**CORRECTION IN INCOME TAX VOLUME 2 (49th Edition) PAGE NO. 15**

**(CORRECTED PART IS GIVEN IN BOLD ITALICS AND COLOURED)**

and depreciation afterwards.

E.g. Mr. X has income under the head business/profession ₹10,00,000 after debiting all expenditures except depreciation of ₹13,00,000, in this case, depreciation of only ₹10,00,000 can be debited to the profit and loss account and balance ₹3,00,000 shall be called unabsorbed depreciation and it can be set off from any income under any head except salary income and casual income and even in the subsequent years, it can be set off from any income under any head except salary income and casual income and such carry forward is allowed for unlimited periods.

**The sequence of claiming losses and depreciation under the head business / profession shall be as given below:**

1. Current year expenses
2. Current year depreciation
3. Brought forward business losses
4. Brought forward unabsorbed depreciation

**Question 4 [V. Imp.]: Write a note on Set Off and Carry Forward of loss from Speculative Business.**

**Answer:** As per section 28, income from speculative business shall be taxable under the head business/profession and such income shall be computed in the normal manner and shall be taxable at the normal rate i.e. it will not be considered to be causal income.

**Meaning of speculative business Section 43(5)**

"speculative transaction" means a transaction in which a contract for the purchase or sale of any commodity, including stocks and shares, is periodically or ultimately settled otherwise than by the actual delivery or transfer of the commodity or scrips:

e.g. Mr. X entered into a contact for purchase of one plot from Mr. A and same plot was sold by him to Mr. Y at a higher rate and he has directed Mr. Y to pay the amount directly to Mr. A and surplus amount to Mr. X and he directed Mr. A to transfer the plot directly in the name of Mr. Y, it will be called speculative transaction but if Mr. X has transferred the plot in his name and after that plot was transferred in the name of Mr. Y, it will be called normal business.

The following shall not be deemed to be a speculative transaction:

A contract in respect of raw materials or merchandise entered into by a person in the course of his manufacturing or merchanting business to guard against loss through future price fluctuations in respect of his contracts for actual delivery of goods manufactured by him or merchandise sold by him; or

**Set Off and Carry forward of loss from Speculative Business Section 73**

If any assessee has loss from speculative business, such loss can not be set off from any income under any head however, if the assessee has two or more similar business, loss of one such business can be set off from the income of other such business.

Unadjusted loss is allowed to be carried forward but for a maximum period of 4 years starting from the year subsequent to the year in which the loss was incurred. Even in the subsequent years, loss can be set off only from income of speculative business.

~~***Loss under the head house property.***~~ Loss from normal business, unabsorbed depreciation, loss under the head other sources can be set off from the income of speculative business.

e.g. Mr. X has loss from speculative business ₹5,00,000 and income from normal business ₹5,00,000, in this case, loss is not allowed to be set off however its carry forward is allowed but for a maximum period of 4 years and in the subsequent years its can be set off only from income of speculation business.

e.g. Mr. X has loss of speculative business ₹5,00,000 and income from some other speculative business ₹5,00,000, in this case, loss can be set off from income of such speculative business.

**Question 5 [V. Imp.]: Write a note on Set Off and Carry Forward of losses under the head Capital Gains.**

**Answer: Set off and Carry forward of Loss under the head Capital Gain Section 70, 71 and 74**

**CORRECTION IN INCOME TAX VOLUME 2 (49th Edition) PAGE NO. 41**
**(CORRECTED PART IS GIVEN IN BOLD ITALICS AND COLOURED)**

***Computation of Tax Liability***

| | |
|---|---|
| Tax on STCG ₹54,00,000 at slab rate | 13,20,000.00 |
| Add: Surcharge @ 10% | 1,32,000.00 |
| Tax before health & education cess | 14,52,000.00 |
| Add: HEC @ 4% | 58,080.00 |
| Tax liability | 15,10,080.00 |

**Question 4: Write a note on computation of Long term Capital Gains.**

**Answer: Computation of Long term Capital Gains Section 48**

Long term capital Gain shall also be computed in the similar manner but instead of cost of acquisition and cost of improvement, indexed cost of acquisition and indexed cost of improvement shall be taken into consideration.

Long term capital Gain shall be computed in the manner given below:

| | |
|---|---|
| Full Value of Consideration | xxx |
| Less: | |
| - Indexed Cost of Acquisition | xxx |
| - Indexed Cost of Improvement | xxx |
| - Selling Expenses | xxx |
| Long Term Capital Gain | xxx |

❖ **"Indexed cost of acquisition"** means the cost adjusted as per cost inflation index i.e.

**Indexed Cost of acquisition =**

$$\text{Cost of acquisition} \times \frac{\text{Index of the year in which the asset was transferred}}{\text{Index of the year in which the asset was purchased}}$$

❖ **"Indexed cost of any improvement"** means the cost adjusted as per cost inflation index i.e.

**Indexed Cost of improvement =**

$$\text{Cost of improvement} \times \frac{\text{Index of the year in which the asset was transferred}}{\text{Index of the year in which cost was incurred}}$$

**Provided** *that the cost of acquisition of the asset or the cost of improvement thereto shall not include the deductions claimed on the amount of interest under clause (b) of section 24 or under the provisions of Chapter VIA.*

~~**Explanation 1.**—*For the removal of doubt, it is hereby clarified that the cost of acquisition of a unit of a business trust shall be reduced and shall be deemed to have always been reduced by any sum received by a unit holder from the business trust with respect to such unit, which is not in the nature of income as referred to in clause (23FC) or clause (23FCA) of section 10 and which is not chargeable to tax under clause (xii) of sub-section (2) of section 56 and under sub-section (2) of section 115UA.*~~

~~**Explanation 2.**—*For the purposes of* **Explanation 1**, *it is clarified that where transaction of transfer of a unit is not considered as transfer under section 47 and cost of acquisition of such unit is determined under section 49, sum received with respect to such unit before such transaction as well as after such transaction shall be reduced from the cost of acquisition under the said* **Explanation;**~~

**Example:** Mr. X purchased one house 01-07-2017 ₹10,00,000 and constructed its first floor 01-07-2018 by incurring ₹6,00,000 and sold the house on 01-05-2023 ₹80,00,000 and invested ₹2,00,000 in NSC. Compute Income and Tax Liability.

**Answer:** House is sold after 2 years from the date of purchase hence asset is a Long term capital asset and capital gain shall be computed in the manner given below:

| | **₹** |
|---|---|
| Full Value of Consideration | 80,00,000.00 |
| Less: Indexed cost of acquisition | |
| = 10,00,000 / Index of 17-18 x Index of 23-24 | |
| = 10,00,000 / 272 x 348 | (12,79,411.76) |

**CORRECTION IN INCOME TAX VOLUME 2 (49th Edition) PAGE NO. 56**

**(CORRECTED PART IS GIVEN IN BOLD ITALICS AND COLOURED)**

***Previous year 2024-25***

| | |
|---|---|
| Long Term Capital Gain (1/2 of ₹6,89,000) | 3,44,500 |
| Business Income | |
| (₹7,50,000-₹5,50,000) | 2,00,000 |
| Total Income | 5,44,500 |

**Illustration 10:** X converts his capital asset (acquired on June 10, 2008 for ₹ 60,000) into stock-in-trade on March 10, 2014. The fair market value on the date of the above conversion was ₹ 3,00,000. He subsequently sells the stock-in-trade so converted for ₹ 4,00,000 on June 10, 2023. Discuss the tax implication.

**Solution:** In this case capital gains shall be computed in the previous year 2013-14 as given below:

| | |
|---|---|
| FVC | 3,00,000.00 |
| Less: Indexed cost of acquisition | |
| = 60,000 / Index of 2008-09 x Index of 2013-14 | |
| = 60,000 / 137 x 220 | (96,350.36) |
| Long term capital gain | 2,03,649.64 |

**Computation of income for previous year 2023-24**

Income under the head Business/Profession for previous year 2023-24 shall be ₹4,00,000 – ₹3,00,000 = ₹1,00,000

| | |
|---|---|
| LTCG | 2,03,649.64 |

**Question 11: Write a note on computation of capital gains in case of transfer of capital asset by a Depository.**

**Answer: Capital gains in case of transfer of capital asset by a depository Section 45(2A)**

If any person has a demat account with the depository, profits or gains from transfer of shares or securities shall be considered to be that of beneficiary i.e. the account holder and not that of depository. The cost of acquisition and the period of holding of any securities shall be determined on the basis of the **first-in-first-out method**.

**Question 12 [V. Imp.]: Write a note on computation of capital gains on compulsory acquisition of a Capital Asset.**

**Answer:**

**Computation of capital gains on compulsory acquisition of a capital asset Section 45(5)**

If any capital asset has been acquired compulsorily by the Government or other similar agency, capital gains shall be computed in the year in which the asset was acquired but capital gains so computed shall be taxable in the year in which the compensation or the part of compensation is first received.

**Enhanced Compensation**

If the compensation is enhanced by the Court, Tribunal etc., such enhanced compensation shall be the capital gains of the year in which the enhanced compensation is received. The cost of acquisition and the cost of improvement shall be taken to be nil.

**Death of the transferor**- It is possible that the transferor may die before he receives the enhanced compensation. In that case, the enhanced compensation will be chargeable to tax in the hands of the person who receives the same.

**Illustration 11:** Mr. X (Date of birth 01.10.1946) has purchased one house on 01.04.1995 for ₹4,00,000 and incurred ₹2,00,000 on its improvement on 01.10.1998. Its market value on 01.04.2001 was ₹3,00,000. This house was acquired by the Government on 01.10.2013 and the compensation fixed was ₹50,00,000 and the Government has paid half of the compensation on 01.10.2023 and balance half on 01.10.2024.

The assessee has filed an appeal for increasing the compensation and the court has given decision on 31.03.2025 directing the Government to pay additional compensation of ₹5,00,000.

The Government has paid half of the amount on ***01.04.2026*** and balance half on 01.04.2027.

He has invested ₹72,000 in NSC in previous year 2023-24.

**CORRECTION IN INCOME TAX VOLUME 2 (49th Edition) PAGE NO. 77**

**(CORRECTED PART IS GIVEN IN BOLD ITALICS AND COLOURED)**

**Question 28 [V. Imp.]: Write a note on exemption under Section 54F.**

**Answer: Exemption from capital gains on transfer of any capital assets other than a Residential House Section 54F**

1. **Assessee:** The assessee should be **individual** or **Hindu Undivided Family.**
2. **Asset:** Capital asset transferred can be any asset but it should **not be a residential house.**
3. **Type of capital gain:** Capital gain should be **long term.**
4. **Investment:** The assessee has within a period **of one year before or two years after** the date on which the transfer took place **purchased**, or has within a period of **three years after** that date **constructed**, **one residential house** and further the assessee should either **purchase** or **construct only one house** and also assessee should **not have more than one house in his name at the time of transfer of the asset** besides the house which is being purchased or constructed for availing exemption.

**Provided further** *that where the cost of new asset exceeds ten crore rupees, the amount exceeding ten crore rupees shall not be taken into account for the purposes of this sub-section*

5. **Amount of exemption:** Exemption allowed shall be that percentage of the capital gain as the amount invested bears to net consideration. i.e. **exemption = capital gain x investment / net consideration**.

**Net consideration** is equal to full value of consideration less selling expenses. i.e. **full value of consideration – selling expenses.**

~~***Provided further that the net consideration in excess of ten crore rupees shall not be taken into account for the purposes of this sub-section.***~~

6. **Withdrawal of exemption:** The house so **purchased** or **constructed** must not be transferred for a minimum period of **three years** otherwise exemption earlier allowed shall be considered to be the **long term capital gain** of the year in which the asset has been transferred (i.e. exemption shall be withdrawn in the similar manner as given under section 54EC).

Similarly if the assessee has purchased any other house within one year before or two years after or the assessee has constructed any other house within three years after the date of transfer of original asset, exemption given shall be withdrawn in that case also.

7. **Capital gains account Scheme 1988:** The assessee should invest the amount till the last date of furnishing of return of income otherwise amount should be deposited in capital gains account scheme 1988 and proof of such deposit should be enclosed with the return of income and subsequently the amount should be withdrawn from this scheme and should be utilised for the specified purpose otherwise exemption earlier allowed will be considered to be long term capital gain of the year in which the prescribed period has expired.
8. **Extension of time for acquiring new asset or depositing or investing amount of capital gain section 54H:** If the asset has been acquired compulsorily by the Government, period of investment shall be determined from the date of payment instead of the date of compulsory acquisition.

**Illustration 34:** Mr. X purchased gold on 01.04.1991 for ₹3,00,000 and its market value on 01.04.2001 is ₹2,00,000. This gold was sold by him on 01.01.2024 for ₹35,00,000 and selling expenses are ₹37,000. He has purchased one house on 01.05.2024 for ₹4,00,000 because he did not have any house in his name and he deposited ₹3,00,000 in capital gain account scheme on 30.09.2024.

Mr. X is also engaged in a business and he has turnover of his business ₹105,00,000 and cost of goods sold ₹100,00,000 and other expenses ₹5,10,000.

He has withdrawn ₹2,00,000 from capital gain account scheme on 01.01.2025 and constructed 1$^{st}$ floor of the house which was purchased by him on 01.05.2024.

Remaining amount in the capital gain account scheme was unutilized.

Compute assessee's tax liability for assessment year 2024-25 and capital gains for various years.

| **Solution:** | **₹** |
|---|---|
| ***Previous year 2023-24*** | |
| ***Computation of capital gain*** | |
| Full value of consideration | 35,00,000.00 |
| Less: Indexed cost of acquisition | |
| = 3,00,000 / 100 x 348 | (10,44,000.00) |
| Less: Selling expenses | (37,000.00) |
| Long Term Capital Gain | 24,19,000.00 |

**CORRECTION IN INCOME TAX VOLUME 2 (49th Edition) PAGE NO. 109**
**(CORRECTED PART IS GIVEN IN BOLD ITALICS AND COLOURED)**

## DEC – 2021

**Question 2(b)** **(7 Marks)**

Ms. Mishika has entered into an agreement with M/s CVM Build Limited on 25.04.2017 in which she agrees to allow such Company to develop a shopping mall on land owned by her in New Delhi. She purchased such land on 05.05.2009 in ₹15,00,000. In consideration, M/s CVM Build Limited will provide 20% share in shopping mall to Mishika. The certificate of completion of shopping mall was issued by authority as on 26.12.2023. On such date, Stamp duty value of shopping mall was ₹4,14,00,000. Subsequently on 18.03.2024, she sold her 15% share in shopping mall to Mr. Ketav in consideration of ₹65,00,000.

She has also purchased a house on 09.05.2023 in consideration of ₹46,00,000 and occupied for own residence. Punjab National Bank has sanctioned a loan of ₹35,50,000 (80% of stamp value) at the interest rate of 12% per annum on 01.05.2023 and disbursement was made on 01.06.2023. She does not own any other residential house on the date of sanction of loan. Principal amount of ₹1,30,000 was paid during the financial year 2023-24.

Compute total income and tax liability of Ms. Mishika for the assessment year 2024-25.

**Answer**

**Computation of total income of Ms. Mishika for the A.Y.2024 -25**

**Long-term capital gains on transfer of land under specified agreement**

Capital gains on transfer of land handed would be taxable in the previous year 2023-24, being the year in which certificate of completion is issued.

| | |
|---|---|
| Full value of consideration, being 20% share in shopping mall (₹ 4,14,00,000 x 20%)] | 82,80,000.00 |
| Less: Indexed of cost of acquisition [₹ 15,00,000 x 348/148] | (35,27,027.03) |
| Long-term capital gain | 47,52,972.97 |
| **Less: Exemption under section 54F** | |
| (₹ 47,52,972.97 x ₹46,00,000 / ₹ 82,80,000) | (26,40,540.50) |
| Long-term capital gains | 21,12,432.47 |
| **Short-term capital gains** | |
| **Sale of 15% share in shopping mall** | |
| Net Sales consideration | 65,00,000.00 |
| Less: Cost of acquisition, [₹ 4,14,00,000 x 15%] | (62,10,000.00) |
| Short-term capital gains | 2,90,000.00 |
| **Income from house property [Self-occupied]** | |
| Net Annual Value | Nil |
| ~~***Less: Interest on housing loan of ₹ 3,55,000 [₹ 35,50,000 x 12% x 10/12 months] restricted to ₹2,00,000/-***~~ | ~~***(2,00,000)***~~ |
| ~~***Note: Loss is not allowed to set off***~~ | |
| **Gross Total Income** | 24,02,432.47 |
| Less: Deductions under Chapter VI-A | Nil |
| **Total Income** | **24,02,432.47** |
| **Total Income (rounded off u/s 288A)** | **24,02,430.00** |

**Computation of Tax Liability**

| | |
|---|---|
| Tax on STCG ₹ 2,90,000 | Nil |
| Tax on LTCG 21,02,430 (21,12,430 – 10,000) x 20% | 4,20,486.00 |