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Source: IRIS (21 July 2008)

Capital Gains: Taxes and thereafter?

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Author: Anil Rego CEO of Right Horizons
'For every benefit you receive, a tax is levied'
Waldo Emerson
Capital gains / loss would arise on sale of a cap
Capital gains remain one of the most complex of i
sections. Often it is a dilemma on taxability of yo
gains; the rules are different for equity, debt, i
assets and others. We try to demystify capital gains and taxes the

Categories of Assets

There are 2 broad categories of capital assets –
• Financial Securities – e.g. Equity shares, equity mutual funds mutual funds. Within financial securities, there is a classificatio equity and non equity securities. A financial asset is assumed to related if the equity exposure is greater than 65%. It must also mind that the equity related slab is applicable only when the asse in India and is subject the securities transaction tax. Otherwise treated as a non equity asset for purposes of taxation.
• Non financial securities - Immovable Property and other assets residential property, furniture etc.,

Computing your Gains

When there are multiple transactions of purchase and sale in stock or fund, then the FIFO (First In First Out) methodology is ap the first time the stock was purchased would be assumed to be Every time you make a transaction on a capital asset, it is usef down the date of purchase, the value of purchase, the date of sa value of sale as applicable. Keeping this on a regular basis es you run up a lot of transactions would be useful. Rights issues a issues also need to be accounted for. For bonus shares, the purcl is assumed to be zero and the date of issuance as the purchase d

Tax Rate Applicable:
Capital gains is assumed to be long term (LTCG) or short ter depending on the period of holding. For financial assets the holding required to become long term is if it is held for over 1 while for non financial assets, the holding period if over 12 mo below table help bring out the various conditions and the appl rate-

Capital Asset	STCG	LTCG
Equity Shares & Mutual Funds	Definition: Held for period not exceeding 12 months from date of Acquisition	Definition: Held period exceeding months from date Acquisition
	Tax Rate: Equity Related*: 15% + surcharge & Cess. Non equity: added to income- depends on his tax bracket	**Tax Rate:** Equity Related*: Nil. Non equity: 10% fl 20% with indexatio surcharge & Cess
Other Assets & Immovable property	Definition: Held for period not exceeding 36 months from date of Acquisition	Definition: Held period exceeding months from date Acquisition
	Tax Rate: Included in Gross Total Income. Rate applicable as per tax bracket	**Tax Rate:** 20% indexation + surchar Cess

Immovable and other assets (long term capital gains thereof) is r complexities, we apply the indexation concept to the purchase c asset (indexing is adjusting to inflation). The IT Dept comes out w inflation index (CII) for each financial year. The CII should be the purchase price and hence the purchase price is inflated for This value will be utilized when capital gains for some transact indexation is applicable as mentioned in the above table. This advantage of lowering your capital gains significantly.

As you file your taxes, capital gains computation is a big challeng of us. With the help of the above table, you can now do it on your
Anil Rego *is the founder and CEO of Right Horizons, an I Advisory and Wealth Management Company. Right Horiz successfully practiced a de-risked model with a Contrarian approa*

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