

CHAPTER - 2

CAPITAL GAINS

TYPES OF CAPITAL ASSETS

SL. NO	CAPITAL ASSESTS	NATURE OF CAPITAL ASSESTS
1.	Financial assets like shares, listed debentures, government securities, units of UTI, mutual funds, zero coupon bonds	1. If capital assets is held for less than 1 year = It is short term capital assets 2. If capital assets is held for more then 1 year = It is a Long term capital assets
2.	Depreciation assets : Land, building, furniture	Always treated as short term capital assets
3.	Other assets/ Non financial assets: house property, land , building, jewellery	1. If capital assets is held for less then 3 year = It is short term capital assets. 2. If capital assets is more then 3 year = It is long term capital assets

COMPUTATION OF TAXABLE INCOME FROM CAPITAL GAINS

NATURE OF CAPITAL ASSETS	SHORT TERM CAPITAL ASSET	LONG TERM CAPITAL ASSET
Gross sale consideration	XX	XX
LESS: Realization expenses	XX	XX
Net sale consideration (1-2)	XX	XX
LESS: Actual cost of acquisition of capital assets	XX	-
LESS: Indexed cost of acquisition of capital assets	-	XX
LESS: Actual cost of improvement of capital assets	XX	-
LESS: Indexed cost of improvement of capital assets	-	XX
Gross capital gain/ Loss	XX	XX
LESS: Exemptions from capital gain	U/S-54B, U/S-54D, U/S-54G, U/S-54GA	U/S-54, U/S-54B, U/S-54D, U/S-54EC, U/S-54F, U/S-54G, U/S-54GA
NET CAPITAL GAIN	XX	XX
Exemptions cannot be claimed, if there is gross capital loss		

CAPITAL GAINS THEORY

1. Define capital assets.

Capital assets is defined to include property of any kind either fixed or circulating, movable or immovable, tangible or intangible etc

2. What is long term capital asset?

LTCA means a capital asset held by an assesses for more than 36 months, (12 months in the case of specified assets), immediately preceding the date of its transfer.

3. What are short term capital assets?

STCA means a capital assets held by an assesses for less than 36 months, (12 months in the case of specified assets), immediately preceding the date of its transfer.

4. Explain the term block assets

All the assets are classified into blocks, based upon the nature of assets and the rate of depreciation allowed in respect of them.

5. What is a capital loss? Give an example.

Capital loss is a loss on sales or transfer of capital assets

Ex- loss on sales building, plant, machinery, land

6. How do you treat short –term capital losses

Short-term capital losses can be set off against capital gains only. Further, unabsorbed – term capital losses can be carry forward for 8 years and can be set off against short-term or long –term gains only

7. Define the term transfers

Transfer in relation to a capital asset includes sales, exchange or relinquishment of an asset or the extinguishment of an asset or the extinguishment of any rights, conversion of capital assets into stock in trade or compulsory acquisition thereof under any law

8. What do you mean by long term capital gain and short-term capital gains?

Long term capital gains are capital gains which arise from the transfer of long-term capital assets. Whereas, short-term capital gains are capital gains, which arise from the transfer of short-term capital asset

9. State any LTCA for which benefit of indexation is not available

Debentures, bonds

10. What is the long term specified assets u/s 54 EC

Bonds of national highways of India and rural corporation