



GOVERNMENT OF ANDHRA PRADESH  
COMMISSIONERATE OF COLLEGIATE EDUCATION



**PROCEDURE FOR COMPUTATION  
OF LONG-TERM AND  
SHORT-TERM CAPITAL  
GAINS/LOSSES**

BCOM 4 SEM Subject: Income Tax  
LMS Video Lesson

**Dr. P. SUBBA LAKSHUMMA**

SKR & SKR Govt. College for Women (A),  
Kadapa

Email. Id :pragnanam2@gmail.com

Learn more at <http://ccelms.ap.gov.in>

# Learning Objectives:

Students can develop the following abilities after this video session.

- To remember the concepts of **Capital Gains/Losses**.
- To Understand the Procedure for Computation of **Capital Gains**
- To apply the concepts wherever Applicable
- To Analyse **Long-term and Short-term Capital Assets**.
- To develop ability to **Calculate Capital Gains**
- To acquire **Problem Solving Capacity**.

# Procedure for computation of Long-term and Short-term Capital Gains/Losses:

## Capital Gains:

When we sell a capital asset at a higher price than its cost of acquisition, we will get profit. This profit is called as Capital Gain and it is the ***Income chargeable to Tax***

## Capital Gains Tax:

Capital Gain tax in India is imposed upon the profits earned on selling capital assets and the tax calculated on capital gains is called as the tax on capital gains or capital gain tax. There are two types of Capital Gains: 1) short-term capital gains tax (STCG) and 2) long-term capital gains tax (LTCG). To understand capital gains, we need to understand the concept of capital assets.

## Capital Assets:

Capital assets are the property which can be owned and transferred.

Ex: land, building, shares, patents, trademarks, jewelry, leasehold rights, machinery, vehicles etc. Here is a list of capital assets that are not coming under capital gain:

- The stock of consumables or raw materials held for use in business.
- Personal belongings which are meant for personal use like clothes, furniture, etc.
- A piece of agricultural land is located in a rural area.
- Special bearer bonds, 6.5% gold bonds (1977), 7% gold bonds (1980) or national defense gold bonds (1980) which have been issued by the Central Government.
- Gold deposit bond (1999) which had been issued under the gold deposit scheme or deposit certificate issued under Gold Monetisation Scheme, 2015 notified by the Central Government.

## **Types of Capital Assets:**

Capital assets are divided into two types based on the period after which they are sold off:

1. Short term capital assets
2. Long term capital assets

### **Short term capital assets:**

Short term capital assets are those which are held for less than or equal to 36 months. This means that if you sell off the asset within 36 months of buying it, the asset would be called as short term capital asset. However, in some cases, the period of holding is reduced to 24 months and 12 months. These cases include the following:

- If the asset is an immovable property like land, building or house then the period of holding would be considered to be 24 months. This means that if you sell off an immovable property within 24 months of buying it, the property would be called a short term capital asset.
- Similarly, equity shares of a company listed on the Recognized stock exchange, securities listed on the Recognized stock exchange, UTI units, Equity oriented mutual fund units and zero-coupon bonds have a holding period of 12 months. If these assets are sold off before 12 months of their purchase, they would be called short-term capital assets.

## **Long term capital assets:**

Long term capital assets are those which are held for more than 36 months and then sold off. Immovable property which is sold after 24 months would be categorized as a long term capital asset. In the case of equity shares, securities, mutual fund units, etc., however, the holding period of 12 months is applicable. If they are sold off after 12 months, they would be called long term capital assets.

## **Capital Gains:**

Capital gains are divided into two types:

1. Short term capital gains and
2. Long term capital gains.

## **Short Term Capital Gains (STCG):**

Short term capital gains are the profits that you earn when you sell off your capital assets before one year of holding those. Note that the holding period varies as per the capital asset.

- When the security transaction is applicable: Short term capital gain tax is 15%
- When a security transaction is not applicable Short term capital gain tax will be calculated on the basis of the income of the Taxpayers and would be automatically added in the ITR of the taxpayer.

## **Long term capital gains (LTCG):**

Long term capital gains (LTCG) are the profits that you earn when you sell off your capital assets post one year. Note that the period of holding for different assets to be claimed as long term asset varies according to the asset.

- Long Term capital gain tax is applicable at 20% except on the sale of equity shares and the units of equity-oriented funds.
- Long Term capital gains are 10% and above on the sales of Equity shares and unit of equity-oriented funds.

## **Calculation of Capital Gains:**

Calculation of capital gains depends on the type of capital gain you are earning. Short term capital gains are calculated differently than long term ones. However, before calculating the different types of capital gains, we should understand the concept of the full value of consideration.

## **Full value Consideration:**

The full value of the consideration is, in simple terms, the money that you would receive when you transfer your capital asset. In technical terms, full value consideration is the consideration which the seller has received or would receive in exchange for transferring his capital asset.

Besides full value consideration, there are two other important terms:

- ★ Cost of acquisition and
- ★ Cost of improvement.

## **Cost of Acquisition:**

The Cost of acquisition is the cost price of the asset. It is the price at which you bought the capital asset.

## **Cost of Improvement:**

Cost of improvement is the money spent on the capital asset to improve it. Cost of improvement is added to the cost of acquisition to compute capital gains. However, if the cost of the improvement is incurred before 1st April 2001, it would not be added to the cost of acquisition.

# Calculation of Short term Capital Gains:

<b>The full value of consideration</b>	<b>XXXXXX</b>
--	---------------

<b>Less: expenses incurred on transferring the asset</b>	<b>XXXXX</b>
--	--------------

<b>Less: cost of acquisition</b>	<b>XXXXX</b>
----------------------------------	--------------

<b>Less: cost of improvement</b>	<b>XXXXX</b>
----------------------------------	--------------

<b>Short term capital gains</b>	<b>XXXXXX</b>
---------------------------------	---------------

# Example:

Let's understand it with an example. A house property was bought on 1st January 2017 for INR 50 lakhs. On 1st January 2018, INR 5 lakhs was spent on making improvements to the house. On 1st November 2018, the house property was sold for INR 65 lakhs.

Since the house was sold after 22 months of buying it, it would be categorized as a short term capital asset. The gain from selling the house would be called short term capital gain and it would be calculated as follows:

## Calculation of Short Term Capital Gains :

**The full value of consideration**

65 lakhs

**Less: cost of acquisition**

50 lakhs

**Less: cost of improvement**

05 lakhs

**Short Term Capital Gains □**

10 lakhs

# Calculation of Long Term Capital Gains:

<b>The full Value of Consideration</b>	<b>XXXXXX</b>
<b>Less: Expenses incurred in transferring the asset</b>	<b>XXXXX</b>
<b>Less: Indexed cost of acquisition</b>	<b>XXXXX</b>
<b>Less: Indexed cost of improvement</b>	<b>XXXXX</b>
<b>Less: Expenses allowed to be deducted from full value of consideration</b>	<b>XXXXX</b>
<b>Less: Exemptions available under Sections 54, 54EC, 54B and 54F etc.</b>	<b>XXXXX</b>
<b>Long Term Capital Gains</b> <input type="checkbox"/>	<b>XXXXXX</b>

## **Indexation of cost:**

Indexation of cost is done to factor in inflation over the years when the capital asset is held by us. Since inflation decreases the value of money, indexation of the acquisition cost and improvement cost increases, the amount of these costs thereby lowering the capital gain earned. To calculate indexation, Cost Inflation Index (CII) is used to account for the inflation incurred over the holding period.

With effect from the last budget (presented on 1st February 2018), the base year for CII has changed from 1981 to 2001. That is why, when calculating the indexed cost of acquisition, CII of 2001-02 is taken into consideration if the asset was purchased before the financial year 2001-02.

<b>Financial year</b>	<b>Cost Inflation Index (CII)</b>	<b>2011-12</b>	<b>184</b>
<b>2001-02</b>	100	<b>2012-13</b>	200
<b>2002-03</b>	105	<b>2013-14</b>	220
<b>2003-04</b>	109	<b>2014-15</b>	240
<b>2004-05</b>	113	<b>2015-16</b>	254
<b>2005-06</b>	117	<b>2016-17</b>	264
<b>2006-07</b>	122	<b>2017-18</b>	272
<b>2007-08</b>	129	<b>2018-19</b>	280
<b>2008-09</b>	137	<b>2019-20</b>	289
<b>2009-10</b>	148	<b>2020-2021</b>	301
<b>2010-11</b>	167	<b>2021-2022</b>	317

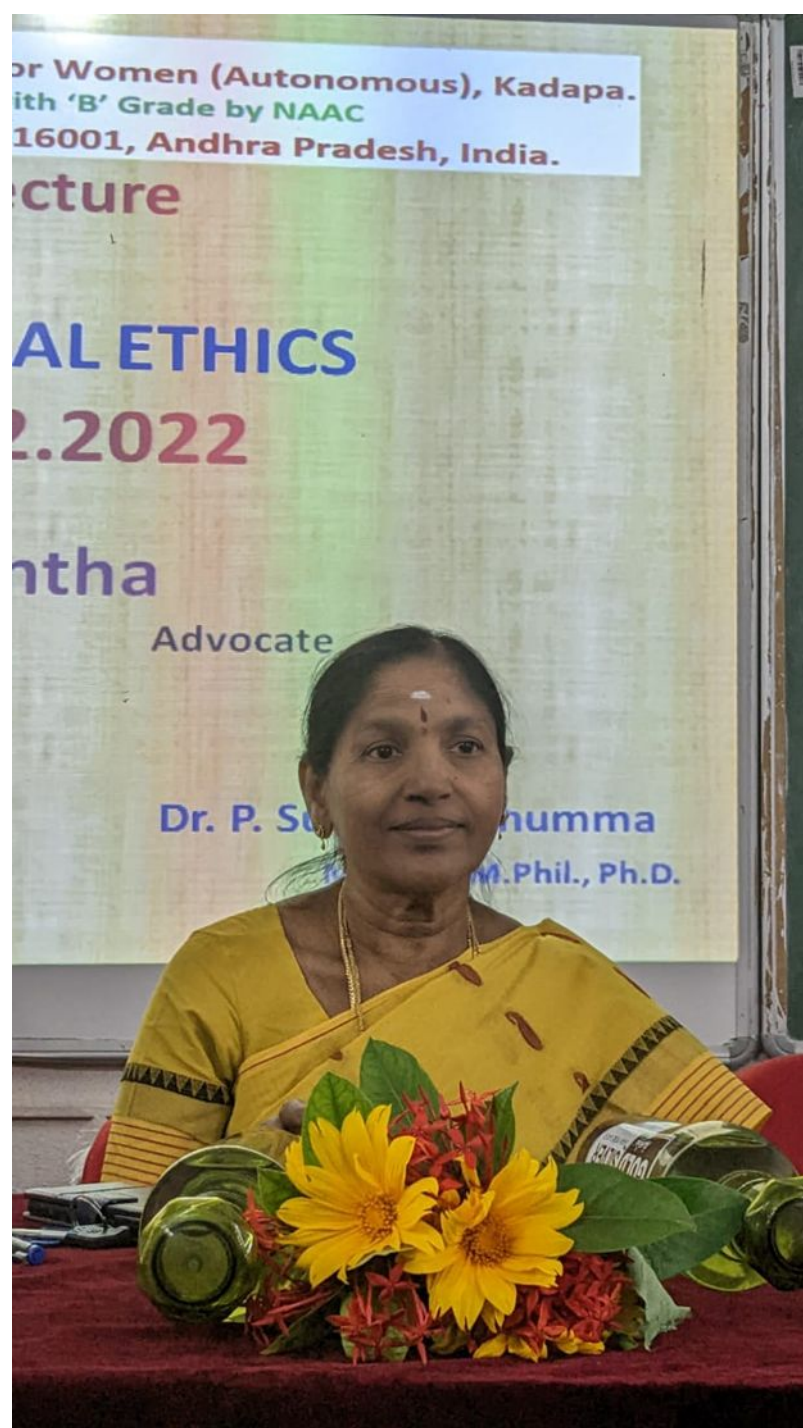
## **Example:**

A house property was purchased on 1st January 2000, for Rs.20 lakhs. On 1st January 2005, repairs were done on the house which amounted to INR 5 lakhs. On 1st January 2018, the house was sold for INR 75 lakhs. A brokerage was paid to the broker which was INR 1 lakh. What would be the capital gain amount?

## **Solution:**

Since the asset has been held for more than 36 months, it is a long term capital asset and the gain is a long term capital gain. The capital gain would be calculated as follows:

Particulars	Calculation	Amount
The full Value of Consideration	–	75,00,000
Less: indexed cost of acquisition	Cost of acquisition * CII of the year in which the asset is sold / CII of the year in which the asset was acquired = 20 lakhs * (CII of 2017-18 / CII of 2001-02 since it is the base year)= 20 lakhs * (272/100)	54,40,000
Less: indexed cost of improvement	Cost of improvement * CII of the year in which the asset is sold / CII of the year in which the asset was improved = 5 lakhs * (CII of 2017-18 / CII of 2004-05)= 5 lakhs * (272/113)	12,03,540
Less: brokerage paid	–	1,00,000
Long term capital gain	–	7,56,460



**My heartfelt thanaks to our Honourable Commissioner Sir of Collegiate Education, Andhra Pradesh for providing me valuable opportunity.**

