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Source: IRIS (21 July 2008)

Capital Gains: Taxes and thereafter?



EXPERT SPEAK

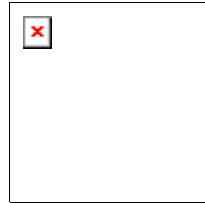


Anil Rego

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 it
sections. Often it is a dilemma on taxability of yc
gains; the rules are different for equity, debt, i
assets and others. We try to demystify capital gains and taxes the

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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 classification equity and non equity securities. A financial asset is assumed to related if the equity exposure is greater than 65%. It must also I 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 purch

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 term depending on the period of holding. For financial assets the holding required to become long term is if it is held for over 12 months while for non financial assets, the holding period is over 36 months. Below table help bring out the various conditions and the applicable tax rate-

Capital Asset	STCG	LTCG
Equity Shares & Mutual Funds	Definition: Held for period not exceeding 12 months from date of Acquisition	Definition: Held for period exceeding 12 months from date of 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% flat with indexation surcharge & Cess
Other Assets & Immovable property	Definition: Held for period not exceeding 36 months from date of Acquisition	Definition: Held for period exceeding 36 months from date of Acquisition
	Tax Rate: Included in Gross Total Income. Rate applicable as per tax bracket	Tax Rate: 20% indexation + surcharge & Cess

Immovable and other assets (long term capital gains thereof) is not simple. In view of the complexities, we apply the indexation concept to the purchase price of the asset (indexing is adjusting to inflation). The IT Dept comes out with the inflation index (CII) for each financial year. The CII should be multiplied with the purchase price and hence the purchase price is inflated for the current year. This value will be utilized when capital gains for some transactions are computed. This advantage of lowering your capital gains significantly.

As you file your taxes, capital gains computation is a big challenge for us. With the help of the above table, you can now do it on your own. **Anil Rego** is the founder and CEO of Right Horizons, an IIT Bombay based Advisory and Wealth Management Company. Right Horizons has successfully practiced a de-risked model with a Contrarian approach.

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