transaction in immovable property under a power of attorney or an agreement to sell with possession is a transfer, though no conveyance has been registered.

2.2 Transactions not regarded as transfers [Section 70]

Section 70(1) lists a long series of transactions to which section 67 does not apply. They fall into the following groups.

Group	Examples
Family and succession	Distribution of capital assets on the total or partial partition of a Hindu undivided family; any transfer under a gift, a will or an irrevocable trust
Company reorganisation	Transfer by a holding company to its wholly-owned Indian subsidiary and the reverse; transfer by an amalgamating company to an Indian amalgamated company; allotment of shares in the amalgamated company to the shareholders of the amalgamating company; the corresponding provisions on a demerger
Conversion of securities	Conversion of bonds, debentures, debenture-stock or deposit certificates into shares or debentures of the same company; conversion of preference shares into equity shares
Business reorganisation	Succession of a firm or a proprietary concern by a company, and conversion of a private or unlisted public company into a limited liability partnership, each on the prescribed conditions
Government and national interest	Transfer of a work of art, an archaeological collection, a book, a manuscript, a drawing, a painting, a photograph or a print to the Government, a University, the National Museum or a notified institution
Other	Transfer of a capital asset under a reverse mortgage scheme; transfer of agricultural land in India effected before 1 March 1970; dematerialisation of securities

Two of these are on the syllabus by name

- **Conversion of debentures into shares** is not a transfer. Nothing is charged on the conversion. The cost of the shares is the cost of the debentures, carried across under section 73.
- **Dematerialisation** — the conversion of physical share certificates into electronic form, and the reverse — is not a transfer. The holding period and the cost run through unbroken, from the original date of acquisition.

2.3 Buy-back of shares [Section 69]

Where a shareholder receives consideration from a company for the purchase of its own shares or other specified securities, the difference between that consideration and the cost of acquisition is charged as a capital gain in the shareholder's hands.

2.4 When the relief is withdrawn [Section 71]

Section 71 is the anti-avoidance counterpart of section 70. Where a capital asset was transferred to a subsidiary or a holding company without charge under section 70(1)(c) or (d), and within eight years the asset is converted into stock-in-trade or the holding relationship ceases, the gain not charged at the time becomes chargeable in the year in which that happens, in the hands of the transferor company.

Chapter 3

The Computation [Section 72]

3.1 The three deductions [Section 72(1)]

Section 72(1)

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 asset and the cost of any improvement thereto.

The statement, in the order the section places it

Particulars	₹	₹
Full value of the consideration received or accruing		**xxx**
Less: expenditure incurred wholly and exclusively in connection with the transfer [s. 72(1)(a)]	xxx	
Less: cost of acquisition [s. 72(1)(b)]	xxx	
Less: cost of any improvement [s. 72(1)(b)]	xxx	(xxx)
GROSS CAPITAL GAIN		xxx
Less: exemption under sections 82 to 89		(xxx)
CAPITAL GAIN CHARGEABLE TO TAX		**xxx**

Where the assessee is a resident individual or Hindu undivided family transferring land or building acquired before 23 July 2024, the same computation is made a second time with the indexed cost, for the purpose of the comparison in section 197(3). The gain shown in the return remains the unindexed one; only the tax is capped.

3.2 Full value of consideration

It is what the transferor receives or is entitled to receive — not the market value, and not what he ought to have received. Five sections displace it, and each replaces it with a deemed figure.

Section	When it applies	The deemed consideration
67(2)	The asset is damaged or destroyed and insurance money is received	The money received, or the fair market value of the assets received
78	Transfer of land or building where the consideration is less than the stamp duty value	The stamp duty value
80	The consideration is not ascertainable or cannot be determined	The fair market value on the date of transfer

The safe harbour in section 78

Where the stamp duty value exceeds the consideration by not more than the prescribed percentage, the consideration is accepted. The section is a valuation rule, not a penalty: if the assessee disputes the stamp duty value and has not challenged it in stamp proceedings, the Assessing Officer may refer the valuation to a Valuation Officer under section 91.

3.3 Expenditure incurred in connection with the transfer

Brokerage or commission paid to secure the purchaser; legal fees for drafting and registering the conveyance; stamp duty borne by the seller; travelling expenses to effect the transfer; and, on the sale of shares, the broker's charges. The expenditure must be incurred wholly and exclusively in connection with the transfer — not with the acquisition, which goes into the cost, and not with the holding.

3.4 What may not be deducted [Section 72(3)]

- Interest already claimed as a deduction under section 22(1)(b), on a house property, or under Chapter VIII.
- Securities transaction tax paid under the Finance (No. 2) Act, 2004. It is neither part of the cost nor an expense of transfer.
- Expenditure on the enjoyment of the asset — municipal taxes, insurance, maintenance, watchman's wages. These are not cost of improvement.

3.5 The Cost Inflation Index [Section 72(8)]

Section 72(8)(a), (b) and (c)

- "Cost Inflation Index", in relation to a tax year, means such Index as the Central Government may, having regard to 75% of the average rise in the Consumer Price Index (urban) for the immediately preceding tax year, by notification specify.
- "Indexed cost of acquisition" means an amount which bears to the cost of acquisition the same proportion as the Index for the year of transfer bears to the Index for the first year in which the asset was held by the assessee, OR for the year beginning 1 April 2001, whichever is LATER.
- "Indexed cost of any improvement" means the same proportion applied to the cost of improvement, taking the Index for the year in which the improvement took place.

Where indexation may now be used, and where it may not

Indexation no longer enters the computation of the gain at all. Section 72(2) says the substitution of "indexed cost" for "cost" is made **"for the purposes of item B of the formula in section 197(3)"** — and for nothing else. So:

- the gain returned is always computed on the UNINDEXED cost;
- the indexed figure is worked out separately, and only where section 197(3) applies — a resident individual or Hindu undivided family, land or building, acquired before 23 July 2024;
- its only use is to cap the tax. It never changes the gain.

The Index also survives for the fair market value option of 1 April 2001 in paragraph 4.3, because the definition fixes 2001-02 as the earliest base year.

Illustration 4.1 — the indexed cost

An asset was acquired in the Tax Year 2014-15 for ₹10,00,000 and transferred in the Tax Year 2026-27. Cost Inflation Index: 2014-15 = 240; 2026-27 = 384.		
Indexed cost of acquisition — ₹10,00,000 × 384 ÷ 240		**16,00,000**

3.6 The order of the steps

Step	What is done	Authority
1	Is it a capital asset?	s. 2(22)

Step	What is done	Authority
2	Is there a transfer, and is it outside section 70?	s. 70
3	Short-term or long-term?	s. 2(101), 2(67)
4	Take the full value of consideration, or the deemed figure	s. 72(1), 78, 79, 80
5	Deduct the expenditure on the transfer	s. 72(1)(a)
6	Deduct the cost of acquisition and of improvement	s. 72(1)(b), 73, 81, 90
7	Deduct the exemptions claimed	ss. 82 to 89
8	Apply the rate — 20%, 12.5%, or the slab	ss. 196, 197, 198

Chapter 4

Cost of Acquisition and Cost of Improvement

4.1 Cost of acquisition

The cost of acquisition is what the asset cost the assessee, together with every expense of acquiring it — brokerage paid on purchase, registration charges, stamp duty, legal fees, and interest on money borrowed to buy it up to the date of acquisition, so far as it has not been claimed under another head.

4.2 The previous owner's cost [Section 73]

> **Section 73(1), Table, Serial number 1**
> Where the capital asset became the property of the assessee — on a distribution of assets on the total or partial partition of a Hindu undivided family; under a gift or will; by succession, inheritance or devolution; on the distribution of assets on the dissolution of a firm, body of individuals or association of persons; on the distribution of assets on the liquidation of a company; under a transfer to a revocable or irrevocable trust; or under any of the transfers in section 70(1) — **the cost of acquisition is the cost to the PREVIOUS OWNER**, increased by the cost of any improvement made by him or by the assessee.

- **The holding period runs from the previous owner's acquisition.** Section 2(101)(c)(B)(I) includes the period for which the previous owner held it. So a house inherited last month but bought by the father in 2005 is a long-term capital asset in the son's hands.
- **"Previous owner" means the last owner who acquired it by a mode other than those listed.** If a house passed from grandfather to father by will and from father to son by will, the previous owner is the grandfather, and his cost is taken.
- **The cost of improvement by either of them is added.** Improvements made by the previous owner and by the assessee both count.

How the asset came to the assessee	Cost of acquisition
Purchase	The price paid, with the expenses of acquisition
Gift, will, inheritance, partition of a Hindu undivided family, dissolution of a firm, liquidation of a company	The cost to the previous owner [s. 73(1), Sl. No. 1]
Bonus shares allotted without payment	Nil — see paragraph 5.1
Right shares subscribed for	The amount actually paid
A right to subscribe, purchased from a renouncer	The price paid for the right, plus the issue price
Shares in an amalgamated company	The cost of the shares in the amalgamating company
Shares received on conversion of debentures	That part of the cost of the debentures relatable to the shares
Self-generated goodwill, a tenancy right, a route permit, a loom hour, the right to manufacture	Nil

4.3 The fair market value option of 1 April 2001

Where the asset was acquired before 1 April 2001

The assessee may substitute the fair market value of the asset as on 1 April 2001 for the actual cost, at his option — and the cost of improvement is then counted only from that date, section 90 providing that improvement before 1 April 2001 is disregarded.

The option is used whenever the 2001 value exceeds the original cost, which is almost always. And because section 72(8)(b) fixes the base year as the later of the first year of holding and 2001-02, the indexation for such an asset — where it is available at all under section 197(3) — runs from 2001-02.

4.4 Cost of improvement [Section 90]

Cost of improvement means all expenditure of a capital nature incurred in making additions or alterations to the asset by the assessee or by the previous owner. Three limits apply.

- Expenditure incurred before 1 April 2001 is disregarded where the asset became the property of the assessee or the previous owner before that date.
- Expenditure that is deductible in computing income under any other head is excluded — repairs allowed under the house property or business head, for instance.
- The cost of improvement of goodwill, a right to manufacture, a tenancy right or a route permit is taken as nil.

Improvement is capital expenditure. Routine repairs, whitewashing and maintenance are not improvement, however large; the test is whether the asset itself has been added to or altered.

4.5 Advance money received and forfeited [Section 81]

Section 81

Where any capital asset was, on any previous occasion, the subject of negotiations for its transfer, any advance or other money received and retained by the assessee in respect of such negotiations —

(a) shall be deducted from the cost for which the asset was acquired, or the written down value, or the fair market value, as the case may be, in computing the cost of acquisition;

(b) shall NOT be so deducted where such advance or other money has been included in the total income of the assessee for any tax year under section 92(2)(h) of this Act or section 56(2)(ix) of the Income-tax Act, 1961.

The two limbs, and why there are two

Before the 1961 Act was amended in 2014, forfeited advance money simply reduced the cost, and tax was deferred until the asset was sold. Since then, forfeited advance money has been charged at once as income from other sources. Section 81 keeps both rules alive because both may apply to the same asset at different times:

- an advance forfeited BEFORE the charge under section 56(2)(ix) came in reduces the cost, under clause (a);
- an advance forfeited AFTER it has already been taxed once, so it does not reduce the cost, under clause (b).

Problem 6 in Chapter 9 gives one of each in the same question, which is how the point is usually set.

Chapter 5

Shares, Units and the Grandfathering Date

5.1 Bonus shares

	Cost of acquisition	Period of holding runs from
Bonus shares allotted on or after 1 April 2001	NIL	The date of ALLOTMENT of the bonus shares, not the date of the original shares
Bonus shares allotted before 1 April 2001	The fair market value as on 1 April 2001, at the assessee's option	The date of allotment

Two separate points, easily confused

- The COST of a bonus share is nil because nothing was paid for it. The whole of the sale proceeds is therefore the gain.
- The PERIOD of holding runs from allotment, not from the acquisition of the original shares. Bonus shares allotted three months before the sale are short-term, even though the original holding is ten years old.

5.2 Right shares, and the renunciation of a right

The situation	Cost of acquisition	Period of holding
The shareholder subscribes for the right shares	The amount actually paid to the company	From the date of allotment
The shareholder renounces the right in favour of another, for a price	NIL — the right cost him nothing. The whole price received is a short-term capital gain	From the date of the offer to the date of renunciation, so it is always short-term
The person in whose favour the right is renounced subscribes	The price he paid for the right, PLUS the amount paid to the company	From the date of allotment

5.3 Conversion of debentures into shares

Section 70(1) provides that the conversion of bonds, debentures, debenture-stock or deposit certificates into shares or debentures of the same company is not a transfer. Nothing is charged on the conversion. When the shares are later sold, the cost of acquisition is that part of the cost of the debenture which is relatable to the shares.

5.4 Dematerialisation

Converting physical share certificates into electronic form, and rematerialising them, is not a transfer. Neither the cost nor the holding period is disturbed; both run from the original acquisition. Where shares held in demat form are sold, the first-in-first-out method is applied to identify which shares were sold, because the certificates no longer bear distinctive numbers.

5.5 The grandfathering of 31 January 2018 [Section 90]

The rule, in one line

For an equity share or a unit within section 198, acquired **before 1 February 2018**, the cost of acquisition is the **HIGHER of —**

- the actual cost of acquisition; and
- the LOWER of (i) the fair market value as on 31 January 2018 and (ii) the full value of the consideration received on transfer.

The fair market value as on 31 January 2018 is the highest price of the asset quoted on a recognised stock exchange on that date; where there was no trading on that date, the highest price on the immediately preceding date on which it was traded; and for an unlisted unit, the net asset value on that date.

Illustration 5.1 to 5.3 — the rule in three situations

Situation	Working	Cost
Cost ₹300, fair market value on 31-01-2018 ₹850, sold at ₹1,400	Higher of 300 and (lower of 850 and 1,400)	850
Cost ₹300, fair market value ₹850, sold at ₹700	Higher of 300 and (lower of 850 and 700)	700
Cost ₹900, fair market value ₹850, sold at ₹1,400	Higher of 900 and (lower of 850 and 1,400)	900

The second situation is the one the rule exists for: the sale price being below the 31 January 2018 value, the cost is capped at the sale price, so the gain is nil rather than negative. The rule protects the gain accrued up to 31 January 2018 from tax; it does not manufacture a loss.

The date it applies from, and what it does not touch

- Grandfathering applies only to shares and units ACQUIRED BEFORE 1 February 2018. Anything acquired later takes its actual cost.
- It applies only to assets within section 198 — equity shares, units of an equity oriented fund and units of a business trust on which securities transaction tax has been paid. Unlisted shares, debentures and property get nothing from it.

5.6 Market linked debentures and specified mutual funds [Section 76]

Section 76(1) and (2)

Irrespective of anything contained in section 2(101) or section 72, the gains on the transfer, redemption or maturity of the following are treated as SHORT-TERM capital gains, however long they have been held:

- a unit of a Specified Mutual Fund acquired on or after 1 April 2023, or a Market Linked Debenture; and
- an unlisted bond or unlisted debenture transferred, redeemed or maturing on or after 23 July 2024.

The gain is computed as $X = A - B - C$, where A is the full value of consideration, B the cost of acquisition and C the expenditure on the transfer. No deduction is allowed for securities transaction tax [s. 76(4)].

These assets can never be long-term, so they can never attract sections 197 or 198. The gain is added to total income and taxed at the assessee's slab rates.

Chapter 6

Special Cases

6.1 Depreciable assets [Sections 74 and 75]

Section 74(1)

Irrespective of anything contained in section 2(101), for a capital asset forming part of a block of assets on which depreciation has been allowed, the gain is deemed to be a **SHORT-TERM capital gain** — however long the asset has been held.

The charge arises in only two situations, and in every other case the sale proceeds simply reduce the block and no capital gain arises at all.

When a capital gain arises	What is charged
The moneys payable on assets sold from the block EXCEED the opening written down value plus the additions during the year	The excess is a SHORT-TERM CAPITAL GAIN. The block closes at nil and no depreciation is allowed for the year
EVERY asset in the block is transferred, and a balance of written down value remains	The balance is a SHORT-TERM CAPITAL LOSS. Again no depreciation is allowed for the year
Some assets remain in the block and the proceeds are less than the written down value	No capital gain and no loss. The proceeds reduce the block, and depreciation is computed on the reduced figure

Three consequences worth stating

- Indexation never applies, the gain being short-term by force of section 74.
- The exemptions in sections 82 to 89 that require a LONG-TERM gain are not available.
- Section 75 provides that where depreciation has been obtained under section 33(2) — the straight-line basis for a power undertaking — sections 72 and 73 apply subject to modification, the terminal depreciation and balancing charge of Part D having dealt with the asset already.

6.2 Land or building — the stamp duty value [Section 78]

Where the consideration for the transfer of land or building, or both, is less than the stamp duty value, that value is deemed to be the full value of the consideration. Section 2(105) defines the stamp duty value as the value adopted, assessed or assessable by any authority of the Central or a State Government for the payment of stamp duty on an immovable property — in practice, the circle rate or ready reckoner rate.

The safe harbour — section 78(1)(b)

... if the stamp duty value does not exceed **110% of the consideration** received or accruing from such transfer, such consideration shall be deemed to be the full value of the consideration for section 72.

The band exists because the circle rate is an administrative average, revised at intervals, and between revisions it drifts from what property actually fetches. It is a threshold and not a deduction: once the stamp duty value crosses 110%, the WHOLE of the stamp duty value is substituted, and the 10% is not subtracted from it.

Illustration 6.1 — either side of the line

Consideration received		**40,00,000**
110% of the consideration — the safe harbour		44,00,000
Case A — stamp duty value ₹43,80,000, within the harbour: the full value of the consideration is the actual price		40,00,000
Case B — stamp duty value ₹44,20,000, outside it: the stamp duty value is substituted in full		**44,20,000**

Twenty thousand rupees more on the circle rate adds ₹4,20,000 to the full value of the consideration. A cliff, not a step.

Two reliefs, and one of them has a strict condition

- **The date of the agreement — section 78(1)(a).** Where the date of the agreement fixing the consideration and the date of registration are not the same, the stamp duty value on the date of the AGREEMENT may be taken. But only if part or the whole of the consideration was received on or before that date in a specified banking or online mode as defined in section 66(32). Cash will not do. This is what saves a seller who agreed a price in 2022 and registered in 2026 after circle rates rose.
- **Reference to a Valuation Officer — section 78(2).** Where the assessee claims that the stamp duty value exceeds the fair market value on the date of transfer, and has not disputed the stamp duty value in any appeal, revision or reference elsewhere, the Assessing Officer may refer the valuation. Section 78(3) then provides that if the Valuation Officer's figure comes out HIGHER than the stamp duty value, the stamp duty value is retained. The reference can only help.

The same transaction is charged at the other end too

Section 78 charges the SELLER. The BUYER of the same property is charged under section 92(2)(m)(ii)(B) — Income from other sources, dealt with in Unit 4 Part A — on the excess of the stamp duty value over what he paid. The two tolerances are close but not identical:

- **The seller** is safe while the stamp duty value does not exceed 110% of the consideration. There is no monetary floor.
- **The buyer** is safe while the excess does not exceed the higher of ₹50,000 and 10% of the consideration.

Above a consideration of ₹5,00,000 the two bite at precisely the same point, because 10% of the consideration and 110% of it are the same test. Below ₹5,00,000 the buyer has the ₹50,000 floor and the seller has none, so a small transaction can be caught in the seller's hands and not in the buyer's. Where both are caught, the same difference is taxed twice, in two different hands, and neither section gives relief against the other.

Section 53 does the same work for land or building held as stock-in-trade rather than as a capital asset, in the same terms and with the same 110% safe harbour, the profit being computed under the head Profits and gains of business or profession.

6.3 Consideration not ascertainable [Section 80]

Section 80 substitutes the fair market value on the date of transfer where the consideration is not ascertainable or cannot be determined — as on an exchange of assets, or a transfer for a consideration expressed as a share of future profits.

6.4 Compulsory acquisition

- The compulsory acquisition of a capital asset under any law is a transfer.
- The gain is charged in the year in which the compensation, or any part of it, is FIRST RECEIVED — not the year in which the asset vested in the Government. This is one of the two exceptions to the rule that the year of charge is the year of transfer.

- The cost of acquisition and the cost of improvement are taken as at the date of the transfer, and indexation, where available, runs to the year of transfer, not the year of receipt.
- ENHANCED compensation awarded by a court is charged in the year it is received, and the cost of acquisition for it is taken as NIL. The legal expenses of obtaining it are deductible.
- Where enhanced compensation is later reduced on appeal, the assessment of the year in which it was charged is amended.
- The gain is computed in the ordinary way under section 72; the exemptions of Chapter 7 apply as they would to any other transfer.

Chapter 7

The Exemptions [Sections 82, 83, 85, 86 and 89]

7.1 The four exemptions, side by side

Sec.	Asset transferred	Who	New asset	Time limit	Exemption
82	A residential house, long-term	Individual or Hindu undivided family	A residential house in India	Purchase within 1 year before or 2 years after; construction within 3 years	The gain, or the cost of the new house, whichever is lower
83	Urban agricultural land used for agriculture for 2 years	Individual or Hindu undivided family	Other agricultural land	2 years	The gain, or the cost, whichever is lower
85	Land or building, or both, long-term	Any assessee	Long-term specified assets — bonds of the National Highways Authority of India or the Rural Electrification Corporation	6 months	The gain, or the investment, whichever is lower, subject to ₹50,00,000
86	Any long-term capital asset other than a residential house	Individual or Hindu undivided family	A residential house in India	Same as section 82	Gain × cost of the new house ÷ net consideration

7.2 Section 82 — a residential house into a residential house

- The asset transferred must be a LONG-TERM residential house the income of which is chargeable under the head Income from house property.
- The new house must be in India. One house only — except that where the gain does not exceed ₹2 crore the assessee may, once in his lifetime, buy or build TWO residential houses.
- Where the cost of the new house is not less than the gain, the whole gain is exempt; otherwise so much of the gain as is not reinvested is charged.
- If the new house is transferred within three years, the exemption is withdrawn: its cost of acquisition is reduced by the exemption allowed, which increases the gain on that later sale.

7.3 Section 83 — agricultural land into agricultural land

- The assessee must be an INDIVIDUAL or a Hindu undivided family. A company or a firm cannot claim it.
- The land transferred must have been used for agricultural purposes, by the assessee or his parent or the Hindu undivided family, in the two years immediately preceding the date of transfer. Rural agricultural land is not a capital asset at all [paragraph 1.6], so in practice the section reaches urban agricultural land.
- The new asset must be any other land, purchased within TWO years after the date of transfer, for being used for agricultural purposes.
- Section 83 does not require the original asset to be long-term. The gain is short-term or long-term as the holding period decides.

Section 83(1)(i) and (ii) — how much escapes

- **Where the gain EXCEEDS the cost of the new land**, the excess is charged under section 67; and in computing the gain on a transfer of the new land within three years of its purchase, its cost is taken as NIL.
- **Where the gain is equal to or less than that cost**, nothing is charged; and in computing the gain on a transfer of the new land within three years of its purchase, its cost is reduced by the amount of the gain.

Where the gain is not used to buy the new land before the return is filed, section 83(2) requires the unutilised amount to be deposited under the Capital Gains Account Scheme before the due date under section 263(1), and proof of the deposit to be filed with the return. An amount still unutilised when two years from the date of transfer expire is charged under section 67 as the income of that year [section 83(4)]. Paragraph 7.6 sets the Scheme out.

7.4 Section 85 — the bonds

Section 85(1) and (2)

Where an assessee has long-term capital gains from the transfer of land or building, or both, and within SIX MONTHS after the date of transfer invests the whole or part of the gains in a long-term specified asset, then so much of the gain as is invested is not charged; the excess of the gain over the investment is charged under section 67.

The investment from the gain arising on the transfer of one or more original assets shall not exceed **₹50,00,000** during any tax year, or in the aggregate across the year of transfer and the following year.

Three limits on section 85

- The original asset must be LAND OR BUILDING. Gains on shares, gold or any other asset do not qualify.
- The six months run from the date of TRANSFER, not from the end of the year and not from the receipt of the price.
- The ₹50,00,000 ceiling is on the investment, not on the gain, and it cannot be doubled by splitting the investment across two years. If the bonds are transferred or converted into money within five years, the exemption is withdrawn and charged in that year.

7.5 Section 86 — any long-term asset into a residential house

The proportionate formula

Exemption = Long-term capital gain × **cost of the new residential house ÷ net consideration**

Where the whole of the net consideration — not merely the gain — is invested, the whole gain is exempt. Where only part is invested, only a proportionate part is. This is the difference between section 86 and section 82. Applying section 82's simple comparison to a section 86 question gives a different figure.

Conditions. The assessee must not own more than one residential house other than the new one on the date of transfer, and must not within two years purchase, or within three years construct, another residential house.

7.6 Section 89 — the Capital Gains Account Scheme

How the deposit works

The exemptions in sections 82 to 88 require the new asset to be acquired within a period that usually runs past the due date for filing the return. Section 89 bridges the gap. The amount not yet used must be deposited, before the due date under section 263(1), in an account under a scheme notified by the Central Government, and the amount deposited is treated as used.

- The exemption is then given on the amount actually used PLUS the amount deposited.
- Where the deposit is not used within the period allowed, the unused amount is charged as a capital gain of the year in which the period expires.
- The deposit must be made before the due date of the return, not before the end of the tax year.

Chapter 8

The Rates [Sections 196, 197 and 198]

Where these three rates come from

Sections 196, 197 and 198 reproduce sections 111A, 112 and 112A of the 1961 Act as they stood on 31 March 2026. The figures in them — 20%, 12.5% and 12.5% above ₹1,25,000 — were settled by the Finance (No. 2) Act, 2024 with effect from 23 July 2024, and applied throughout the assessment year 2026-27 under the 1961 Act. The 2025 Act has renumbered them and altered nothing.

8.1 Section 196 — short-term gains on listed equity, at 20%

Section 196 applies where a short-term capital gain arises on the transfer of an equity share in a company, a unit of an equity oriented fund or a unit of a business trust, and the sale is chargeable to securities transaction tax. The gain is taxed at

20%, and the rest of the total income at the ordinary rates. Every other short-term capital gain — on property, on gold, on unlisted shares, on a depreciable asset — is simply added to total income and taxed at the slab rates.

8.2 Section 197 — long-term gains, at 12.5%

The tax is the aggregate of the tax on the total income as reduced by the long-term gains, and 12.5% of those gains. No indexation enters the computation of the gain.

8.3 The indexation option for land or building [Section 197(3)]

Section 197(3)

In the case of an individual or a Hindu undivided family, being a RESIDENT, in the case of transfer of a long-term capital asset, being LAND OR BUILDING, OR BOTH, which was acquired BEFORE THE 23rd JULY, 2024, the excess income-tax computed as per the following formula shall be ignored:—

E = A – B

- E = excess income-tax to be ignored;
- A = income-tax computed under sub-section (1)(b) — that is, at 12.5% on the gain computed WITHOUT indexation;
- B = income-tax computed under sub-section (1)(b) taking the rate as 20% and the capital gains computed by taking the indexed cost of acquisition and the indexed cost of improvement.

How to answer a section 197(3) question

- Compute the gain WITHOUT indexation. That is the figure that goes into the return and into total income.
- Compute the tax on it at 12.5%. Call it A.
- Compute the gain again WITH indexation, and the tax on that at 20%. Call it B.
- If A is greater than B, the excess is ignored and the tax is B. If A is not greater than B, there is no excess and the tax is A.

In short, the assessee pays the LOWER of the two — but only on land or building, only if he is a resident individual or Hindu undivided family, and only if he acquired it before 23 July 2024. Problem 1 in Chapter 9 works it in full.

8.4 Section 198 — long-term gains on listed equity

Where the long-term gain arises on an equity share, a unit of an equity oriented fund or a unit of a business trust, and securities transaction tax has been paid — on both acquisition and transfer in the case of an equity share, and on transfer in the case of a unit — the tax is 12.5% of so much of the gain as exceeds ₹1,25,000.

The ₹1,25,000 is an exemption from tax, not from income

The whole gain enters total income. It is only in computing the tax that the first ₹1,25,000 is left out. And the threshold is per assessee per year, across all such gains together — not per transaction and not per scrip.

8.5 The basic exemption limit, and Chapter VIII

Two reliefs that apply to all three sections

- **The unexhausted basic exemption limit may be set against these gains** — but only by a RESIDENT individual or Hindu undivided family. Where the total income as reduced by the special-rate gains falls short of the maximum amount not chargeable to tax, the gains are reduced by that shortfall and only the balance is taxed at the special rate [ss. 196(2), 197(2), 198(3)].
- **Deductions under Chapter VIII are not allowed against these gains.** Sections 196(4) and 197(5) require the gross total income to be reduced by the special-rate gains before Chapter VIII is applied. So a deduction under section 123 or 126 comes off the salary or business income, never off the capital gain. Problem 12 in Chapter 9 turns on this.

The three rates, on one line each

Gain	Section	Rate
Short-term on listed equity, equity fund units, business trust units, securities transaction tax paid	196	20%
Any other short-term gain	—	Slab rates
Long-term on the same listed equity and units	198	12.5% above ₹1,25,000
Any other long-term gain	197	12.5%
Long-term on land or building, resident individual or Hindu undivided family, acquired before 23 July 2024	**197(3)**	**The lower of 12.5% unindexed and 20% indexed**
Market linked debenture, specified mutual fund unit, unlisted bond	76	Always short-term — slab rates

Chapter 9

The Computation, and Eleven Practical Problems

9.1 The format

Every solution in this chapter is written in the order section 72 places the steps. Where the Cost Inflation Index is needed it is given in the question. The notified Cost Inflation Index for the Tax Year 2026-27 is 384.

Computation of capital gains

Particulars	₹	₹
Full value of the consideration received or accruing		**xxx**
Less: expenditure incurred wholly and exclusively in connection with the transfer	xxx	
Less: cost of acquisition	xxx	
Less: cost of improvement	xxx	(xxx)
GROSS CAPITAL GAIN		xxx
Less: exemption under sections 82 to 89		(xxx)
CAPITAL GAIN CHARGEABLE TO TAX		**xxx**

9.2 Problem 1 — a house, and the section 197(3) comparison

The question

Shri Vinod Sharma, a resident individual aged 51, sold a residential house at Jaipur on 10 December 2026 for ₹1,20,00,000. He had purchased it on 15 June 2012 for ₹40,00,000, and spent ₹5,00,000 on an additional floor in the Tax Year 2014-15. He paid brokerage of ₹1,20,000 on the sale. He claims no exemption.

- Cost Inflation Index: 2012-13 = 200; 2014-15 = 240; 2026-27 = 384.

Compute his capital gain and the tax on it for the Tax Year 2026-27.

Step 1 — the gain, computed WITHOUT indexation [s. 72(1)]

Full value of the consideration		**1,20,00,000**
Less: brokerage on the sale [s. 72(1)(a)]	1,20,000	
Less: cost of acquisition	40,00,000	
Less: cost of improvement	5,00,000	(46,20,000)
LONG-TERM CAPITAL GAIN [Note 1]		**73,80,000**

Step 2 — the same gain, computed WITH indexation, for the section 197(3) comparison only

Full value of the consideration		**1,20,00,000**
Less: brokerage on the sale	1,20,000	
Less: indexed cost of acquisition — ₹40,00,000 × 384 ÷ 200	76,80,000	
Less: indexed cost of improvement — ₹5,00,000 × 384 ÷ 240	8,00,000	(85,80,000)
GAIN ON THE INDEXED BASIS		**34,00,000**

Step 3 — the comparison [s. 197(3)]

A — tax at 12.5% on ₹73,80,000, the unindexed gain [s. 197(1)(b)]		9,22,500
B — tax at 20% on ₹34,00,000, the indexed gain		6,80,000
E — the excess, A less B, which is IGNORED		2,42,500
TAX ON THE CAPITAL GAIN		**6,80,000**

Add the health and education cess at 4% to the tax on total income as a whole; it is not shown here because the question asks only for the tax on the gain.

Working notes

Note 1 — the figure that goes into the return. It is ₹73,80,000, the gain computed without indexation. Section 197(3) does not alter the gain; it caps the tax. Returning ₹34,00,000 as the capital gain would understate total income by ₹39,80,000.

Note 2 — why section 197(3) is available here. Three conditions are satisfied: Shri Vinod is a resident individual; the asset is a building; and it was acquired on 15 June 2012, before 23 July 2024. Fail any one — a company, a plot of gold, a house bought in 2025 — and the tax is simply 12.5% of ₹73,80,000, that is ₹9,22,500.

Note 3 — the holding period. 15 June 2012 to 10 December 2026 is far more than twenty-four months, so the asset is long-term under section 2(101)(a) read with section 2(67).

9.3 Problem 2 — listed shares, and the grandfathering of 31 January 2018

The question

Smt. Rekha Nair sold 5,000 equity shares of a listed company on 20 August 2026 at ₹1,400 per share. She had acquired them on 12 March 2015 at ₹300 per share. The highest price quoted on a recognised stock exchange on 31 January 2018 was ₹850 per share. Securities transaction tax was paid both on acquisition and on transfer. She has no other capital gain. Compute her capital gain and the tax on it.

Step 1 — the cost of acquisition [s. 90]

Actual cost — ₹300 per share		300
Fair market value on 31 January 2018	850	
Full value of the consideration per share	1,400	
Lower of the two — ₹850 and ₹1,400		850
COST PER SHARE — the higher of ₹300 and ₹850		850
Cost of acquisition of 5,000 shares		**42,50,000**

The three figures are compared in the order the section places them: the cost is the HIGHER of the actual cost and the LOWER of the fair market value on 31 January 2018 and the sale price.

Step 2 — the gain and the tax

Full value of the consideration — 5,000 × ₹1,400		**70,00,000**
Less: cost of acquisition [Step 1]		(42,50,000)
LONG-TERM CAPITAL GAIN		27,50,000
Less: the first ₹1,25,000, left out of charge by section 198(2)(a)		(1,25,000)
CHARGEABLE AT 12.5%		**26,25,000**
TAX ON THE CAPITAL GAIN — 12.5% of ₹26,25,000		**3,28,125**

The whole ₹27,50,000 enters total income. The ₹1,25,000 is left out only in computing the tax, and it is one threshold for the year across all such gains, not one per scrip.

9.4 Problem 3 — a short-term gain on listed shares

The question

Shri Arun Bhatia purchased 2,000 equity shares of a listed company on 10 May 2026 at ₹700 per share and sold them on 5 January 2027 at ₹950 per share, paying brokerage of ₹19,000. Securities transaction tax was paid on the sale. Compute the capital gain and the tax on it.

Solution

Full value of the consideration — 2,000 × ₹950		**19,00,000**
Less: brokerage [s. 72(1)(a)]	19,000	
Less: cost of acquisition — 2,000 × ₹700	14,00,000	(14,19,000)
SHORT-TERM CAPITAL GAIN [Note]		4,81,000
TAX AT 20% [s. 196]		**96,200**

Note. The shares were held from 10 May 2026 to 5 January 2027 — under twelve months. A listed security is long-term only after twelve months [s. 2(101)(b)(i)], so this is a short-term capital asset. Securities transaction tax having been paid on the sale, section 196 applies and the rate is 20%, not the slab rate. Note also that the securities transaction tax itself is not deductible [s. 72(3)(b)].

9.5 Problem 4 — a depreciable asset

The question

The written down value of a block of plant and machinery, depreciated at 15%, stood at ₹8,00,000 on 1 April 2026. The block contained two machines, both acquired in 2018. There were no additions during the year. Compute the capital gain and the depreciation for the Tax Year 2026-27 if, during the year, BOTH machines were sold —

- (a) for ₹11,00,000; and
- (b) for ₹6,50,000.

(a) Sold for ₹11,00,000

Moneys payable on the transfer		11,00,000
Less: written down value of the block on 1 April 2026		(8,00,000)
SHORT-TERM CAPITAL GAIN [s. 74]		**3,00,000**
Depreciation for the year		**Nil**

(b) Sold for ₹6,50,000

Written down value of the block on 1 April 2026		8,00,000
Less: moneys payable on the transfer		(6,50,000)
SHORT-TERM CAPITAL LOSS [s. 74]		**(1,50,000)**
Depreciation for the year		**Nil**

Working notes

Note 1 — why it is short-term. Section 74(1) deems the gain on a capital asset forming part of a block on which depreciation has been allowed to be a short-term capital gain irrespective of section 2(101). The machines were held for eight years; it makes no difference. No indexation, and none of the exemptions that require a long-term gain.

Note 2 — why there is no depreciation. In both cases every asset in the block was transferred, so no asset remains on which depreciation could be computed. Had one machine been sold and one retained, and the proceeds been less than the written down value, there would have been no capital gain at all — the proceeds would simply have reduced the block and depreciation would have been computed on the balance.

9.6 Problem 5 — bonus shares and right shares

The question

Shri Anil Kapoor acquired 1,000 equity shares of X Ltd., a listed company, on 10 July 2019 at ₹200 per share. On 15 September 2023 the company allotted him 1,000 bonus shares in the ratio of one for one. On 20 October 2025 it made a rights issue of one share for every two held, at ₹150 per share, and he subscribed in full. On 10 January 2027 he sold all his shares at ₹500 per share. Securities transaction tax was paid throughout. Compute his capital gain and the tax on it.

Step 1 — the holding, and the cost of each lot

Lot	Number	Cost
Original shares, acquired 10 July 2019 at ₹200	1,000	2,00,000
Bonus shares, allotted 15 September 2023 [Note 1]	1,000	Nil
Rights shares, allotted 20 October 2025 at ₹150 [Note 2]	1,000	1,50,000
TOTAL	**3,000**	**3,50,000**

Step 2 — the gain and the tax

Full value of the consideration — 3,000 × ₹500		**15,00,000**
Less: cost of acquisition		(3,50,000)
LONG-TERM CAPITAL GAIN [Note 3]		11,50,000
Less: the first ₹1,25,000 [s. 198(2)(a)]		(1,25,000)
CHARGEABLE AT 12.5%		**10,25,000**
TAX ON THE CAPITAL GAIN		**1,28,125**

Working notes

Note 1 — the bonus shares. Cost nil, nothing having been paid for them. The whole of their sale proceeds is gain. Their holding period runs from 15 September 2023, the date of allotment — not from the acquisition of the original shares.

Note 2 — the rights shares. Cost is what was actually paid to the company, ₹150 per share. The holding period runs from allotment on 20 October 2025. Had he instead renounced the right in favour of another for a price, that price would have been a short-term capital gain in his hands with a cost of nil.

Note 3 — all three lots are long-term, and there is no grandfathering. Each lot was held for more than twelve months to 10 January 2027 — the rights shares by fourteen months and three weeks. And every lot was acquired AFTER 31 January 2018, so the grandfathering rule in section 90 has no application; each takes its actual cost.

9.7 Problem 6 — advance money forfeited

The question

Shri Mohan Das purchased a plot of land in the Tax Year 2014-15 for ₹12,00,000. In 2018-19 he negotiated its sale and received ₹2,00,000 as an advance, which he forfeited when the intending buyer withdrew. In 2021-22 he again negotiated a sale and received ₹1,50,000 as an advance, which he also forfeited; that sum was charged to tax as income from other sources in that year. He sold the plot on 1 November 2026 for ₹45,00,000, paying ₹45,000 as expenses of the transfer. Compute his capital gain.

Step 1 — the cost of acquisition [s. 81]

Cost of the plot		12,00,000
Less: advance of ₹2,00,000 forfeited, not charged to tax when forfeited [s. 81(a)] [Note 1]		(2,00,000)
Advance of ₹1,50,000 forfeited, already charged as income from other sources [s. 81(b)] [Note 2]		Not deducted
COST OF ACQUISITION		**10,00,000**

Step 2 — the gain

Full value of the consideration		**45,00,000**
Less: expenses of the transfer	45,000	
Less: cost of acquisition [Step 1]	10,00,000	(10,45,000)
LONG-TERM CAPITAL GAIN		**34,55,000**

Working notes

Note 1 — the first advance. Section 81(a) deducts it from the cost. The tax on it was deferred until the plot was sold, and this is that moment.

Note 2 — the second advance. It has already borne tax once, as income from other sources in the Tax Year 2021-22. Section 81(b) therefore forbids its deduction from the cost, so that the same sum is not taxed twice.

Note 3 — the tax. The plot is land acquired before 23 July 2024 and Shri Mohan Das is a resident individual, so section 197(3) applies and the tax is the lower of 12.5% of ₹34,55,000 and 20% of the gain recomputed with the indexed cost. The method is worked in full in Problem 1.

9.8 Problem 7 — section 82, with the Capital Gains Account Scheme

The question

Shri Raghav Menon, a resident individual, sold a residential house on 5 July 2026 for ₹90,00,000, paying ₹90,000 as expenses of the transfer. He had purchased it in the Tax Year 2013-14 for ₹20,00,000. On 1 February 2027 he purchased another residential house in India for ₹40,00,000, and on 20 July 2027, before furnishing his return, he deposited ₹15,00,000 in an account under the Capital Gains Account Scheme. Compute the capital gain chargeable. (Ignore the section 197(3) comparison.)

Solution

Full value of the consideration		**90,00,000**
Less: expenses of the transfer	90,000	
Less: cost of acquisition	20,00,000	(20,90,000)
LONG-TERM CAPITAL GAIN		69,10,000
Less: exemption under section 82 —		
cost of the new residential house	40,00,000	
amount deposited under section 89 [Note 2]	15,00,000	(55,00,000)
CAPITAL GAIN CHARGEABLE		**14,10,000**

Working notes

Note 1 — section 82 is a simple comparison. The exemption is the gain, or the cost of the new house, whichever is lower. It is NOT proportionate. Contrast section 86 in Problem 9, where the exemption bears to the gain the same proportion as the investment bears to the net consideration.

Note 2 — the deposit. The new house need only be purchased within two years, or constructed within three, but the return is due long before that. Section 89 bridges the gap: the unused amount deposited before the due date under section 263(1) is treated as used. If the ₹15,00,000 is not in fact applied within the period allowed, it is charged as a capital gain of the year in which the period expires.

Note 3 — the three-year lock-in. If the new house is transferred within three years, its cost of acquisition is reduced by the ₹55,00,000 exempted, so the gain on that sale is correspondingly larger.

9.9 Problem 8 — section 86, and why it is proportionate

The question

Smt. Neelam Joshi sold gold jewellery on 10 June 2026 for ₹60,00,000. She had purchased it in the Tax Year 2015-16 for ₹15,00,000. On 20 January 2027 she invested ₹36,00,000 in a residential house in India. She owns no other residential house. Compute the capital gain chargeable.

Solution

Full value of the consideration — the net consideration		**60,00,000**
Less: cost of acquisition		(15,00,000)
LONG-TERM CAPITAL GAIN [Note 1]		45,00,000
Less: exemption under section 86 [Note 2] —		
₹45,00,000 × ₹36,00,000 ÷ ₹60,00,000		(27,00,000)
CAPITAL GAIN CHARGEABLE		**18,00,000**

Tax at 12.5% under section 197. Section 197(3) does not apply: the asset is jewellery, not land or building.

Working notes

Note 1 — jewellery is a capital asset. Personal effects are excluded from the definition of a capital asset by section 2(22)(ii), but jewellery is expressly excluded from personal effects. So gold ornaments are charged however personal their use. Held from 2015-16 to June 2026, far beyond twenty-four months, they are long-term.

Note 2 — the proportion, and the reason for it. Section 86 exempts the gain in the proportion which the cost of the new house bears to the NET CONSIDERATION — not to the gain. She reinvested ₹36,00,000 of a ₹60,00,000 receipt, that is three-fifths, so three-fifths of the gain is exempt. Had she invested the whole ₹60,00,000 the whole gain would have been exempt. Applying section 82's simple comparison here would give an exemption of ₹36,00,000 and a chargeable gain of ₹9,00,000, which is wrong by ₹9,00,000.

9.10 Problem 9 — section 85, and the ₹50,00,000 ceiling

The question

Shri Kamal Jain sold a commercial building on 1 August 2026. The long-term capital gain, computed under section 72, is ₹78,00,000. On 20 November 2026 he invested ₹50,00,000 in bonds of the National Highways Authority of India and ₹15,00,000 in bonds of the Rural Electrification Corporation, both being long-term specified assets. Compute the capital gain chargeable.

Solution

Long-term capital gain on the building		**78,00,000**
Amount invested in long-term specified assets within six months — ₹50,00,000 + ₹15,00,000		65,00,000
Less: exemption under section 85, restricted by sub-section (2) [Note 2]		(50,00,000)
CAPITAL GAIN CHARGEABLE		**28,00,000**

Working notes

Note 1 — the six months. The investment was made on 20 November 2026, within six months of the transfer on 1 August 2026. The period runs from the date of TRANSFER, not from the end of the tax year and not from the receipt of the price.

Note 2 — the ceiling. Section 85(2) limits the investment that may be counted to ₹50,00,000 during any tax year, and to ₹50,00,000 in the aggregate for the year of transfer and the following year taken together. The further ₹15,00,000 earns nothing. Nor could he have saved it by investing ₹50,00,000 this year and ₹15,00,000 next year — the sub-section closes that route in terms.

Note 3 — the five-year lock-in. If the bonds are transferred, or converted into money, or a loan is taken against them, within five years, the exemption is withdrawn and charged as a long-term capital gain of that year.

9.11 Problem 10 — the previous owner's cost

The question

Shri Suresh Iyer received a house under the will of his father, who died in 2019. His father had purchased it in the Tax Year 2005-06 for ₹8,00,000. Shri Suresh sold it on 1 December 2026 for ₹75,00,000. Compute his capital gain, ignoring the section 197(3) comparison.

Solution

Full value of the consideration		**75,00,000**
Less: cost of acquisition — the cost to the PREVIOUS OWNER [Note 2]		(8,00,000)
LONG-TERM CAPITAL GAIN		**67,00,000**

Working notes

Note — acquisition under a will. The transfer under the will was itself not a transfer, being within section 70(1). Section 73(1), Table, Serial number 1 then makes the cost to the previous owner — the father's ₹8,00,000 — the cost in the son's hands. And section 2(101)(c)(B)(I) includes the father's holding period, so the asset is long-term although the son has held it only since 2019. Nothing was charged on the father's death.

9.12 Problem 11 — total income and tax under both regimes

The question

Shri Deepak Rao, a resident individual aged 52, has the following for the Tax Year 2026-27. Compute his total income and tax payable under the optional regime and under the default regime of section 202.

- Income from salaries, after the standard deduction — ₹9,00,000.
- Long-term capital gain on listed equity shares on which securities transaction tax was paid on acquisition and transfer — ₹4,25,000.
- Short-term capital gain on listed equity shares on which securities transaction tax was paid on transfer — ₹2,00,000.
- Long-term capital gain on the sale of gold — ₹6,00,000.
- He paid ₹1,50,000 into his public provident fund.

Step 1 — total income

Particulars	Optional	Default
Income from salaries	9,00,000	9,00,000
Less: deduction under section 123 — public provident fund [Note 1]	(1,50,000)	Not allowed
Income other than capital gains	7,50,000	9,00,000
Long-term capital gain within section 198	4,25,000	4,25,000
Short-term capital gain within section 196	2,00,000	2,00,000
Long-term capital gain within section 197 — gold	6,00,000	6,00,000
TOTAL INCOME	**19,75,000**	**21,25,000**

Step 2 — the tax

Particulars	Optional	Default
On the income other than capital gains, at the slab rates [Note 2]	62,500	30,000
On ₹4,25,000 less ₹1,25,000, at 12.5% [s. 198]	37,500	37,500
On ₹2,00,000, at 20% [s. 196]	40,000	40,000
On ₹6,00,000, at 12.5% [s. 197]	75,000	75,000
INCOME-TAX	2,15,000	1,82,500
Add: health and education cess at 4%	8,600	7,300
TAX PAYABLE, rounded off under section 516	**2,23,600**	**1,89,800**

Working notes

Note 1 — where the deduction comes off. Sections 196(4) and 197(5) require the gross total income to be reduced by the special-rate capital gains before Chapter VIII is applied. So the ₹1,50,000 comes off the salary alone. It cannot be set against any of the three capital gains, and if the salary had been smaller the balance of the deduction would simply have been lost.

Note 2 — the slab computation. Optional regime, on ₹7,50,000 — nil up to ₹2,50,000; ₹2,50,000 at 5% = ₹12,500; ₹2,50,000 at 20% = ₹50,000. Total ₹62,500. Default regime, on ₹9,00,000 — nil up to ₹4,00,000; ₹4,00,000 at 5% = ₹20,000; ₹1,00,000 at 10% = ₹10,000. Total ₹30,000.

Note 3 — the special rates are the same under both regimes. Sections 196, 197 and 198 apply whichever regime is chosen; the choice affects only the tax on the rest of the income and the deductions available. The whole of the ₹33,800 difference here comes from the slabs and the loss of the ₹1,50,000 deduction.

Note 4 — the basic exemption limit. Sections 196(2), 197(2) and 198(3) allow a resident individual to set the unexhausted basic exemption limit against these gains. It does not help here, the salary alone having exhausted it. It would matter if his other income were below ₹2,50,000 — or ₹4,00,000 under the default regime.

9.13 The eleven problems at a glance

	What it is about	The provisions it turns on	Answer
1	A house, and the indexation comparison	s. 72(1); s. 197(1)(b) and (3)	Gain ₹73,80,000; tax ₹6,80,000, not ₹9,22,500
2	Listed shares, grandfathered	s. 90; s. 198	Gain ₹27,50,000; tax ₹3,28,125
3	A short-term gain on listed shares	s. 2(101)(b)(i); s. 196	Gain ₹4,81,000; tax ₹96,200
4	A depreciable asset, two ways	s. 74	Gain ₹3,00,000; or a loss of ₹1,50,000
5	Bonus and right shares	s. 90; s. 198; the holding periods	Gain ₹11,50,000; tax ₹1,28,125
6	Advance money forfeited, twice	s. 81(a) and (b)	Cost ₹10,00,000; gain ₹34,55,000
7	A residential house, with a deposit	s. 82; s. 89	Gain ₹69,10,000; chargeable ₹14,10,000
8	Gold into a residential house	s. 2(22)(ii); s. 86	Gain ₹45,00,000; chargeable ₹18,00,000
9	The bonds, and the ceiling	s. 85(1) and (2)	Gain ₹78,00,000; chargeable ₹28,00,000
10	A house under a will — the previous owner's cost	s. 73(1), Sl. No. 1	₹67,00,000
11	Total income and tax, both regimes	ss. 196, 197, 198, 202; ss. 196(4) and 197(5)	Tax ₹2,23,600 optional, ₹1,89,800 default

Chapter 10

Revision, Ready Reckoner and Question Bank

10.1 Old section to new section · 10.2 The head on two pages
10.3 Forty-nine objective questions with answers · 10.4 Theory questions
10.5 Eleven unsolved problems with answers

10.1 Old section to new section

The third column states the position. Almost every row reads "unchanged", because the 2025 Act renumbered this head rather than rewriting it. Where a figure differs from what an older book gives, the change was made by the Finance (No. 2) Act, 2024 with effect from 23 July 2024 — under the 1961 Act, and already in force for the assessment year 2026-27.

Income-tax Act, 1961	Income-tax Act, 2025	Substance
Section 45(1) — basis of charge	Section 67(1)	Unchanged
Section 45(1A) — insurance money	Section 67(2) and (3)	Unchanged
Section 45(4) — a firm transferring to a partner	Section 67	Unchanged — fair market value is the consideration
Section 46A — buy-back	Section 69	Unchanged
Section 47 — transactions not regarded as transfers	Section 70	Unchanged, and regrouped into one sub-section
Section 47A — withdrawal of that relief	Section 71	Unchanged
Section 48 — mode of computation	Section 72	Indexation now serves only the section 197(3) comparison [s. 72(2)]
Explanation (v) to section 48 — Cost Inflation Index	Section 72(8)(a)	Unchanged
Section 49 — cost with reference to certain modes of acquisition	Section 73	Unchanged — set out as a Table
Section 50 — depreciable assets	Section 74	Unchanged
Section 50A — depreciation obtained on the straight-line basis	Section 75	Unchanged
Section 50AA — market linked debentures and specified mutual funds	Section 76	Unchanged; unlisted bonds and debentures added from 23 July 2024
Section 50C — stamp duty value of land or building	Section 78	Unchanged
Section 50D — consideration not ascertainable	Section 80	Unchanged
Section 51 — advance money received	Section 81	Unchanged; clause (b) preserves the interaction with the charge on forfeited advances
Section 54 — a residential house into a residential house	Section 82	Unchanged
Section 54B — agricultural land	Section 83	Unchanged
Section 54EC — bonds of the National Highways Authority of India or the Rural Electrification Corporation	Section 85	Unchanged — six months, ₹50,00,000
Section 54F — any long-term asset into a residential house	Section 86	Unchanged — still proportionate

Income-tax Act, 1961	Income-tax Act, 2025	Substance
Section 54H — extension of time; the Capital Gains Account Scheme	Section 89	Unchanged
Section 55 — meaning of cost of improvement and cost of acquisition	Section 90	Unchanged
Section 55(2)(ac) — the grandfathering of 31 January 2018	Section 90	Unchanged
Section 55A — reference to a Valuation Officer	Section 91	Unchanged
Section 2(14) — capital asset	Section 2(22)	Unchanged
Section 2(42A) — short-term capital asset	Section 2(101)	Unchanged from the 1961 Act as it stood. Twenty-four months generally, twelve months for listed securities, units of the Unit Trust of India, units of an equity oriented fund and zero-coupon bonds. The thirty-six month category was removed by the Finance (No. 2) Act, 2024 from 23 July 2024
Section 2(29A) — long-term capital asset	Section 2(67)	Unchanged
Section 111A — short-term gains on listed equity	Section 196	Unchanged. 15% became 20% by the Finance (No. 2) Act, 2024 from 23 July 2024, and section 196 carries that forward
Section 112 — long-term gains generally	Section 197	Unchanged. 20% with indexation became 12.5% without indexation by the Finance (No. 2) Act, 2024, together with the comparison now in section 197(3)
Section 112A — long-term gains on listed equity	Section 198	Unchanged. 10% above ₹1,00,000 became 12.5% above ₹1,25,000 by the Finance (No. 2) Act, 2024 from 23 July 2024
Section 288A / 288B — rounding off	Section 516	Unchanged
Section 115BAC — the default regime	Section 202	Unchanged

10.2 The head on two pages

The computation

Step	Authority
Is it a capital asset? Personal effects, stock and rural agricultural land are not	s. 2(22)
Is there a transfer, and is it outside section 70?	s. 70
Short-term or long-term — 24 months, or 12 for listed securities and units	s. 2(101), 2(67)
Full value of the consideration, or the deemed figure	s. 72(1), 67(2), 78, 79, 80
Less expenditure on the transfer	s. 72(1)(a)
Less cost of acquisition and cost of improvement	s. 72(1)(b), 73, 81, 90
Less the exemptions claimed	ss. 82 to 89
CAPITAL GAIN CHARGEABLE	

The figures to remember	Where
24 months — the general holding period	s. 2(101)(a)
12 months — listed securities, Unit Trust of India units, equity fund units, zero-coupon bonds	s. 2(101)(b)
20% — short-term on listed equity with securities transaction tax paid	s. 196
12.5% — long-term, generally, without indexation	s. 197
12.5% above ₹1,25,000 — long-term on listed equity	s. 198
23 July 2024 — the date before which land or building must have been acquired for the indexation comparison	s. 197(3)
31 January 2018 — the grandfathering date	s. 90
1 April 2001 — the fair market value option, and the indexation base year	s. 90, s. 72(8)(b)
384 — the Cost Inflation Index for the Tax Year 2026-27	s. 72(8)(a)
6 months and ₹50,00,000 — the bonds	s. 85
1 year before or 2 years after, and 3 years for construction — a residential house	ss. 82, 86
2 years — agricultural land; 3 years — compulsory acquisition	ss. 83, 84
10,000 population and 2, 6 or 8 kilometres — urban agricultural land	s. 2(22)(iii)

10.3 Forty-nine objective questions, with answers

	Question	Answer
1	Which sections govern capital gains?	Sections 67 to 91, with the rates in sections 196, 197 and 198.
2	In which year is a capital gain charged?	The year in which the TRANSFER took place [s. 67(1)] — not the year of receipt.
3	Name the two exceptions to that.	Compulsory acquisition, charged in the year the compensation is first received; and insurance money under section 67(2), charged in the year of receipt.
4	Give the four conditions for a charge under this head.	A capital asset; a transfer of it; effected in the tax year; producing profits or gains.
5	What are personal effects?	Movable property held for the personal use of the assessee or a dependent family member — but NOT jewellery, archaeological collections, drawings, paintings, sculptures or any work of art.
6	Is gold jewellery a capital asset?	Yes. It is expressly taken out of personal effects, however personal its use.
7	Is a residential house ever a personal effect?	No. Personal effects must be movable property; a house is immovable.
8	When is agricultural land in India a capital asset?	Only when urban — within a municipality or cantonment board of population 10,000 or more, or within 2, 6 or 8 kilometres of it according to population.
9	Rural agricultural land is sold at a large profit. What is charged?	Nothing. It is not a capital asset at all under section 2(22)(iii), so no exemption is needed.
10	The general holding period for a long-term capital asset.	More than twenty-four months [s. 2(101)(a)].
11	For which assets is it twelve months?	A security listed on a recognised stock exchange in India; a unit of the Unit Trust of India; a unit of an equity oriented fund; a zero-coupon bond.
12	Is there still a thirty-six month category?	No. It has gone. Unlisted shares, property, gold and everything else are long-term after twenty-four months.
13	An asset received under a will — from when is the holding period counted?	From the previous owner's acquisition [s. 2(101)(c)(B)(I)].
14	Name four things that amount to a transfer.	Sale; exchange; relinquishment; extinguishment of rights; compulsory acquisition; conversion into stock-in-trade; possession under section 53A of the Transfer of Property Act.
15	Is the conversion of debentures into shares a transfer?	No [s. 70(1)]. Nothing is charged; the cost carries across.
16	Is dematerialisation a transfer?	No. Neither the cost nor the holding period is disturbed.
17	Is a gift a transfer for capital gains?	It is within section 70(1), so nothing is charged on the donor. The donee takes the previous owner's cost.
18	What does section 71 do?	Withdraws the section 70 relief where an asset transferred to a subsidiary or holding company is converted into stock, or the holding relationship ceases, within eight years.
19	The three deductions from the full value of consideration.	Expenditure wholly and exclusively in connection with the transfer; the cost of acquisition; and the cost of improvement [s. 72(1)].
20	Name two things that may NOT be deducted.	Interest already claimed under section 22(1)(b) or Chapter VIII; and securities transaction tax [s. 72(3)].
21	When is the stamp duty value taken as the consideration?	Where the consideration for land or building is less than it [s. 78], subject to the prescribed safe harbour.
22	What if the consideration is not ascertainable?	The fair market value on the date of transfer is taken [s. 80].

	Question	Answer
23	Where is the Cost Inflation Index defined, and what is it used for now?	Section 72(8)(a). It now serves only the section 197(3) comparison and the fair market value option of 1 April 2001.
24	Give the formula for the indexed cost of acquisition.	Cost × Index for the year of transfer ÷ Index for the first year of holding or 2001-02, whichever is later.
25	An asset was acquired before 1 April 2001. What option does the assessee have?	To substitute the fair market value as on 1 April 2001 for the actual cost; improvement before that date is then disregarded.
26	Cost of acquisition of bonus shares allotted after 1 April 2001.	Nil.
27	From when does the holding period of a bonus share run?	From the date of ALLOTMENT of the bonus share, not of the original share.
28	Cost of acquisition of right shares subscribed for.	The amount actually paid to the company.
29	A shareholder renounces his right for a price. What is charged?	The whole price, as a SHORT-TERM capital gain, the cost of the right being nil.
30	Cost of self-generated goodwill, a tenancy right or a route permit.	Nil.
31	State the grandfathering rule of section 90.	For an equity share or unit within section 198 acquired before 1 February 2018, the cost is the higher of the actual cost and the lower of the fair market value on 31 January 2018 and the full value of consideration.
32	What is the fair market value on 31 January 2018 for a listed share?	The highest price quoted on a recognised stock exchange on that date, or on the immediately preceding date of trading.
33	Does grandfathering apply to unlisted shares or to property?	No. Only to assets within section 198.
34	What does section 76 do?	Treats gains on a market linked debenture, a unit of a specified mutual fund acquired on or after 1 April 2023, and an unlisted bond or debenture, as always SHORT-TERM, however long they are held.
35	A machine held for eight years is sold at a profit. Short-term or long-term?	Short-term, by force of section 74, the machine being in a block on which depreciation was allowed.
36	When does a capital gain arise on a block of assets?	Where the moneys payable exceed the opening written down value plus additions; or where the whole block is transferred and a balance remains, giving a loss.
37	Is depreciation allowed in the year the whole block is sold?	No.
38	In which year is a gain on compulsory acquisition charged?	The year the compensation, or any part of it, is FIRST received.
39	What is the cost of acquisition of enhanced compensation?	Nil. The legal expenses of obtaining it are deductible.
40	Section 82 — what is the exemption?	The gain, or the cost of the new residential house, whichever is lower.
41	Section 86 — what is the exemption?	Gain × cost of the new house ÷ NET CONSIDERATION. It is proportionate.
42	Section 85 — the asset, the period and the ceiling.	Land or building; six months from the date of transfer; ₹50,00,000.
43	May the ₹50,00,000 be doubled across two years?	No. Section 85(2) caps it for the year of transfer and the following year taken together.
44	Which exemption is available to ANY assessee, not only an individual or Hindu undivided family?	Sections 84, 85, 87 and 88.

	Question	Answer
45	What does section 89 do?	Treats an amount deposited under the Capital Gains Account Scheme before the due date of the return as having been used for the new asset.
46	The rate under section 196.	20% on short-term gains on listed equity shares, equity fund units and business trust units where securities transaction tax is paid.
47	The rate under section 197.	12.5% on long-term gains, without indexation.
48	The rate under section 198.	12.5% on so much of the long-term gain on listed equity and units as exceeds ₹1,25,000.
49	State the three conditions for the section 197(3) comparison.	A resident individual or Hindu undivided family; land or building, or both; acquired before 23 July 2024. The assessee then pays the lower of 12.5% unindexed and 20% indexed.

10.4 Theory questions

1. Explain the basis of charge under section 67. What are the essential conditions?
2. Define a capital asset. What is excluded from the definition, and why?
3. Write a note on personal effects. Which movable assets are expressly excluded from them?
4. When is agricultural land a capital asset? Explain the population and distance tests.
5. Distinguish a short-term from a long-term capital asset. How is the period of holding computed?
6. What amounts to a transfer? Explain relinquishment and extinguishment with examples.
7. Set out the principal transactions not regarded as transfers under section 70, grouped by kind.
8. Explain the computation of capital gains under section 72. What may not be deducted?
9. When is the full value of consideration displaced by a deemed figure? Deal with sections 67(2), 78, 79 and 80.
10. Explain the Cost Inflation Index and the indexed cost of acquisition. In what single situation may indexation now be used?
11. Explain the cost of acquisition where the asset was acquired by gift, will or inheritance. From when does the holding period run?
12. Write a note on advance money forfeited, and explain why section 81 has two clauses.
13. Explain the treatment of bonus shares and right shares, as to both cost and period of holding.
14. Explain the grandfathering rule of 31 January 2018, with the three situations in which it may operate.
15. How are capital gains on a depreciable asset computed? When does a gain arise, and when a loss?
16. Explain the treatment of compulsory acquisition and of enhanced compensation.
17. Compare sections 82 and 86. Why is one a simple comparison and the other proportionate?
18. Explain section 85 fully, with its three limits.
19. Explain the Capital Gains Account Scheme under section 89, and what happens if the deposit is not used.
20. Set out the rates under sections 196, 197 and 198, and explain the comparison in section 197(3).
21. How are the basic exemption limit and Chapter VIII deductions applied where total income includes special-rate capital gains?

10.5 Eleven unsolved problems, with answers

Answers, but no working. Where a figure differs, the corresponding worked problem in Chapter 9 covers the same ground. The Cost Inflation Index for the Tax Year 2026-27 is 384.

Problem 1. A plot bought in 2014-15 for ₹8,00,000 was sold in November 2026 for ₹30,00,000; expenses of transfer ₹30,000. The assessee is a company. Compute the gain and the tax on it.

> **Answer.** Long-term capital gain ₹21,70,000. Tax at 12.5% under section 197 = ₹2,71,250. Section 197(3) is not available to a company.

Problem 2. The same facts, but the assessee is a resident individual and the Cost Inflation Index is 240 for 2014-15 and 384 for 2026-27.

> **Answer.** Unindexed gain ₹21,70,000, tax at 12.5% = ₹2,71,250. Indexed cost ₹12,80,000; indexed gain ₹16,90,000; tax at 20% = ₹3,38,000. A is lower than B, so there is no excess to ignore and the tax is ₹2,71,250.

Problem 3. 3,000 listed equity shares bought on 5 May 2016 at ₹120 were sold on 1 September 2026 at ₹700. The highest price on 31 January 2018 was ₹400. Securities transaction tax paid throughout.

> **Answer.** Cost = higher of ₹120 and lower of (₹400, ₹700) = ₹400. Cost ₹12,00,000; gain ₹9,00,000; taxable ₹7,75,000 at 12.5% = ₹96,875.

Problem 4. The same shares, but sold at ₹300.

> **Answer.** Cost = higher of ₹120 and lower of (₹400, ₹300) = ₹300. Cost ₹9,00,000; gain NIL. The rule caps the cost at the sale price; it does not create a loss.

Problem 5. 1,000 listed shares bought 1 August 2026 at ₹450 and sold 20 March 2027 at ₹610. Securities transaction tax paid.

> **Answer.** Held under twelve months, so short-term. Gain ₹1,60,000; tax at 20% under section 196 = ₹32,000.

Problem 6. A block of furniture, written down value ₹3,00,000 on 1 April 2026, was wholly sold during the year for ₹4,20,000.

> **Answer.** Short-term capital gain under section 74 of ₹1,20,000. No depreciation for the year.

Problem 7. A house was received on the death of the owner's mother in 2021. She had bought it in 2004-05 for ₹6,00,000. It was sold in January 2027 for ₹68,00,000.

> **Answer.** Cost = the previous owner's ₹6,00,000. The mother's holding period is included, so it is long-term. Gain ₹62,00,000.

Problem 8. A residential house was sold for ₹1,10,00,000 (cost ₹18,00,000, transfer expenses ₹1,10,000). A new house was bought for ₹55,00,000 and ₹20,00,000 was deposited under the Capital Gains Account Scheme before the due date.

> **Answer.** Gain ₹90,90,000. Exemption under section 82 = ₹75,00,000. Chargeable ₹15,90,000.

Problem 9. Gold was sold for ₹50,00,000 (cost ₹9,00,000) and ₹25,00,000 invested in a residential house. The assessee owns no other house.

> **Answer.** Gain ₹41,00,000. Exemption under section 86 = ₹41,00,000 × 25,00,000 ÷ 50,00,000 = ₹20,50,000. Chargeable ₹20,50,000.

Problem 10. A commercial building gave a long-term gain of ₹42,00,000, of which ₹38,00,000 was invested in bonds of the Rural Electrification Corporation within four months.

> **Answer.** Exemption under section 85 = ₹38,00,000, being within the ₹50,00,000 ceiling. Chargeable ₹4,00,000.

Problem 11. An assessee has salary of ₹6,00,000, a section 198 long-term gain of ₹3,00,000 and a section 196 short-term gain of ₹1,50,000. He paid ₹1,20,000 into his public provident fund. Compute the tax under the optional regime.

> **Answer.** Salary less section 123 = ₹4,80,000; total income ₹9,30,000. Tax: on ₹4,80,000 at slab rates ₹11,500; on ₹1,75,000 at 12.5% = ₹21,875; on ₹1,50,000 at 20% = ₹30,000. Total ₹63,375; cess ₹2,535; tax payable ₹65,910.

10.6 Where to go next

Unit 3 is now complete. Part A dealt with Profits and gains of business or profession, in sections 26 to 66, and this Part B with Capital gains, in sections 67 to 91. Together with Units 1 and 2, three of the five Units of the prescribed syllabus are covered.

Unit 4 takes up Income from other sources, the clubbing of income, and the set-off and carry forward of losses. Unit 5 takes up the deductions of Chapter VIII, rebates and reliefs, the computation of total income and tax liability, and the filing of returns and tax deducted at source.

Corrections, suggestions and questions are welcome, and are acted on. The material is free, and is meant to stay free.

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