Lesson plan

Income from Capital Gains

- Define Capital Gains: profits from the sale of capital assets.
- Differentiate between short-term and long-term capital gains.
- Provide examples of capital assets (stocks, real estate) and discuss scenarios leading to capital gains.

Other Sources

- Explain income from Other Sources, including interest income, dividends, and miscellaneous income.
- Discuss examples of income that fall under this category.
- Determination of Gross Total Income.

Explain the concept of Gross Total Income (GTI).

- Discuss the inclusion of income from different heads to calculate GTI.
- Illustrate with a numerical example on the board.

Calculations:

- Ask students to calculate the Gross Total Income.
- Encourage discussions on deductions and exemptions that can be applied.

A capital gain refers to the increase in the value of a capital asset when it is sold. Put simply, a capital gain occurs when you sell an asset for more than what you originally paid for it. Almost any type of asset you own is a capital asset.

What Is a Capital Gain?

A capital gain refers to the increase in the value of a capital asset when it is sold.

A capital gain occurs when you sell an asset for more than what you originally paid for it.

Almost any type of asset you own is a capital asset.

This can include a type of investment (like a stock, bond, or real estate) or something purchased for personal use (like furniture or a boat).

Capital gains are realized when you sell an asset by subtracting the original purchase price from the sale price. The Internal Revenue Service (IRS) taxes individuals on capital gains in certain circumstances.

- A capital gain is the increase in a capital asset's value and is realized when the asset is sold.
- Capital gains may apply to any type of asset, including investments and those purchased for personal use.
- The gain may be short-term (one year or less) or long-term (more than one year) and must be claimed on income taxes.
- Unrealized gains and losses reflect an increase or decrease in an investment's value but are not considered a taxable capital gain.
- A capital loss is incurred when there is a decrease in the capital asset value compared to an asset's purchase price.

Capital gains fall into two categories:

- **Short-term capital gains**: Gains realized on assets that you've sold after holding them for one year or less
- **Long-term capital gains**: Gains realized on assets that you've sold after holding them for more than one year

Both short- and long-term gains must be claimed on your annual tax return.

Realized capital gains occur when an asset is sold, which triggers a taxable event. Unrealized gains, sometimes referred to as paper gains and losses, reflect an increase or decrease in an investment's value but are not considered a capital gain that should be treated as a taxable event.

For example, if you own stock that goes up in price, but you haven't yet sold it, that is an unrealized capital gain.

How much capital gain is tax free?

To calculate capital gains, subtract the cost of acquisition and sale expenditures from the sale price. If capital gains exceed Rs. 1 lakh in a fiscal year, apply a 10% tax rate (plus surcharge and cess) on the excess profits. There is no tax duty on gains that are less than Rs. 1 lakh.

Example: Suppose a person purchased 100 shares of Rs 100 each at a total cost of Rs 10,000. (Case 1: Capital Gain) After some time, say one year, if he sells those shares for Rs 130 each with the total selling price of those 100 shares being Rs 13,000, it would result in a profit of Rs 3,000.

The competence of parliament in legislating with regard to capital gains as part of income, observed that the term income should be given the widest connotation so as to include capital gains within its scope. However, all capital profits do not necessarily constitute capital gains. For instance, profits on re-issue of forfeited shares, profits on redemption of debentures, premium on issue of shares, are capital profits and not capital gains, hence, not liable to tax.

The requisites of a charge to income-tax, of capital gains under Section 45(1) are:

(i) There must be a capital asset.

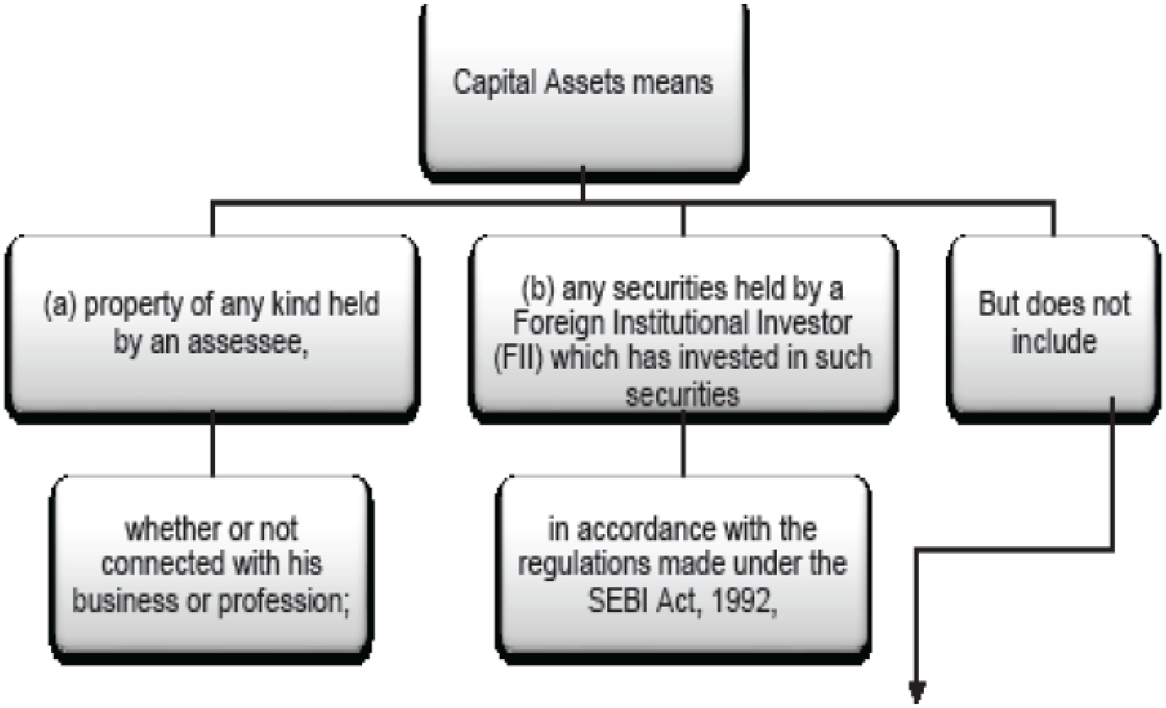
(ii)The capital asset must have been transferred.

(iii)The transfer must have been effected in the previous year.

(iv)There must be a gain arising on such transfer of a capital asset.

(vi)Such capital gain should not be exempt under Sections 54, 54B, 54D, 54EC, 54EE, 54ED, 54F, 54G, or 54GA.

CAPITAL ASSET [Section 2(14)]



OTHER SOURCES OF INCOME

The tax calculation of income from other sources differs based on source of the income. For example, income in the form of dividends and interest will be added to your net taxable income for the applicable financial year and taxed based on the applicable income tax slab rate.

What is income from other sources in law of taxation?

Income from Other Sources is one of the heads of income chargeable to tax under the Income tax Act. 1961. Any income that is not covered in the other four heads of income is taxable under income from other sources, because of this, it is known as residuary head of income.

What is the form for other sources of income tax

Form ITR-2

Individuals and NRIs who earn money from a job, a home, capital gains, or other sources may file Form ITR-2. ITR-2 may be filed by salaried people who have made profits or damages from stock purchases and sales.

DETERMINATION OF GROSS TOTAL INCOME

G.T.I. = Salary Income + House Property Income + Business/Profession Income + Capital Gains + Other Sources Income + Clubbed Income - Set off of Losses.

Gross income is all the money you earn before taxes and other deductions are subtracted. Your earned income can come in many forms: salary, bonuses, tips, hourly wages, rental income, dividends from stocks and bonds, and savings account interest.

Step 1: Find out all the sources of income like salary, dividends, rent, etc.

Step 2: Aggregate all these sources of income obtained in the first step: Gross Income = Salary + Rent + Dividends + Interest + All Other Sources of Income

MCQS

Q1: Capital asset excludes all assets except
(a) Stock in trade
(b) Personal effect
(c) Jewellery
(d) Rural agricultural land

Q2: Cost of acquisition in case of bonus shares allotted before 1/4/2001 will be:
(a) Face value on the date of allotment
(b) Nil
(c) Market value as on 1/4/2001
(d) Current market value

Q3: Where the total income of an assesses includes income by way of long term capital
gains arising from transfer of listed securities (other than listed equity shares)
applicable income tax rate on such income is
(a) 20% of LTCG calculated after doing indexation
(b) 10% of LTCG calculated without doing indexation
(c) Higher of a) or b)
(d) Lower of a) or b)

Q4: In term of section 2(42A), listed securities are treated as long-term capital asset, if they are held for a period of more than
(a) 12 months
(b) 6 months
(c) 24 months
(d) 48 months

Q5: For claiming exemption under section 54EC, an assessee has to invest the resultant capital gains within a specified period. Which of the following is not eligible for such investment
(a) National Highway Authority of India Limited
(b) Rural Electrical Corporation of India Limited
(C) Bonds of NABARD

Q6: Long term capital gains on zero coupon bonds are chargeable tot tax
(a) @ 20% computed after indexation of such bonds
(b) @ 10% computed without indexation of such bonds
(c) Higher of (a) or (b)
(d) Lower of (a) or (b)

Q7: Which of the following is not a required for charging income tax on capital gains
(a) The transfer must have been effected in the relevant assessment year
(b) There must be a gain arising on transfer of capital asset
(c) Capital gains should not be exempt under section 54
(d) Capital gains should not be exempt under section 54EC

Q8: In order to enjoy exemption under section 54EC, the resultant long term capital gains
should be invested in specified bonds within a period from the date of transfer
(a) 36 months
(b) 4 months
(c) 6 months
(d) 12 months

Q9: Residential house is sold for Rs. 90 lakh and the long term capital gains computed are
Rs. 50 lakh. The assesses bought two residential houses for Rs. 30 lakh and Rs. 20
lakh respectively. The amount eligible for exemption under section 54 would be:
(a) Rs. 50 lakhs
(b) Rs. 20 lakhs
(c) Rs. 30 lakhs
(d) Nil

Q10: When shares of a listed company held for more than 36 months are transferred
privately for Rs. 8 lakh, with original cost of acquisition of Rs. 1 lakh whose indexed
cost of acquisition is 2 lakh, the income tax payable would be:
(a) Rs. 1,44,200
(b) Rs. 72,800
(c) Rs. 1,23,600
(d) Rs. 68,100

Q11: Mr. v entered into an agreement with Mr. D for sale of a building for Rs.20 lakh in
June, 2018. Mr. v received advance of Rs. 2 lakh. Subsequently the agreement was
cancelled and Mr. v forfeited the advance money. The advance money is:
(a) To be reduced from the cost of acquisition
CAPITAL GAIN
(b) To be reduced from indexed cost of acquisition
(c) Taxable as capital gains
(d) Taxable as income under the head income from other sources

Q12: GGC Pvt. Ltd. Issued 10,000 equity shares to Mr. v at Rs.18 per share when the
fair market value of each share was determine at Rs. 11 per shares.
Following
statements are given in this regard:

(1) Rs. 70,000 taxable as income for GGC Pvt. Ltd.
(2) Rs. 70,000 taxable as income for Mr. v
(a) (1) is correct and (2) is also correct
(b) 1) is correct and (2) is incorrect
(c) (1) is incorrect and (2) is correct
(d) (1) is incorrect and 2) is also incorrect

Q13: Mr. v acquired 1,000 equity shares of X10 each in a listed company for Rs. 35,000
on 1st July, 2012. The company issued 1,000 rights shares in April, 2014 at Rs. 15
per share. The company issued 2,000 bonus shares in June, 2020. The market price
was Rs. 50 per share before bonus issue. The cost of acquisition of bonus shares
would be
(a) Nil
(b) Rs. 20,000
(c) Rs. 50,000
(d) Rs. 1,00,000

Q14: Ms. Smita inherited a vacant site land consequent to the demise of her father on
10th June, 2000. The land was acquired by her father on 10th April, 1970 for Rs.
40,000. The fair market value of the land on 1st April, 2001 was Rs. 60,000 and on
the date of inheritance i.e., 10th June, 2000 was Rs. 2,00,000. The cost of
acquisition for Ms. Smita is:

(a) Rs. 10,000
(b) Rs. 40,000
(c) Rs. 60,000
(d) Rs. 2,00,000

Q15: Under which section the assesses has to reinvest the entire amount of net
consideration to claim full exemption for the long term capital gains earned during a
previous year
(a) Section 54EC
(b) Section 54F
(c) Section 54B

(d) Section 54D

Q16: Short term capital gains arising from the transfer of listed equity shares in a
company charged with security transaction tax are subject to income tax at the rate
of
(a) 10%
(b) 15%
(c) 20%
(d) Normal rate

Q17: Long term capital gains on sale of a long term capital asset on 15th October, 2020 is
Rs. 105 lakh. The assesses invested Rs. 50 lakh in RECI bonds on 31s1 March, 2020
and Rs. 55 lakh in NHAI bonds on 18th May, 2020. The amount of exemption eligible
under section 54EC is:
(a) Nil
(b) Rs. 50 lakh
(c) Rs. 55 lakh
(d) Rs. 105 lakh

Q18: Mr. v purchased a car for his personal use for Rs. 5,00,000 in April, 2020 and sold
the same for Rs. 5,50,000 in July, 2020. The taxable capital gains would be:
(a) Nil
(b) Rs. 5,50,000
(c) Rs. 50,000
(d) Rs. 4,00,000

Q19: Mr. v purchased shares of GCC Pvt Ltd. for Rs. 5 lakhs on 3rd April, 2020. The
shares were sold on 5th June, 2020 for Rs. 7 lakhs. She paid STT of Rs. 700 and
brokerage of Rs. 500. The amount chargeable to tax is:
(a) Rs. 2,00,000
(b) Nil
(c) Rs. 1,99,500
(d) RS.1,98,700

Q20: Which of the following is not a capital asset for Mr. v who is employed in a public sector bank ?
(a) Urban land
(b) Agricultural land within 2 kms from local limits of municipality
(c) Gold Jewellery

Q21: On 1/6/2020 Mr. v transferred his vacant land to Mr. D for Rs. 12 lakhs. The land was acquired on 1/9/2017 for Rs. 3 lakhs. If indexation is applied, the indexed cost of acquisition would be Rs. 3.30 lakhs. The taxable capital gain would be:
(a) Long term capital gain Rs. 8.70 lakh
(b) Short term capital gain Rs. 9 lakhs
(c) Long term capital gain Rs. 9 lakhs
(d) Short term capital gain Rs. 8.70 lakhs

Q22: Mr. v sold a vacant land to Mr. D for Rs. 36 lakhs. For stamp duty purpose, the value of land was Rs. 41 lakhs. The indexed cost of acquisition of land was computed at Rs. 20 lakhs. The taxable long term capital gain would be:
(a) Rs. 21 lakhs
(b) Rs. 16 lakhs
(c) Rs. 5 lakhs
(d) Rs. 20 lakhs

Q23: Capital gain arises on:
(a) All type of asset
(b) All type of capital asset
(c) Land, Building and Shares only
(d) All of the above

Q24: Capital gains is calculated when
(a) Any asset is transferred
(b) any capital asset is transferred
(c) any asset is transferred or not transferred
(d) any capital asset is transferred or not transferred

Q25: Short-term capital gain is gain arising from the transfer of a land and building which
is held by the assessee for not more than:
(a) 36 months from the date of its acquisition
(b) 12 months from the date of its acquisition
(c) 24 months from the date of its acquisition
(d) 48 months from the date of its acquisition

Q26: Period of holding of bonus share allotted shall be reckoned from
(a) The date of holding of original shares
(b) The date of offer of bonus shares
(c) The date of allotment of such bonus shares
(d) the date of approval from shareholders in AGM

Q27: If unlisted debentures are sold after 12 months but before 36 months, the capital gain arising from such sale is a:
(a) Short-term capital gain
(b) long-term capital gain

Q28: Transfer of capital asset under a gift or will shall:
(a) be regarded as transfer for donor and taxable for donor
(b) not be regarded as transfer for donor and not taxable for donor
(c) be regarded as transfer for donor and taxable for receiver
(d) not be regarded as transfer for donor and taxable for receiver

Q29: Cost of improvement means capital expenditure done on the value addition of capital asset. It shall be considered for calculation of capital gains and
(a) It is always taken as Nil
(b) always considered irrespective of period when it was incurred
(c) considered when incurred on or after 1/4/2001
(d) considered when incurred before 1/4/2001

Q30: Cost of improvement of tenancy rights, route permits or loom hours shall be:
(a) It is always taken as Nil
(b) always considered irrespective of period when it was incurred
(c) considered when incurred on or after 1/4/2001
(d) considered when incurred before 1/4/2001

Q31: In case of long-term capital gain, the amount to be deducted from sale consideration
shall be:
(a) Cost of acquisition and cost of improvement
(b) Indexed cost of acquisition and indexed cost of improvement
(c) Market value as on 1/4/1981 of capital asset
(d) only cost of improvement

Q32: No indexation of cost of acquisition is done even though there is long-term capital
gain in case of:
(a) Bonds or Debentures
(b) Certain assets held by non-resident
(c) both of the above
(d) none of the above

Q33: Conversion of capital asset into stock in trade will result into capital gain of the
previous year:
(a) in which such conversion took place
(b) In which such converted asset is sold or transferred
(c) both of the above
(d) none of the above

Q34: Securities transaction tax paid by the seller of shares and units shall
(a) be allowed as deduction as expenses of transfer
(b) not be allowed as deduction as expenses of transfer

Q35: Securities transaction tax paid by the purchaser of shares and units shall
(a) form part of the cost of such shares and units
(b) not form part of the cost of such shares and units

Q36: The assessee is allowed to opt for market value as on 1/4/2001 in case of:
(a) all capital assets
(b) all capital assets which are depreciable assets
(c) all capital assets other than intangible assets
(d) only self-generated assets

Q37: Where the capital asset became the property of the assessee in any mode given
under section 49(1), the cost of acquisition of such assets shall be:
(a) The market value of the asset as on the date of acquisition by the assessee
(b) Cost for which the previous owner of the property acquired it
(c) Nil
(d) price which is mutually decided by transferor and transferee

Q38: If the goodwill of a business, right to manufacture or produce, tenancy rights, route
permit or loom hours is acquired before 1/4/2001 the cost of acquisition of such
asset shall be:
Cost for which it was acquired by the assessee
(b) FMV as on 1/4/2001
(c) Always taken as Nil
(d) Higher of (a) or (b)

Q39: If the bonus shares are acquired before 1/4/2001 the cost of acquisition of such bonus share shall be:
(a) Cost for which it was acquired by the assessee
(b) FMV as on 1/4/2001
(c) Always taken as Nil
(d) Higher of (a) or (b)

Q40: If the bonus shares are acquire on or after 1/4/1981 the cost of acquisition of such

shares shall be:

(a) Cost for which it was acquired by the assessee

(b) FMV as on 1/4/2001

(c) Always taken as Nil

(d) Higher of (a) or (b)

Q41: The cost of acquisition of the right shares to a person who purchased the right to

acquire share from the existing shareholder shall be:

(a) market value of right share are offered

(b) price at which these shares are offered

(c) price at which these shares are offered plus the amount paid to the person renouncing the

right

(d) always taken as NIL

Q42: If any advance money received by the assessee under the agreement of transfer

which could not be matured is forfeited before 1/4/2014 then such money shall

(a) Be taxable as the income of other sources in the year it is forfeited

(b) Be deducted from the cost of acquisition of such asset after doing indexation

(c) Be deducted from the cost of acquisition of such asset before doing indexation
(d) it shall be ignored in all cases

Q43: Where the entire block of the depreciable asset is transferred after 36 months of its use there will be:
(a) Short-term capital gain
(b) Long-term capital gain
(c) Short-term capital gain or loss
(d) long term capital gain or loss

Q44: If goodwill of a profession which is selfgenerated is transferred there will
(a) liable to capital gain
(b) not be liable any capital gain
(c) be a short-term capital gain
(d) be a long term capital gain

Q45: For claiming exemption under section 54, the assessee should transfer:
(a) A self occupied residential house property
(b) A let out residential house property
(c) A vacant house property
(d) Any of the above three

Q46: Exemption under section 54 is available to:
(a) all assesses
(b) individuals only
(c) individual as well as HUF
(d) HUF only

Q47: For claiming exemption under section 54, the assesses should purchase residential
property:
(a) 2 years after the date of transfer
(b) 3 years after the date of transfer
(c) within one year before or two years after the date of transfer
(d) one year before and 3 years after the date of transfer

Q48: For claiming exemption under section 54, the assessee should complete the
construction of the residential property:
(a) within one year before or two years after the date of transfer

(b) within one year before or three years after the date of transfer
(c) within three years after the date of transfer
(d) within two years after the date of transfer

JQ49: The exemption under section 54 shall be available:
(a) to the extent of capital gain invested in the residential house property
(b) proportionate to the net sale consideration invested in the residential house property
(c) to the extent of amount actually invested in the residential house property
(d) to the extent of amount of net sale consideration invested in the residential house
property

Q50: If the assessee wishes to deposit money under capital gain scheme for claiming
exemption under section 54, it should be deposited:
(a) within six months from the date of transfer
(b) within six months from the end of the relevant previous year
(c) within the due date of furnishing the ITR u/s 139(1)
(d) within six months or within due date of furnishing the ITR, whichever is earlier

ANSWERS TO ABOVE QUESTIONS

1	c	2	c	3	c	4	d	5	c	6	a	7	d	8	d	9	a	10	c
11	d	12	c	13	b	14	d	15	b	16	a	17	c	18	b	19	b	20	d
21	b	22	a	23	c	24	b	25	c	26	d	27	a	28	a	29	b	30	b
31	c	32	c	33	a	34	b	35	a	36	b	37	c	38	a	39	b	40	c
41	b	42	c	43	c	44	b	45	d	46	c	47	b	48	a	49	a	50	b