D.P. VIPRA COLLEGE BILASPUR

DEPARTMENT OF COMMERCE

CAPITAL GAINS

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Introduction

Capital Gains is an investment in a house property is one of the most sought out investments. The primary reason is to own a house, while others invest to seek a return upon the sale of the immovable property. A house property is a capital asset for income tax purposes. The gain or loss on the sale of a house property is taxable or allowed as a deduction in your income tax return. Similarly, capital gains or losses arise from different types of assets. We will discuss the chapter on ‘Capital gains’ here.

What is Capital Gains Tax In India?

Simply put, any profit or gain that arises from the sale of a ‘capital asset’ is a capital gain. This gain or profit is comes under the category ‘income’, and hence you will need to pay tax for that amount in the year in which the transfer of the capital asset takes place. This is called capital gains tax, which can be short-term or long-term. Capital gains are not applicable to an inherited property as there is no sale, only a transfer of ownership. The Income Tax Act has specifically exempted assets received as gifts by way of an inheritance or will. However, if the person who inherited the asset decides to sell it, capital gains tax will be applicable.

Defining Capital Assets

Land, building, house property, vehicles, patents, trademarks, leasehold rights, machinery, and jewellery are a few examples of capital assets. This includes having rights in or in relation to an Indian company. It also includes the rights of management or control or any other legal right. **The following do not come under the category of capital asset:**

a. Any stock, consumables or raw material, held for the purpose of business or profession

b. Personal goods such as clothes and furniture held for personal use

c. Agricultural land in rural India

d. 6½% gold bonds (1977) or 7% gold bonds (1980) or national defence gold bonds (1980) issued by the central government

e. Special bearer bonds (1991)

f. Gold deposit bond issued under the gold deposit scheme (1999) or deposit certificates issued under the Gold Monetisation Scheme, 2015

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

Types of Capital Assets?

1. **STCG (Short-term capital asset)**

An asset held for a period of 36 months or less is a short-term capital asset. The criteria of 36 months have been reduced to 24 months for immovable properties such as land, building and house property from FY 2017-18. For instance, if you sell house property after holding it for a period of 24 months, any income arising will be treated as long-term capital gain provided that property is sold after 31st March 2017.

2. LTCG (Long-term capital asset)

An asset that is held for more than 36 months is a long-term capital asset. The reduced period of the aforementioned 24 months is not applicable to movable property such as jewellery, debt-oriented mutual funds etc. They will be classified as a long-term capital asset if held for more than 36 months as earlier. Some assets are considered short-term capital assets when these are held for 12 months or less. This rule is applicable if the date of transfer is after 10th July 2014 (irrespective of what the date of purchase is). The assets are:

THANK YOU