

What is the meaning of long-term capital gains (LTCG)?*

Capital gains means, any gain arising on the transfer of capital assets such as real estate, equity or equity-oriented products, etc. Here we will discuss about the long-term capital gain arising on sale of equity shares and equity oriented mutual funds. Now, investment in equity shares or equity oriented mutual funds can be done for short term period or long-term period. Short term means investing for a period of up to 12 months and long-term means investing for a period of more than 12 months from the date of purchase / acquisition.

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However, with effect from April 01, 2018, LTCG on sale of equity shares or equity - oriented mutual funds exceeding 1,00,000 will be taxable at the rate of 10% without indexation benefit.

Further, vide Finance (No. 2) Act 2024 rates has been revised with effect from July 23, 2024:

- LTCG on sale of equity shares or equity - oriented mutual funds exceeding 1,25,000 will be taxable at the rate of 12.5% without indexation benefit.
- STCG on sale of equity shares or equity - oriented mutual funds will be taxable at the rate of 20%

In which case is LTCG applied and from when would it be effective?

| Gain at the time of sale | Duration | LTCG applicable (Y/N) |
|--------------------------|------------------------------|-----------------------|
| Gain > 125,000/- | Held for more than 12 months | Y |
| Gain < 125,000/- | Held for more than 12 months | N |

For the purpose of TDS computation and deduction I-Sec will not consider Rs.1.25 Lakh exemption and TDS will be deducted for full capital gain value.

What is the method for calculation of Long-Term Capital Gains? *

$LTCG = \text{Sale Price} - \text{Cost of Acquisition}$

The cost of acquisitions in respect of the long-term capital asset acquired by the assessee before the 1st day of February, 2018, shall be deemed to be the higher of:

- the actual cost of acquisition of such asset; and
- the lower of -
 1. the fair market value of such asset as on 31st Jan, 2018; and
 2. the full value of consideration received or accruing as a result of the transfer of the capital asset

| Scenario | Actual Cost on Date of Purchase i.e. January 01, 2017 (₹) | Fair Market Value on January 31, 2018 (₹) | Sale Price on April 01, 2025 (₹) | Cost of Acquisition (₹) | LTCG (₹) |
|----------|---|---|----------------------------------|-------------------------|-----------------|
| A | 100 | 200 | 250 | 200 | 250 - 200 = 50 |
| B | 100 | 200 | 150 | 150 | 150 - 150 = 0 |
| C | 100 | 50 | 150 | 100 | 150 - 100 = 50 |
| D | 100 | 200 | 50 | 100 | 50 - 100 = - 50 |

Scenario A

First check if the Sale value is higher than the fair value as on Jan 31, 2018. If yes, then the higher of fair market value as on Jan 31, 2018 and actual cost of acquisition will be treated as the Cost of acquisition. Let's assume:

Shares acquired- 1st of January, 2017 Actual Acquisition Price =Rs. 100,

Fair market value as on Jan 31, 2018= Rs. 200 (This is the highest trading price as on Jan 31, 2018) Sale value on 1st of April, 2025 = Rs. 250.

Here, since the sale value as on 1st April 2025 is higher than the FMV as on 31st Jan, the cost of acquisition will be higher of 200 and 100, which comes to Rs.200.

In this case, the LTCG will be $250-200=$ Rs.50

Scenario B

If the Sale value is lower than the fair value as on Jan 31, 2018. If yes, then cost of acquisition will be the higher of sale value and actual cost of acquisition.

Let's assume:

Shares acquired- 1st of January, 2017 Actual Acquisition Price =Rs. 100

Fair market value as on Jan 31, 2018= Rs. 200 Sale value on 1st of April, 2025= Rs. 150.

Here, since the sale value as on 1st April 2025 is lower than the Fair market value as on 31st Jan, the cost of acquisition will be higher of sale value and actual cost of acquisition i.e. higher of 150 and 100, which is Rs.150 will be considered as the cost of acquisition

In this case, the LTCG will be $150-150=$ Rs.0

Scenario C

First check if the Sale value is higher than the fair value as on Jan 31, 2018. If yes, then the higher of fair market value as on Jan 31, 2018 and actual cost of acquisition will be treated as the Cost of acquisition. Let's assume:

Shares acquired- 1st of January, 2017 Actual Acquisition Price =Rs. 100,

Fair market value as on Jan 31, 2018= Rs. 50 (This is the highest trading price as on Jan 31, 2018) Sale value on 1st of April, 2025 = Rs. 150.

Here, since the sale value as on 1st April 2025 is higher than the FMV as on 31st Jan, the cost of acquisition will be higher of 50 and 100, which comes to Rs.100.

In this case, the LTCG will be $150-100=$ Rs.50

Scenario D

Let's take another example in which, sale value is less than the actual cost of acquisition. Shares acquired- 1st of January, 2017

Actual Acquisition Price =Rs. 100

Fair market value as on Jan 31, 2018= Rs. 200 Sale value on 1st of April, 2025 = Rs. 50.

In this case, the sale value is also lower than the fair market value as on Jan 31, 2018. Hence the cost of acquisition will be higher of actual cost of acquisition and the sale value, i.e. Rs 100 and Rs.50. Hence cost of acquisition will be Rs.100.

So there will be long term capital loss of Rs. 50 (Rs.50 minus Rs.100)