FAQs ON CAPITAL GAINS

1. **I have sold a house for Rs.5 lakh, which had been purchased by me 5 years ago for Rs.2 lakh. Am I required to pay any tax on the profit of Rs.3 lakh earned by me?**

   Yes. This profit, which is called capital gain, is taxable subject to certain conditions.

2. **Sale of what kind of assets attracts capital gains?**

   All transfer of capital assets attracts capital gains. Capital assets are those properties that have an enduring value and they are not consumable.

3. **What does transfer mean?**

   Transfer means giving up your right on an asset. It includes sale, exchange, compulsory acquisition under any law, relinquishment etc

4. **Does the capital gain tax differ according to my period of holding an asset?**

   Yes. If assets are held for more than 36 continuous calendar months prior to transfer they are called long-term assets and their transfer results in long-term capital gain that is taxed at the rate of 20%. The only exception to this general rule is in respect of securities for which the period of holding prior to transfer is 12 months to be considered as long-term capital asset and the rate of tax is nil, provided securities transaction tax has been paid. Any transfer of assets held for lesser than these periods would result in short-term capital gain. This is taxed at normal rates in respect of all assets except securities. For securities the rate of tax is 10% along with payment of securities transaction tax.

5. **Can I get any benefit for erosion in the value of money over the years while calculating my gain on sale of asset?**

   Yes. To neutralize the erosion of value of money over the years the cost index for the year of sale is factored in while calculating the cost of investment so that the impact of inflation is neutralized and only the actual gain to the seller is brought to tax.

6. **I have sold a property and made profit. If the sale amount is reinvested in purchase of a site, is my profit exempt from tax?**

   No. For getting exemption the nature of property sold is relevant. If you have sold a residential property, the gain received on sale should be reinvested in another residential property [which may include land and building] to qualify for exemption [section 54]. Even if you have sold a property other than a residential property, you will qualify for exemption only if the net consideration is reinvested in a residential property which may include land and building [section 54F].

7. **If I sell my land will I be taxed?**

   Gain from sale of non-agriculture land is taxable as capital gain. Gain from sale of agriculture land is taxable only if it is located within 8 kilometers from the urban limits.