TEST 10
(Capital Gains)
Time : 30 minutes Total Marks : 20

Question 1 : Mr. X is a proprietor of XYZ Enterprises having 2 units started on 01.04.2013. He transferred on 01.04.2023 his unit 1 by way of slump sale for a total consideration of ₹45 Lacs. The expenses is incurred for this transfer were ₹65,000/-. His Balance Sheet as on 31.03.2023 is as under:

Liabilities	Total ₹	Assets	Unit 1 ₹	Unit 2 ₹	Total ₹
Own Capital	21,00,000	Building	15,00,000	4,00,000	19,00,000
Revaluation Reserve (for building of unit 1)	6,00,000	Machinery	5,00,000	2,00,000	7,00,000
Bank Loan (70% for unit 1)	4,00,000	Debtors	3,00,000	70,000	3,70,000
Trade creditors (25% for unit 1)	3,10,000	Other assets	3,50,000	90,000	4,40,000
Total	**34,10,000**	**Total**	**26,50,000**	**7,60,000**	**34,10,000**

Other information:

(i) Revaluation reserve is created by revising upward the value of the building of unit 1.

(i) No individual value of any asset is considered in the transfer deed.Compute the capital gain for the assessment year 2024-25.

10 Marks

Question 2 : Mr. Y sold his house property in Bangalore as well as his rural agricultural land for a consideration of ₹ 60 lakh and ₹ 15 lakh, respectively, to Mr. X on 01.08.2023. He has purchased the houseproperty and the land in the year 2023 for ₹ 40 lakh and ₹ 10 lakh, respectively.

The stamp duty value on the date of transfer, i.e., 01.08.2023, is ₹ 85 lakh and ₹ 20 lakh for the house property and rural agricultural land,respectively.

Determine the tax implications in the hands of Mr. Y and Mr. X and the TDS implications, if any, in the hands of Mr. X, assuming that both Mr. Y and Mr. X are resident Indians.

10 Marks

TEST 10 SOLUTION
(CAPITAL GAINS)

Solution 1: **Computation of capital gains on slump sale of Unit 1**

Particulars	₹
Sale value	45,00,000
Less: Expenses on sale	(65,000)
Less: Net worth (See Note (i) below)	(16,92,500)
Long term capital gain	**27,42,500**

Note (i) : Computation of net worth of Unit 1 of XYZ Enterprises

Particulars	₹
Building (excluding ₹6 lakhs on account of revaluation)	9,00,000
Machinery	5,00,000
Debtors	3,00,000
Other assets	3,50,000
Total assets	20,50,000
Less:	
Bank Loan	(2,80,000)
Creditors	(77,500)
Net worth	**16,92,500**

Solution 2:

(i)	**Tax implications in the hands of Mr. Y**
	As per section 50C, the stamp duty value of house property (i.e. ₹ 85 lakh) would be deemed to be the full value of consideration. Therefore, ₹ 45 lakh (i.e., ₹ 85 lakh – ₹ 40 lakh), would be taxable as short-term capital gains. Since rural agricultural land is not a capital asset, capital gains shall not be computed.
(ii)	**Tax implications in the hands of Mr. X**
	In case immovable property is received for inadequate consideration, the difference between the stamp value and actual consideration would be taxable as gift and amount of gift shall be 85 lakh – 60 lakh = 25 lakh. Since agricultural land is not a capital asset, the provisions of section 56(2) are not attracted in respect of receipt of agricultural land for inadequate consideration. The definition of "property" under section 56(2) does not include agricultural land.
(iii)	**TDS implications in the hands of Mr. X**
	Since the sale consideration of house property exceeds ₹ 50 lakh, Mr. X is required to deduct tax at source under section 194-IA. The tax to be deducted under section 194-IA would be ₹ 60,000, being 1% of ₹ 60 lakh. TDS provisions under section 194-IA are not attracted in respect of transfer of rural agricultural land.