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Section 54 of the Income Tax Act provides exemptions from long-term capital gains tax if the gains from the sale of a residential house are reinvested in purchasing another residential property within 2 years or constructing another residential property within 3 years from the date of sale. This helps taxpayers save tax by reinvesting the sale proceeds in a new home, subject to conditions under the Act.What is Section 54?Section 54 of the Income Tax Act provides an exemption from long-term capital gains tax when an individual or Hindu Undivided Family (HUF) sells a residential house property and reinvests the capital gains in purchasing or constructing another residential house within the specified time period. This helps taxpayers save tax by reinvesting their gains in a new home, subject to meeting all conditions under the section.What are the benefits of an asset being classified as a long-term capital asset?The main benefits of an asset being classified as a long-term capital asset include:Eligibility for indexation benefits, which adjusts the purchase price for inflation, reducing taxable gains.Access to specific exemptions under the Income Tax Act, such as Sections 54, 54EC, and 54F, which are available only for long-term assets.From 23rd July 2023, for land and building, taxpayers have the option to pay tax at 12.5% without indexation or 20% with indexation, whichever is beneficial.Exemption under Section 54Under Section 54 of the Income Tax Act, individuals and HUFs can claim exemption on long-term capital gains from selling a residential house if they reinvest in another residential property. Firms, LLPs, companies, or other entities cannot claim this exemption.Key Conditions:The asset sold must be a long-term capital asset (held for more than 24 months).The asset should be a residential house property, with income taxable under Income from House Property.The seller must purchase another residential house within 1 year before or 2 years after the sale, or construct a new house within 3 years from the date of sale or from the date of compensation in case of compulsory acquisition.The new residential property must be located in India. Buying a property abroad does not qualify for exemption.From 1st April 2023, the exemption is capped at Rs. 10 crore. Earlier, there was no limit.All these conditions are cumulative. Failure to meet even one will disqualify the seller from availing the exemption under Section 54.What is the amount of Exemption available under Section 54 of the Income Tax Act?The amount of exemption under Section 54 of the Income Tax Act for the long-term capital gains will be the lower of:Long-Term Capital gains arising on transfer of residential house, OrThe investment made in purchase or construction of a new residential house property. Hence, the balance capital gains (If any) will be taxable.To illustrate:Mr X sells his villa(house property) for Rs 45,00,000. With the proceeds of the sale, he purchases another villa for Rs 20,00,000. Capital Gains will be computed as followsParticularsAmt (Rs)Capital gain on transfer of residential house45,00,000Less: Investment made in residential house property20,00,000Taxable Capital Gains25,00,000The exemption will be lower of the Capital Gains (Rs 45,00,000) or investment in new property (Rs 20,00,000), so the exemption will be Rs 20,00,000.Limit for Capital Gains Exemption on Sale of Residential HouseBudget 2023: Long-term capital gain exemption will be capped at 10 crores on sale of:Amended sectionsSale ofSale amount invested inExemption AmountSection 54Residential propertyNew residential property10 croresSection 54FAny long-term asset other than residential propertyNew residential property10 croresWhat is Section 54?Section 54 of the Income Tax Act provides an exemption from long-term capital gains tax when an individual or Hindu Undivided Family (HUF) sells a residential house property and reinvests the capital gains in purchasing or constructing another residential house within the specified time period. This helps taxpayers save tax by reinvesting their gains in a new home, subject to meeting all conditions under the section.What are the provisions relating to the transfer of property after claiming benefit under Section 54?If the new house is sold within 3 years from the date of purchase or construction, then the exemption claimed earlier under section 54 shall be indirectly taxable in the year of sale of the new house property. Lets consider two scenarios when the new house is sold within 3 years from the date of purchase or construction:Case 1: Cost of the new house purchased is less than the capital gains computed on the sale of the original house.Generally, when a house is sold, the profit is considered as capital gains. However, when the new house is sold within 3 years from the date of purchase or construction, then the cost of acquisition will be considered as Nil. Hence, there will be an indirect increase in taxable capital gainsExample-Mr Y has sold residential house property in May 2015 and the capital gains amounted to Rs. 30,00,000/- In June 2015, Mr Y purchased a residential house property worth Rs. 18,00,000/-Mr Y sells the new residential house property (Purchased in June 2015) in December 2016 for Rs. 35,00,000/-Based on the facts mentioned above, lets compute the taxable capital gains for Mr Y . FY 15-16 (Property sold in May 2015)ParticularsAmount (Rs.)Capital gain on transfer of residential house30,00,000Less: Investment made in residential house property18,00,000Balance Taxable Capital Gains In FY 15-1612,00,000FY 16-17 (Property sold in December 2016)ParticularsAmount (Rs.)Consideration for transfer (Sale Consideration)35,00,000Less: Cost of AcquisitionNILBalance Taxable Capital Gains In FY 16-1735,00,000Note:As the new property for which deduction was claimed under Section 54 was sold in December 2016 (ie within 3 years from the date of acquisition), hence its cost of acquisition was considered as NIL.As a result, the entire sale consideration was considered as capital gains. Had the property been sold after 3 years , ie after June 2018, then in such case the cost of acquisition would be available as a deduction and capital gains would reduce.Case 2: Cost of the new house purchased is more than the capital gains computed on the sale of the original houseIf the cost of the new asset purchased is greater than the capital gains, then it is obvious that there will be no capital gains as the entire capital gains will be exempted. However, if the new house is sold within 3 years, then cost of the new house will be computed as follows:ParticularsAmount (Rs.)Original CostXXXLess : Capital gains claimed for the earlier house propertyXXXCost of the new houseXXXExampleLets understand the above case with the help of an example Mr Z has sold a residential house property and the capital gains is Rs 25,00,000/- in June 2015.In October 2015, Mr Z purchased a new residential house property of Rs 40,00,000/- In January 2017, Mr Z sold the new residential house Property for Rs 55,00,000/-Based on the capital gains mentioned above, lets compute the taxable capital gains for Mr Z FY 15-16 (Property sold in June 2015)ParticularsAmount (Rs)Capital gain on transfer of residential house25,00,000Less: Investment made in residential house property40,00,000Balance Taxable Capital Gains In FY 15-16NILFY 16-17 (Property sold in January 2017)ParticularsAmount (Rs.)Consideration for transfer (Sale Consideration)55,00,000Less: Cost of Acquisition (Refer Working Note Below)15,00,000Balance Taxable Capital Gains In FY 16-1740,00,000Working Note 1: Computation of cost of acquisition (As the property was sold within 3 years of purchase and Section 54 was claimed)ParticularsAmount (Rs)Cost of Acquisition40,00,000Less: Capital gains claimed for earlier house property25,00,000Cost of the new house (to be considered)15,00,000What is Capital Gains Account scheme? The Capital Gains Account Scheme (CGAS) allows taxpayers to claim exemption on capital gains if they have not yet purchased or constructed a new house within the specified time frame. If the asset is sold in a financial year and the new property is yet to be purchased (within 2 years) or constructed (within 3 years), the capital gains must be deposited in a CGAS account with a public sector bank before the due date of filing the income tax return.The amount already spent on purchase or construction, along with the amount deposited in the CGAS, is eligible for exemption. However, if the deposited amount is not utilised within the specified time, it will be treated as taxable income in the year when the 3-year period expires from the date of sale of the original asset.Section 54 v/s Section 54F - DifferenceEarning income automatically casts a responsibility on the taxpayers to discharge income tax on such income and so is the case with capital gains too. However, the income tax laws allow taxpayers to claim certain exemptions against capital gains, which will help reduce their tax outgo.Two such very crucial exemptions one can claim are under Sections 54 and 54F. As discussed above the exemption under Section 54 is available on long-term Capital Gain on sale of a House Property. Exemption under Section 54F is available on long-term Capital Gain on sale of any asset other than a House Property.Common requirements between the two SectionsTo claim exemptions under Section 54 or Section 54F, the following common conditions must be met:A new residential house property must be purchased or constructed.The new property must be purchased within 1 year before or 2 years after the sale of the original asset.Alternatively, it must be constructed within 3 years from the date of sale.If the capital gains are not reinvested before the tax filing due date or within 1 year from the sale (whichever is earlier), the amount should be deposited in a Capital Gains Account Scheme (CGAS) with a public sector bank.Section 54Section 54FTo claim full exemption the entire capital gains have to be invested.To claim full exemption the entire sale receipts have to be invested.In case entire capital gains are not invested the amount not invested is charged to tax as long-term capital gains.In case entire sale receipts are not invested, the exemption is allowed proportionately.[Exemption = Cost the new house x Capital Gains/Sale Receipts]You should not own more than one residential house at the time of sale of the original asset.This exemption will be reversed if you sell this new property within 3 years of its purchase or construction OR if you purchase another residential house within 2 years of the sale of the original asset or construct a residential house other than the new house within 3 years of the sale of the original asset. Capital gains from the sale will be taxed as long-term capital gains.If the capital gains does not exceed Rs.2 crores, a once in a lifetime exemption is available for investment in 2 properties.No such exemption availableKey points to rememberProportionate exemption: If the cost of the new residential property is less than the total capital gains, exemption is allowed only for the invested amount. The remaining gains can be reinvested under Section 54EC within 6 months to claim further exemption.The new property must be purchased in the name of the seller to avail the exemption.If the builder fails to hand over the property within 3 years, the exemption is still valid, provided the investment was made as per the conditions.I sold my residential land for 50 lakh in January 2023. I had bought it for 2.15 lakh in April 2004. To avoid capital gains tax, I intend to invest the entire amount in buying a new house within next 6-7 months. Can I park the sale proceeds as FD in my SBI account till then or is it mandatory to open capital gains account to keep this money? If yes, what is the maximum time by which it needs to be opened. We understand that you intend to invest the Long-Term Capital Gain (LTCG) from sale of residential land (Original asset) in new residential house property to claim deduction against the LTCG under section 54F of the Income-tax Act, 1961.Section 54F of the act provides for exemption against the capital gain arising from the sale of a long-term capital asset (not being a residential house). This exemption is available (subject to fulfilment of specified conditions) where the amount of net consideration arising from such sale is either invested to purchase another residential house within a year before or two years of the transfer of original asset, or the same is invested to construct a new house within three years of the transfer of original asset. The exemption will be available in proportion to the net consideration invested.In case, the assessee is unable to purchase or construct the new house till the date of filing the original return of income, the net consideration not utilized (in whole or part) to purchase or construct new house shall be required to be deposited in Capital Gains Deposit Account Scheme with a specified bank by the due date of filing of the original tax return. The new house can be purchased or constructed by withdrawing the amount from the account within the specified time limit of 2 years or 3 years, as applicable.In the instant case, we note that the original asset, i.e., residential land was sold in January 2023 (i.e., FY 2022-23). Thus, in order to claim exemption, the net consideration needs to be invested in purchase / construction of a new residential property within a period of 2 years / 3 years from the date of transfer of original asset (being January 2023).Further, in case the net consideration is not re-invested till the date of furnishing the return under section 139 of the Act, then such amount can be deposited before the due date of filing tax return under section 139(1) of the Act, in a specified Capital Gain Account Scheme (CGAS) bank account (and not as a Fixed Deposit) with authorized banks and utilized in the manner prescribed, to avail of the deduction.Assuming that you are not required to get your books of accounts audited under any law, due date of filing tax return for subject financial year i.e., FY 2022-23 under section 139(1) will be 31 July 2023. Accordingly, any amount of net consideration which remains uninvested in the purchase / construction of the new house, shall be required to be deposited in CGAS of a specified bank before 31 July 2023, in order to be eligible to claim exemption under section 54F of the Act.Parizad Sirwalla is partner and head, global mobility services, tax, KPMG in India.Summary: The sale of property in India has significant income tax implications, primarily involving capital gains tax. The tax liability depends on the holding period, residential status, and type of property sold. Short-term capital gains (STCG) apply if the property is held for 24 months or less and are taxed at the sellers slab rate. Long-term capital gains (LTCG) apply for holding periods exceeding 24 months and are taxed at 12.5% without indexation or 20% with indexation if purchased before July 23, 2023. Exemptions for LTCG under Sections 54, Section 54EC, and Section 54F are available for reinvestment in residential property or specified bonds within defined timelines. The maximum exemption is capped at 10 crores post Budget 2023. TDS obligations arise for buyers if the property value exceeds 50 lakh, with 1% deduction for residents and 20% for non-residents. For non-residents, capital gains are taxed at 20% for LTCG and as per slab rates for STCG. Stamp duty valuation is deemed as the sale price if higher than the actual consideration.Introduction: The sale of property in India has tax implications which depend on various factors like the type of property, holding period, and the residential status of the seller. Basically it attracts capital gains tax. Following is an overview: Holding period i.e. ownership period of property determines the nature of capital gainsShort-term Capital Gains (STCG): If the property is held for 24 months or less, the gains are treated as STCG and taxed at the applicable slab rate of the seller.Long-term Capital Gains (LTCG): If the holding period of property is more than 24 months, the gains are treated as LTCG and taxed at 12.5% without the benefit of indexation. If the property is purchased on or before 22nd July 2023 the seller has option of choosing 20% taxation with indexation benefit. One can choose the more beneficial option between the two. This option is not available for property purchased on or after 23rd July 2023.Computation of Capital GainsLong Term:-Full Value of Consideration: The sale price of the property.Less: Indexed Cost of Acquisition/Improvement (for LTCG): Cost of acquisition or improvement adjusted for inflation using the cost inflation index (CII). Or Actual cost of acquisition as per option selectedLess: Expenses on Transfer: Brokerage, legal fees, etc.Net Capital Gains: The taxable amountShort Term:Full Value of Consideration: The sale price of the property.Less: Actual cost of acquisitionLess: Expenses on Transfer: Brokerage, legal fees, etc.Net Capital Gains: The taxable amount1. Exemptions from Long Term Capital GainsFollowing exemptions are available to save on LTCG tax :Section 54: Exemption for reinvestment in another residential property within specified period.Section 54EC: Investment in bonds of NHAI, REC, etc., within six months of transfer.Section 54F: Applicable for sale of assets other than residential property if proceeds are invested in a residential house.The specified period for Section 54 and 54F is 1 year before the date of sale/transfer or 2 years after the date of sale/transfer in case of house is purchased. In case the seller is constructing a house, the seller has an extended time, i.e. the seller will have to construct the residential house within 3 years from the date of sale/transfer.Note: The exemption u/s 54 and 54F can be claimed maximum up to 10 crores as per amendments brought in by the Budget 20232. TDS (Tax Deducted at Source) ApplicabilityThe buyer must deduct 1% TDS under Section 194-IA if property value exceeds 50 lakhFor non-resident sellers, the TDS rate is 20%3. Tax Implications for Non-ResidentsCapital Gains from property sale by non-residents are subject to TDS:20% for LTCG.Higher applicable slab rate for STCG.6. Special Considerations for determination of sales valueStamp Duty Valuation: If the sale consideration is less than the stamp duty value, the latter is deemed to be the sale price for tax calculation.Joint Ownership: Each co-owner is taxed as per their respective share of the gains.For tax filing purpose following documents are required to be kept by the seller:Sale/ purchase deedsRecord of improvement costs incurred with receiptReceipts of advance received if any for transactionIf property is purchased before 1-4-2001, its valuation as on 1-4-2001 by a registered valuerCapital gains refer to the profits obtained from the sale or transfer of any legally owned capital asset, including movable or immovable property, tangible or intangible items. Capital gain tax on property is the tax paid on the profit earned by selling a property.It is important to note that capital gains tax is levied only on the profit earned and not on the entire sale value of the property.Examples of capital assets includeIf selling and purchasing capital assets is an individual's primary mode of income, the profits generated from such activities are considered "Income from business or profession." Capital gain tax on property is specifically applicable to the monetary profit obtained from the sale or transfer of residential properties or lands by an individual who does not consider it a profession or whose primary source of income is not from such activities.There are two types of capital gains that depend on the duration of ownership of the asset: long-term capital gain and short-term capital gain.Short-term capital gain or STCGIf any asset is held by the owner for less than two years or 24 months and or lesser than this, then the profit earned from selling those property is known as short term capital gain.How to calculate the Short-term capital gain or STCGHere is the formula for calculating the short-term capital gain is:Short Term Capital Gain = Sale value of the property (cost of acquisition + expenses incurred during sale of property + cost of asset improvement).Where, the following are the points thatNote: The tax rate for short-term capital gains is typically higher than that of long-term capital gains.The tax rate on capital gains varies depending on whether the gain is short-term or long-term. If a property is sold within 24 months of acquiring it after 31 March 2017, the gain is considered a short-term capital gain and is added to the individual's existing income and taxed as per the applicable income tax slab.Long-term capital gain or LTCG Any asset that exceeds the threshold of 36 months or 24 months, depending on the object, is considered a long-term capital asset. For instance, if an individual sells a housing property after holding it for 24 months or more, profits from such a transaction will be classified as long-term capital gains.How to calculate long-term capital gainsWhen calculating long-term capital gains, it's important to consider all of these factors to arrive at an accurate figure for tax purposes.It is important to note that different tax rates applied to long-term capital gains for property sales before 31 March 2017. For example, in some cases, the tax rate was zero, while in others, it was based on an indexed cost of acquisition. Additionally, there were different tax rates based on the type of property sold and the period of holding. For example, if a property is sold after 24 months, it is considered a long-term capital gain and is taxed at a flat rate of 20%.Thedifferentiation between short- and long-term capital gainsis important because both of these are treated differently in terms of taxation. The tax rates andtax benefitswhich are applicable on the reinvestment of these two types of gains vary.Capital Gain Tax on Property: ExemptionsExemptions from Capital Gain Tax on Property can be availed by individuals based on the type of reinvestment they make after receiving the consideration from long-term capital gain.The following are the conditions to avail exemption on capital gain tax on property sale:Here is the list of exemptions on capital gain tax:Section5454EC54F54GBEligibilityAny Individual or HUFAny TaxpayerAny Individual or HUFAny Individual or HUFAsset soldResidential house or landLong term capital asset, Land, building, or bothLong term asset other than Residential propertyResidential propertyInvestment made inNew India Residential house (only 1)Specific bonds of NHAI / RECL/PFC/IRFCNew Indian Residential house property (only 1)Equity shares where assess holds 50%+ shares of the companyTime of purchaseWithin one year before or two years after (if constructed within the time period of three years after transfer)Within 6 months (after the transfer)Within one year before or two years after (if constructed within the time period of three years after transfer)Before the Income Tax Return due dateSpecial caseCapital gain (that was exempted earlier) will be deducted from its cost of acquisition, if sold within three years.LTCA (that was exempted earlier) is taxable in the year of sale if securities sold within five years.Capital gain (that was exempted earlier) is taxable in the year of sale, if sold within three years.The capital gain (that was exempted earlier) is taxable in the year of sale, if sold within five years.ThresholdRs.10 crore---Section 54 Under Section 54 of the Income Tax Act, individuals can claim a tax exemption on capital gains from the sale of a property, subject to certain conditions. Here are the key details:It's important to meet these conditions to avail the tax exemption on capital gains from the sale of a property.Section 54B The tax exemption provided by Section 54B of the Income Tax Act applies to individuals who have earned capital gains from the sale of agricultural land located outside of a rural area. It's important to meet these conditions and guidelines to avail the tax exemption on capital gains from the sale of agricultural land used for agricultural purposes outside of a rural area. Here are the key details:Section 54EC Under Section 54EC of the Income Tax Act, individuals can avail tax exemption on capital gains from the sale of a housing property by reinvesting the gains in specific bonds issued by the NHAI or REC. Here are the key details:Section 54F Under Section 54F of the Income Tax Act, individuals can claim tax exemption on capital gains generated from the sale of long-term capital assets, excluding housing property. Here are the key details:By following these guidelines, individuals can claim tax exemption on capital gains from the sale of long-term capital assets by reinvesting the proceeds in housing properties or a construction project within the specified timeframes mentioned in Section 54F.How to Save on Capital Gains Tax while Selling your Property?Long-term capital gains are exempted from taxation (under Section 54 of the Income Tax Act, 1961) for individuals and Hindu Undivided Families on the sale of a house property if:How can I Save Capital Gains on My Property?Some of the ways through which you can save on capital gains tax on your property are:Capital Gain LossesHere is everything that you need to know regarding how to save capital gain tax by setting of your capital gain losses:Note: you must file your income tax before the final date.Capital Gains Account Scheme (CGAS)Here are some of the details regarding how to save capital gain tax by investing in CGAS:Investing in BondsHere are the details regarding how you can save capital gain tax by investing in bonds:Set Off and Carry Forward of Losses on Sale of Immovable PropertyHere are some of the details that you must remember about setting off and carry forward of losses on sale of immovable property: Asked by Anonymous - Aug 05, 2024Hindi Listen Ans: No, you cannot save long-term capital gains tax on the proceeds from a land sale by creating a Fixed Deposit (FD). To save on long-term capital gains tax, you can: Invest in Residential Property: Under Section 54F of the Income Tax Act, you can invest the proceeds in a residential property. The purchase should be made within two years or construction within three years. Invest in Capital Gains Bonds: Under Section 54EC, you can invest up to Rs. 50 lakhs in specified bonds (e.g., NHAI or REC) within six months from the date of sale. These options help in deferring or saving on the capital gains tax. An FD does not qualify for such exemptions. Best Regards,K. Ramalingam, MBA, CFP,Chief Financial Planner,www.holisticinvestment.in DISCLAIMER: The content of this post by the expert is the personal view of the rediffGURU. Users are advised to pursue the information provided by the rediffGURU only as a source of information to be as a point of reference and to rely on their own judgement when making a decision. You may like to see similar questions and answers below Latest Questions Asked by Anonymous - Jul 18, 2025Hindi I have a 6 year fixed deposit which will pay at maturity in Sep-2027. My question is on when to pay tax for this deposit. Should it be paid every year based on interest accrued every year OR only once, at the time of actual interest credit into the account? Ans: Understanding Taxation on Fixed Deposit Interest Interest on fixed deposits is taxable under Income from Other Sources. Tax is not based on when interest is received. It is based on when the interest accrues. This is true even if the FD pays only at maturity. ? When Does Interest Accrue? Interest accrues every financial year, not just on maturity. Banks calculate interest every quarter or half-year. Even for reinvestment FDs, interest is earned yearly. The entire interest is paid at maturity, but accrues yearly. ? Taxation is Based on Accrual Method As per Income Tax Act, interest must be declared yearly. This is known as accrual basis of taxation. Ignoring this may result in tax demand and penalty later. ? Common Misunderstanding About Tax on FDs Many believe tax is due only when FD matures. This is incorrect under the Income Tax rules. This assumption may cause large tax outflow in maturity year. Also, it may attract interest and penalty from IT department. ? Your Obligation Each Year Every year you must estimate interest accrued. Add it to your total income while filing ITR. Pay tax as per your income slab on that amount. This is applicable even if the interest is not paid out. ? Where to Find Yearly Accrued Interest Ask your bank for yearly interest accrual certificate. Usually available in April each year. This helps in proper tax reporting in your return. ? Tax Deduction at Source (TDS) on FDs Banks deduct TDS if interest exceeds Rs. 40,000 per year. For senior citizens, this limit is Rs. 50,000. TDS is 10%, provided PAN is updated. If PAN is missing, TDS can be at 20%. TDS is not the final tax liability. You still need to calculate your slab tax. If you fall in higher tax slab, pay balance tax. If your slab is lower, claim refund of excess TDS. ? If You Ignore Annual Reporting Tax department can track FD accrual via Form 26AS. Interest is also shown in AIS (Annual Information Statement). If you dont report interest, it raises red flags. In future scrutiny, you may face tax demand and penalty. ? Tax Planning Suggestions Ask bank for Form 16A or interest certificate every year. Add accrued interest to your income in your return. Pay self-assessment tax if needed before 31st July. This avoids last-minute surprise tax burden at maturity. Also avoids interest under section 234B and 234C. ? Impact on Overall Financial Planning FDs give assured returns but interest is fully taxable. This makes post-tax return low for many investors. Consider this tax aspect while comparing with other investments. For high income earners, debt mutual funds may be better. They offer indexation benefit and lower tax impact over time. ? Should You Break FD to Avoid Annual Tax? No need to break FD. Just declare interest every year properly. Even if maturity is far, show yearly interest accrual. Maturity proceeds will be tax-free if already declared yearly. ? Tax Filing and Documentation Tips Maintain record of FD opening date, amount and maturity date. Keep banks yearly interest certificate safely. While filing ITR, enter interest under Income from Other Sources. Match with AIS data to avoid mismatch. If mismatch found, explain with proof during ITR processing. ? What Happens on Maturity Year? In maturity year, you receive full interest and principal. But only declare the last years interest in ITR. Dont report entire 6 years interest again. That would mean double taxation. Maturity amount already includes taxed portion. ? If You Missed Reporting in Earlier Years You can revise past returns for last 2 assessment years. File revised returns and pay tax with interest. Better to rectify voluntarily than face penalty later. ? Key Tax Rule to Remember Interest earned is taxable on accrual basis. Even if payment is made on maturity only. Pay tax each year, not just in maturity year. ? Ideal Tracking Practice Maintain Excel sheet for FD investments. Note FD amount, start and end date, and yearly interest. Add this value every year while filing your ITR. ? Benefit of Declaring Yearly Interest You avoid tax shock in final year. You avoid penalty, interest, and notice from IT department. You show income transparently. This helps in home loan, visa, and other financial proofs. ? Role of a Certified Financial Planner A CFP can help optimise tax-efficiency of your investments. Can help plan maturity of FD with other cashflows. Can suggest better options if tax is reducing returns. Regular reviews with a CFP help avoid such confusions. ? Disadvantages of Fixed Deposits Returns are low compared to inflation. Taxable every year. No indexation benefit. TDS cuts liquidity. Not suitable for long-term wealth creation. ? Alternative Options for Tax Efficiency Actively managed debt mutual funds offer better post-tax return. They allow better planning for income and withdrawals. Short-term and long-term capital gains can be staggered. Professional fund manager brings risk control. Certified Financial Planner and trusted MFD can help align these. ? Dont Fall for Index Fund Hype Index funds offer low-cost but no flexibility. No scope of outperformance during market shifts. Poor downside protection in falling markets. Better to use actively managed funds guided by experts. This helps optimise portfolio across market cycles. ? Disadvantages of Direct Mutual Funds Direct plans need your own research and monitoring. No access to guidance from a certified mutual fund distributor. Most investors lack time or knowledge for this. Errors in fund selection or exit timing hurt returns. Regular plans via MFD give advice, handholding and long-term value. A CFP-aligned MFD ensures aligned goals, reviews and discipline. ? Dont Rely on Endowment or Investment Policies If you hold LIC or Postal policies for investment, evaluate ROI. Most of them yield low post-tax returns. Consider surrender and reinvest into better options via SIPs. A Certified Financial Planner can help this switch efficiently. ? Final Insights Tax on FD interest must be paid every year, not just at maturity. Interest accrues yearly and is taxable even if not received. TDS doesnt mean your full tax is paid. Declare interest each year in ITR. Collect interest certificate yearly for accurate tax filing. For better returns, explore tax-efficient debt mutual funds. Avoid direct funds and index funds without advice. Get professional support from CFP and trusted MFD. Best Regards,K. Ramalingam, MBA, CFP,Chief Financial Planner,www.holisticinvestment.in HolisticInvestment ...Read more Question by Deepak - Jul 18, 2025Hindi I am a Govt. employee, aged 41 years and retiring in the year 2044. My net salary is Rs. 47K per month, after deducting almost 5K in NPS, presently have an amount of approx. 4 lak. in NPS account. I have a LIC plan, depositing 5k per month, maturing in the year 2039, assured wealth return is Rs. 21 Lakh plus additional 10 lakh death benefit. I have only a son, aged 6 years. I have a PPF account adding minimal amount whenever I save, maturing in 2033 and presently have a amount of Rs. 1.7 lakh. Plus, I have a loan of Rs. 10.5K per month, ending in June 2027. My first preferences is to accumulate wealth for my son's education. Second, is to buy a car. And third is to buy a peice of land to build house. My monthly expenses is in between 25K to 30K per month. Please suggest.... Ans: You have already taken thoughtful steps. Your goals are clear and well-prioritised. Now lets do a complete 360-degree analysis. Your profile shows that you are sincere and serious. Let us create a clear path forward. ? Income, Salary and Monthly Commitments Your net salary is Rs. 47,000 per month. NPS contribution of Rs. 5,000 is already deducted from salary. Loan EMI is Rs. 10,500 per month till June 2027. Monthly living expenses are between Rs. 25,000 and Rs. 30,000. LIC premium is Rs. 5,000 monthly. You have limited room for investment surplus right now. But this will improve after June 2027. ? Analysis of NPS Account NPS balance is Rs. 4 lakh as of now. You are contributing Rs. 5,000 monthly. That will continue till retirement in 2044. NPS is a disciplined and tax-efficient tool for retirement. Let it grow without any withdrawals. Avoid reducing the NPS contribution in future. After retirement, only 60% of the corpus will be tax-free. Remaining 40% may require annuity or structured withdrawal. NPS alone may not be enough for full retirement need. ? LIC Policy Assessment You pay Rs. 5,000 monthly till 2039. Policy offers Rs. 21 lakh maturity with Rs. 10 lakh death benefit. LIC is a mix of insurance and low-return savings. Estimated return is likely around 4% to 5% per year. You may consider surrendering this plan. Reinvest this into long-term mutual funds. Mutual funds offer higher returns and better flexibility. Insurance should always be separate from investments. Use term insurance for risk coverage. Use mutual funds for wealth creation. ? Review of PPF Account You are contributing a small amount irregularly. Current balance is Rs. 1.7 lakh. Maturity is due in 2033. PPF is safe and tax-free. But it offers modest returns of 77.5%. Use this only as part of your debt portion. Avoid treating it as your main growth engine. Increase contribution slightly if possible. But dont overdepend on it for goals like education or retirement. ? Current Debt Structure and EMI Analysis EMI of Rs. 10,500 will end in June 2027. Thats about 25% of your current investable surplus. Once cleared, you will have higher monthly savings. Do not take another loan immediately after this one ends. Use that EMI amount for goal-based SIPs. Avoid using loan for buying car or land. Try to stay debt-free after 2027. That will help you build wealth faster. ? Insurance Planning Review LIC is not term insurance. You did not mention any pure term plan. Please buy one immediately with Rs. 50 lakh to Rs. 1 crore cover. It is low-cost and essential to protect your family. If anything happens to you, your sons future is at risk. Term insurance is the best way to secure his education and upbringing. Review and ensure nominee names are correctly added. ? Goal 1: Your Sons Education Planning Your son is 6 years old now. Engineering or medical education costs can be high. It may require Rs. 2530 lakh or more in total. You have 1012 years to plan this goal. Start a separate SIP dedicated only for this purpose. Choose diversified mutual funds with active management. Avoid direct or index funds. Direct funds lack expert guidance and periodic review. Index funds only copy market and offer no protection. Instead, regular mutual funds through a Certified Financial Planner are better. You will get yearly reviews and strategy adjustments. Increase SIP once your loan EMI ends in 2027. If possible, start with Rs. 3,0005,000 monthly from now. Even this small start will grow with time. ? Goal 2: Buying a Car A car is a depreciating asset. It should never be bought with long-term loans. Try to buy a car with savings only. Delay the purchase till after 2027. You can set up a 3-year recurring deposit or short-term SIP. Use balanced or hybrid mutual funds for this goal. Do not disturb your sons education corpus for car buying. Keep car budget simple and realistic. Avoid costly models with high EMI burden. Remember, a car is a comfort, not a goal. ? Goal 3: Buying a Piece of Land Real estate for living is a lifestyle choice. But do not treat it as an investment. Real estate lacks liquidity and transparency. Also, it brings added costs like stamp duty and maintenance. If you must buy land, do it only after key goals are covered. Never delay your childs education or retirement for this. Avoid taking a big home loan again. If you still wish to buy land, start a separate SIP now. Use equity mutual funds with 8+ years horizon. Do not compromise your other long-term financial goals for land. ? Emergency Fund Planning You didnt mention any emergency corpus. This is very important for salaried families. You need at least Rs. 1.52 lakh in liquid funds. Build this over the next 68 months. Use liquid or ultra-short mutual funds for this. Dont keep money idle in savings bank account. This money is for medical, job loss, or family emergencies. ? Long-Term Retirement Strategy You retire in 2044, which gives 19 years. NPS will continue to grow till then. But NPS alone is not enough. Start a separate retirement-focused SIP now. Choose long-term equity mutual funds with active fund managers. Direct or index funds dont give such customisation. Regular mutual funds via CFP-led guidance bring structure. Post 2027, increase retirement SIPs aggressively. Build two retirement sources NPS and mutual funds. This dual structure gives tax and liquidity balance. Avoid any plans that mix insurance with retirement. ? Suggested Cash Flow Plan From Now Monthly net income is Rs. 47,000. EMI is Rs. 10,500 till 2027. LIC premium is Rs. 5,000. Expenses are Rs. 30,000 at max. That leaves very limited room today. Still, try SIP of Rs. 2,0003,000 for your sons goal. Also set aside Rs. 1,000 in liquid fund as emergency base. After EMI ends in 2027, divert that full amount to SIPs. Split that into retirement, car, and home planning SIPs. Dont increase lifestyle expenses after loan closure. Instead, increase savings commitment. ? Maintain Financial Discipline Avoid borrowing for car, travel, or celebrations. Track all your expenses monthly using an app or diary. Update nominee details in all your accounts. Review all your investments every 6 months. Set financial reminders for SIP dates and insurance renewals. Dont stop SIPs even if market goes down. Stay invested for long-term compounding. ? Benefits of Active Mutual Funds Over Index and Direct Funds Index funds copy market and offer no active strategy. They can fall badly when markets crash. They dont help in risk reduction. Direct mutual funds are also risky for non-experts. They give no guidance, no regular review, and no help during crisis. Regular mutual funds through a Certified Financial Planner are better. You get yearly check-ups, goal mapping, and corrections. A planner keeps your emotions under control. That helps build long-term wealth safely. ? Finally You have good habits and clear goals. But some product choices need correction. Surrender the LIC and replace it with term insurance. Build your sons education fund with SIP. Create a car fund only with savings. Dont rush into land purchase. Build emergency fund and retirement fund gradually. After 2027, your cash flow will improve. Use that to increase SIPs and reach your goals easily. Best Regards,K. Ramalingam, MBA, CFP,Chief Financial Planner,www.holisticinvestment.in HolisticInvestment ...Read more Asked by Anonymous - Jul 18, 2025Hindi I am a 30-year-old married and salaried person with a monthly disposable income of 1L. I took a home loan of 62 lakhs for a period of 33 years at an interest rate of 7.6%. I have set my monthly EMI at 58,640, of which 20,000 is contributed by my parents, who are currently staying at home. Due to my job, I live in a different city and pay rent of 17k per month. As far as investment is concerned, I am currently investing 15k per month through SIP: 7.5k each in Axis Small Cap Fund and Quant Small Cap Fund. The total valuation of my mutual fund portfolio is 1.54 lakhs. I also have shares with current value of 2.44 lakhs. The priority is to accumulate for the emergency fund, how much and how it should be planned? My long term goal is to have a good corpus considering inflation and I also want to buy a second home (optional if possible) Ans: You are 30, married, salaried, and have Rs?1 lakh disposable monthly income. EMI on home loan is Rs?58,640, partly funded by parents. Rent is Rs?17,000. You invest Rs?15,000 monthly in small-cap SIPs. Your MF value is Rs?1.54 lakh, and stocks are Rs?2.44 lakh. Your priority is an emergency fund. You also aim to build long-term wealth and possibly buy a second home. Let us build a 360-degree plan, step by step: ? Emergency Fund Requirement and Planning You need an emergency fund of 612 months of expenses. Including rent and EMI, your monthly outgo is ~Rs?1.17 lakh. A 6-month fund would be ~Rs?7 lakh; 12-month fund ~Rs?14 lakh. Keep it in a mix of savings account and liquid mutual fund (regular plan). Start by saving Rs?10,00020,000 monthly into these vehicles. Once you reach Rs?7 lakh, maintain it. Dont use this fund for home purchase or investment. ? Review of Current Equity Allocation You invest in two small-cap funds currently. Small-cap funds are highly volatile. Overexposure can lead to risk, especially early in career. Your current MF portfolio of Rs?1.5 lakh may swing sharply. Consider switching some allocation into large-cap or balanced equity. Add a flexi-cap or multi-cap fund for diversification. We will restructure this later after emergency fund buildup. ? Direct Stocks Exposure Your stocks are Rs?2.44 lakh. Direct equity without constant tracking adds risk. Avoid adding more stocks for now. Consider shifting some equity into actively managed mutual funds. This gives better diversification and professional oversight. ? Goal: Build Long-Term Corpus Your long-term goal is financial independence. You also think of a second home eventually. Set time horizon: say 1015 years for home and retirement. Once emergency fund is built, increase SIPs to Rs?25,00030,000 monthly. Allocate across flexi-cap, balanced advantage, and moderate small-cap. Use regular plans via a Certified Financial Planner for guidance. ? Home Loan Dynamics EMI is high, but parents fund part of it. EMI remains manageable vs your disposable income. Prepayment shouldnt be rushed. Focus on increasing investments first. When surplus grows, you can prepay in parts. This reduces loan term gradually without sacrificing flow. ? Planning for Second Home Particle planning is fine once emergency fund is ready. Given your EMI, rent, and savings capacity, wait 23 years. In that time, grow collateral through mutual funds. Aim for 2030% down payment ready in 3 years. Avoid new home loan stress early in your journey. ? Mutual Fund Strategy and Structure Avoid index funds; they are passive and offer no downside buffer. Actively managed funds help manage risk dynamically. Stay invested through market cycles. Use regular plan via CFP or MFD to get review, not direct plans. Small-cap funds remain part of your portfolio, but reduce weight to 20% of equity. Add 40% in large/multi-cap and 40% in balanced advantage/flexi-cap funds. ? Monthly Investment Roadmap Start with this structure after emergency fund is strong: Flexi/Multi-Cap Fund: Rs?10,000 monthly Large-Cap/Split between two funds: Rs?8,000 Small-Cap Fund: Rs?5,000 Balanced Advantage Fund: Rs?7,000 This gives equity allocation of ~Rs?30,000.Add liquid fund SIP of Rs?10,000 until emergency corpus is fully built.Shift RD gradually into these SIPs. ? Emergency Fund SIP vs RD Replace RD of Rs?3,000 monthly into liquid fund SIP. Add Rs?7,000 extra to reach emergency goal sooner. After emergency corpus is Rs?7 lakh, stop RD and continue equity SIPs. ? Debt Allocation for Short-Term Needs Keep Rs?20,000 monthly in liquid or short-term debt fund. This ensures liquidity and better returns than bank FD. Use it for

Sale / CII of Year of Improvement)The CII for FY 2024-25 (AY 2025-26) is 363, as notified by the CBDT. Using this cost inflation index table allows taxpayers to get a fair picture of their real gains, not just the nominal profit which doesn't account for rising prices over time. Remember, Budget 2024 has introduced changes where for certain transactions, this indexation benefit might not be available, or an alternative lower tax rate without indexation is offered.Here is a Cost Inflation Index Table for some recent years:Cost Inflation Index (CII)The applicable capital gains tax rate India for FY 2024-25 (AY 2025-26) depends on whether the gain is Short-Term Capital Gain (STCG) or Long-Term Capital Gain (LTCG). These Tax Rates also involve a Surcharge (if your income is very high) and a 4% Health and Education Cess on the tax amount. The Budget 2024 has brought significant changes to the LTCG tax rate property, offering new options for taxpayers. The property tax rates 2024-25 for capital gains need careful understanding due to these updates.The short term capital gain tax rate property is determined by adding the STCG to your total taxable income for the financial year. This total income (including the STCG) is then taxed at the Income Tax Slab Rates applicable to you. So, there isn't a special flat rate for STCG on property; it just gets clubbed with your other income like salary, business profit, etc., and taxed as per the regular slab system. You should check the applicable income tax slab rates for FY 2024-25 to see which bracket your income falls into. The tax on STCG India from property can vary greatly from person to person based on their total income level.The LTCG tax rate for property has seen important updates in Budget 2024. The tax on long term capital gain from property now depends on when the property was sold and, in some cases, when it was acquired.Here's a breakdown of the LTCG new tax rate:Properties sold on or before July 22, 2024:These are taxed at 20% with the benefit of Indexation.Properties sold on or after July 23, 2024:If the property was acquired before July 23, 2024: The taxpayer has an option to choose the lower of:20% tax with Indexation Benefit, OR12.5% tax without Indexation Benefit.If the property was acquired on or after July 23, 2024: The tax rate is 12.5% without Indexation Benefit.These capital gains tax budget 2024 changes aim to simplify the tax structure while offering choices. The 20% vs 12.5% LTCG decision for properties acquired before July 23, 2024, and sold after that date will require careful calculation to see which option is more beneficial.On top of the calculated tax (whether 20% or 12.5%), an applicable Surcharge (if your total income exceeds certain thresholds) and a 4% Health and Education Cess will be levied on the income tax amount. It's crucial to consider these dates and acquisition details to apply the correct tax rate.LTCG Tax Rate Decision Matrix (Property Sold on or after July 23, 2024)Acquisition Date of PropertyOn or after July 23, 2024Choose lower of: (a) 20% OR (b) 12.5%On or after July 23, 2024On or after July 23, 2024A capital gains tax calculator India can be a handy tool. This property tax calculator or LTCG calculator helps you estimate your potential Tax Liability Estimate from selling a property. By inputting details like Sale Price, Purchase Price, purchase and sale Dates, cost of improvements, and any applicable Exemptions, you can get a rough idea of your tax.Asset Type: Residential Property, Other PropertyDate of Purchase: (DD/MM/YYYY)Purchase Cost: (INR)Date of Sale: (DD/MM/YYYY)Sale Consideration: (INR)Cost of Improvements (with year of improvement if LTCG): Add multipleExpenses on Transfer: (INR)Option to select applicability of Budget 2024 rules: (Auto-determined based on dates is preferable)Checkbox/dropdown for considering exemptions: (e.g., Section 54, Section 54EC, Section 54F)Holding PeriodType of Gain (STCG/LTCG)Indexed Cost of Acquisition/Improvement (if LTCG and applicable)Taxable Capital GainEstimated Tax (showing options if applicable, e.g., 20% with indexation vs 12.5% without)Brief note on how selected exemptions might impact the gain.Using such a tool can simplify the initial understanding of your tax outgo.You can save capital gains tax on property by using various Tax Exemptions available under the Income Tax Act. These capital gains tax exemptions India allow you to reduce your taxable capital gains if you meet specific conditions, often involving reinvesting the sale proceeds. The most commonly used sections for property sale tax saving are Section 54, Section 54EC, Section 54F, and Section 54B. Sometimes, you might need to use the Capital Gains Account Scheme (CGAS) temporarily.It's important to know that these exemptions are subject to specific conditions and timelines. Also, Budget 2023 introduced a potential cap of 10 crore on the deduction that can be claimed under sections like 54 and 54F for investments made on or after April 1, 2023. This means if your cost of the new asset (for Section 54) or the amount of capital gain (for Section 54F if the new asset's cost is higher) is more than 10 crore, the exemption will be limited to 10 crore.The section 54 income tax actprovides an exemption if you sell a long-term residential house and reinvest the capital gains into another residential house. This capital gains exemption section 54 is available to an Individual or a HUF (Hindu Undivided Family). To avail this, you need to buy new house to save capital gains.Key conditions for Section 54 exemption:Asset Sold: Must be a Long-Term Residential House (house or flat).Investment In: One or two new residential houses in India.You can invest in two new residential houses if the capital gain is less than or equal to 2 crore. This option can be exercised only once in a lifetime.Timelines for New House:Purchase: Within 1 year before the date of sale or 2 years after the date of sale of the old house.Construction: Within 3 years after the date of sale of the old house.Amount of Exemption: The lower of the capital gain amount or the cost of the new residential house. If you invest the entire capital gain, the whole gain is exempt. If you invest only a part, the exemption is proportionate.Lock-in for New House: You must not sell the new house within 3 years of its purchase or construction. If you do, the previously claimed exemption will be taxed as income in the year of sale of the new house.Capital Gains Account Scheme (CGAS): If you cannot buy or construct the new house before the due date of filing your Income Tax Return (ITR) for the year the old house was sold, you must deposit the unutilized capital gain amount into an account under the Capital Gains Account Scheme (CGAS) with a specified bank. You can then withdraw this amount to buy or construct the new house within the specified timelines.10 Crore Cap: As per Budget 2023, for investments made in a new residential house on or after April 1, 2023, if the cost of the new house exceeds 10 crore, the exemption under Section 54 will be capped at 10 crore.The section 54ec bonds offer a way to get capital gains exemption bonds when you sell a long-term capital asset, specifically land or building or both. This exemption is available to any assessee (Individual, HUF, company, etc.).Key conditions for Section 54EC exemption:Asset Sold: Must be a Long-Term Capital Asset, being land or building or both.Investment In: Specified bonds issued by entities like the National Highways Authority of India (NHAI), Rural Electrification Corporation (REC), Power Finance Corporation (PFC), or Indian Railway Finance Corporation (IRFC). These bonds are redeemable after 5 years.Maximum Investment: You can invest a maximum of 50 lakhs from the capital gains in these bonds in a financial year. This limit applies to the financial year of sale and the subsequent financial year if the 6-month investment window spans across two financial years.Time Limit for Investment: The investment must be made within 6 months from the date of sale of the asset.Amount of Exemption: The lower of the capital gain amount or the amount invested in the bonds.Lock-in for Bonds: The bonds have a lock-in period of 5 years. You cannot sell or take a loan against these bonds during this period. If you do, the exemption claimed will be revoked.These NHAI REC bonds for capital gain (and bonds from PFC, IRFC) are popular options. Remember the 50 lakh investment cap per financial year.The section 54f income tax act provides an exemption if an Individual or HUF sells any Long-Term Capital Asset (other than a residential house, e.g., plot of land, shares, gold) and invests the Net Consideration in one new Residential House in India. This capital gains exemption section 54f helps when you diversify your investments into residential property.Key conditions for Section 54F exemption:Asset Sold: Any Long-Term Capital Asset other than a residential house.Investment In: One new residential house in India.Timelines for New House:Purchase: Within 1 year before or 2 years after the date of sale of the original asset.Construction: Within 3 years after the date of sale of the original asset.Reinvestment Amount: To get full exemption of capital gains, the entireNet Consideration (sale proceeds minus expenses on transfer) from the sale of the original asset must be invested in the new residential house.Condition on Owning Other Houses: On the date of transfer of the original asset, the taxpayer should not own more than one residential house (other than the new one being purchased/constructed).Amount of Exemption:If the cost of the new house is equal to or greater than the Net Consideration, the entire capital gain is exempt.If the cost of the new house is less than the Net Consideration, the exemption is proportionate: Exemption = (Capital Gains * Amount Invested in New House) / Net ConsiderationLock-in for New House: The new residential house must not be sold within 3 years of its purchase or construction. If sold, the exempted capital gain becomes taxable. Also, within these 3 years, you should not purchase another residential house (apart from the new one) or construct one (apart from the new one, if construction began earlier).CGAS Applicable: The Capital Gains Account Scheme (CGAS) provisions apply if the net consideration is not invested before the ITR filing due date.10 Crore Cap: Effective from April 1, 2023 (AY 2024-25), the maximum deduction that can be claimed under Section 54F is capped at 10 crore, even if the net consideration reinvested leads to a higher proportionate exemption. So, if the cost of the new house results in an exemption calculation greater than 10 crore, it will be restricted to 10 crore.Understanding the "net consideration" reinvestment rule is critical for Section 54F.The section 54b capital gains exemption is for taxpayers (individuals or their parents) who sell Agricultural Land that was used for agricultural purposes for at least two years immediately before the sale. To claim this agricultural land capital gain tax exemption, the taxpayer must reinvest the capital gain amount in another agricultural land (urban or rural) within two years from the date of sale of the original land.Key points for Section 54B:Eligible Assessee: Individual or HUF.Asset Sold: Agricultural land (can be short-term or long-term, but the land must have been used for agricultural purposes by the individual or their parents for at least 2 years immediately preceding the date of transfer).Investment In: New agricultural land in India.Time Limit for Reinvestment: Within 2 years from the date of sale.Amount of Exemption: Lower of the capital gain or the cost of the new agricultural land.Lock-in for New Land: If the new agricultural land is sold within 3 years of its purchase, the previously claimed exemption will be revoked and taxed.CGAS Applicable: The Capital Gains Account Scheme can be used if the reinvestment is not made before the ITR filing due date.This section specifically helps farmers and those involved in agriculture to continue their activities without being burdened by tax on the sale of their operational lands, provided they reinvest in similar land.The CGAS scheme, or Capital Gains Account Scheme, 1988, is a provision that helps taxpayers claim exemptions under Section 54 or Section 54F even if they haven't purchased or constructed the new asset before the due date for filing their Income Tax Return (ITR). The purpose of the capital gains deposit scheme is to provide taxpayers more time to find and invest in a suitable property without losing the tax benefit.If the time limit for investing in a new house (under Sec 54) or reinvesting the net consideration (under Sec 54F) has not expired, but the ITR filing due date for the year of sale has arrived, the taxpayer can deposit the unutilized capital gain (for Sec 54) or the unutilized net consideration (for Sec 54F) into a Capital Gains Account Scheme (CGAS) with Specified Banks (usually public sector banks and certain other banks authorized by the government).This deposit must be made before filing the ITR or the due date of filing the ITR, whichever is earlier.The amount deposited in the CGAS account must then be utilized to purchase or construct the new residential house within the original time limits specified under Section 54 or Section 54F (i.e., 2 years for purchase or 3 years for construction from the date of sale of the original asset).Consequences of Non-Utilization/Partial Utilization:If the amount deposited in CGAS is not utilized fully or partially within the stipulated period, the unutilized amount will be treated as taxable capital gains in the financial year in which the specified period (2 or 3 years, as applicable) expires.Taxpayers should be diligent about the timelines for utilization from the CGAS. You can find more about the Capital Gains Account Scheme, 1988 rules on official government portals. (Note: A direct link to CGAS rules might be on RBI or Income Tax Department sites, but a general Act link is provided as per outline).When you receive an Inherited Property, there is no capital gains tax on inherited property India at the moment of inheritance. The tax liability arises only when the inheritor decides to sell this property. For calculating capital gains, the Cost to Previous Owner (the person from whom the property was inherited) is taken as the Cost of Acquisition for the inheritor. Similarly, the Holding Period for determining whether the gain is short-term or long-term includes the period for which the property was held by the previous owner.If the previous owner had acquired the property before April 1, 2001, the inheritor can choose the Fair Market Value as on April 1, 2001, or the actual cost to the previous owner, whichever is higher, as the cost of acquisition. The indexation benefit, if applicable for LTCG, will also be calculated from the year the previous owner first held the asset or from FY 2001-02 if the FMV option is chosen. These provisions ensure that the inheritor is not unfairly taxed and that the inflationary effects over the entire holding period (including the previous owner's) are considered for LTCG. The tax on selling inherited house will follow the normal STCG or LTCG rules once the gain is computed.The NRI capital gains tax India property rules have specific considerations for Non-Resident Indians (NRIs). When an NRI sells property in India, the buyer is mandatorily required to deduct TDS (Tax Deducted at Source) under Section 195 of the Income Tax Act. The TDS rate for LTCG is generally 20% (plus applicable surcharge and cess). For STCG, if it's taxed at slab rates, the TDS might be at 30% (plus applicable surcharge and cess) or as per the rates in force. The buyer must deposit this TDS with the government.NRIs can apply for a Lower TDS Certificate from the Income Tax Department if their actual tax liability is expected to be lower than the standard TDS rate. NRIs are also eligible to claim exemptions under Section 54, Section 54EC, and Section 54F, provided they fulfill all the conditions, including reinvestment in India as specified in those sections. For example, for Section 54, the new residential property must be purchased or constructed in India.The Budget 2024 LTCG rate changes (option of 12.5% without indexation vs. 20% with indexation for properties acquired before July 23, 2024 and sold on or after that date) would also apply to NRIs if they are resident individuals or HUFs for the purpose of that specific option as per the fine print of the law (the search snippets indicate this option for resident individuals/HUFs for property acquired before 23 July 2024). Otherwise, the standard LTCG rate of 20% (with indexation, if applicable before the Budget 2024 cut-off for universal removal of indexation) or 12.5% (without indexation, post Budget 2024 changes) would apply. NRIs should check the provisions of any applicable Double Taxation Avoidance Agreements (DTAA) between India and their country of residence, which might offer some relief. For specialized help, NRIs might consider NRI taxation services.For capital gains on jointly owned property, the calculation and taxation are done individually for each co-owner based on their respective Ownership Share in the property. When a jointly owned property is sold, the capital gain is first calculated for the entire property. Then, this total gain is divided among the Co-owners according to their share as specified in the property documents (e.g., sale deed or agreement).Each co-owner will then report their portion of the capital gain in their individual income tax return. The nature of the gain (short-term or long-term) will be the same for all co-owners, determined by the total holding period of the property. Importantly, each co-owner can individually claim tax for co-owners property sale exemptions under sections like Section 54, 54EC, or 54F based on their share of the capital gain and their fulfillment of the reinvestment conditions for that specific exemption. For example, if there are two co-owners with a 50% share each, and one co-owner reinvests their share of the capital gain into a new house under Section 54, they can claim the exemption for their portion of the gain, irrespective of what the other co-owner does.You must report capital gains in ITR (Income Tax Return) for the financial year in which the property sale took place. The relevant ITR form for property sale is typically ITR-2 (for individuals and HUFs not having income from business or profession) or ITR-3 (for individuals and HUFs having income from business or profession). These forms have specific schedules (like Schedule CG) to report capital gains details.To how to claim capital gain exemption in ITR, you need to provide details of the sale, the calculation of capital gains, the specific exemption section you are claiming (e.g., Section 54, 54EC, 54F), and the amount of investment made to claim that exemption. Fill out the respective schedules in the ITR form accurately. It is very important to maintain all supporting documents related to the property transaction and reinvestments. This includes the purchase deed of the old property, sale deed of the old property, proofs of expenses on transfer, cost of improvement proofs, purchase deed of the new asset (if claiming exemption), proof of investment in specified bonds, and bank account statements showing transactions related to the Capital Gains Account Scheme (CGAS), if applicable. Keeping these documents organized will be crucial if the Income Tax Department asks for clarifications or conducts scrutiny. When you File your Income Tax Return, ensure all information is correctly reported.Checklist of Important Documents to Keep:Purchase agreement/deed of the original property.Sale agreement/deed of the original property.Receipts for stamp duty and registration charges (for both purchase and sale).Bills and receipts for any cost of improvement.Receipts for expenses incurred on transfer (brokerage, legal fees).Purchase agreement/deed of the new property (if claiming exemption under Sec 54/54F).Proof of investment in specified bonds (e.g., bond certificates for Sec 54EC).Bank statements related to CGAS deposit and withdrawal.Valuation report (if FMV as on April 1, 2001, is considered).Proof of share in property (for jointly owned property).To conclude, understanding property sale tax planning is key. Knowing if your profit is STCG or LTCG, calculating it correctly, and using available Exemptions can make a big difference to your tax outgo. Capital gains compliance is essential, especially with the recent Budget 2024 changes affecting LTCG tax rates and indexation benefits.The rules for capital gains tax can seem a bit complex with various conditions and timelines for exemptions. Therefore, planning your property sale and subsequent reinvestments in a timely manner is very important. Professional advice can be highly beneficial to ensure you comply with all regulations and make the most of tax-saving opportunities. If you need help with your capital gains tax calculation or ITR filing, TaxBuddy experts are here to assist you. Consult with a TaxBuddy expert.For immovable property like a house or land, if you hold it for more than 24 months, it is considered long-term.No, the indexation benefit is not available for calculating Short-Term Capital Gains (STCG). It is only available for Long-Term Capital Gains (LTCG) under certain conditions.The Cost Inflation Index (CII) for FY 2024-25 (AY 2025-26) is 363.No, to claim exemption under Section 54, the new residential house property must be purchased or constructed in India.You can invest a maximum of 50 lakhs in specified bonds under Section 54EC in a financial year from your long-term capital gains.If you sell the new house (purchased or constructed by claiming Section 54 exemption) within 3 years of its purchase or completion of construction, the previously claimed capital gains exemption will be revoked. The amount of gain that was originally exempted will be considered as income (capital gain) in the year you sell the new house.Generally, Goods and Services Tax (GST) is not applicable on the sale of a completed residential house (i.e., a house that has received a completion certificate) by an individual who is not in the business of construction or property dealing. GST usually applies to under-construction properties.If you received property as a gift, there is no tax at the time of receiving the gift from specified relatives. However, when you sell this gifted property, capital gains tax will apply. The cost of acquisition for you will be the cost for which the previous owner acquired it. The holding period will also include the period the previous owner held the property.Yes, if your total advance tax liability (after considering TDS) for the year is likely to be 10,000 or more, you are required to pay advance tax. Capital gains should be included in your income estimate for advance tax calculation for the quarter following the gain.If you reinvest only a portion of the capital gain under Section 54, the exemption will be limited to the amount you have reinvested in the new residential house. The remaining portion of the capital gain will be taxable.Yes, Non-Resident Indians (NRIs) can claim exemption under Section 54EC by investing their long-term capital gains from the sale of land or building in India into specified bonds, provided they meet all other conditions of the section.Budget 2023 introduced a cap of 10 crore on the maximum deduction that can be claimed under Section 54 and Section 54F for investments made in a new residential property on or after April 1, 2023 (AY 2024-25). If the cost of the new asset or the eligible reinvestment amount leading to exemption exceeds 10 crore, the exemption will be limited to 10 crore.Yes. A Short-Term Capital Loss (STCL) can be set off against any Short-Term Capital Gain (STCG) or Long-Term Capital Gain (LTCG). A Long-Term Capital Loss (LTCL) can only be set off against LTCG. Unadjusted losses can be carried forward for up to 8 assessment years.Not paying applicable capital gains tax can lead to consequences like interest on the unpaid tax amount, penalties levied by the Income Tax Department, and potentially legal proceedings or prosecution.Typically, individuals and HUFs who do not have income from business or profession should use ITR-2 to report capital gains from property. If you have income from business or profession along with capital gains, you would generally use ITR-3.TaxationFinanceCapital gain taxGet Expert Consultation Now Summary: Purchasing immovable property in India involves various tax considerations under the Income Tax Act, 1961, and Goods and Services Tax (GST). Section 194-IA mandates buyers to deduct 1% TDS on property transactions exceeding 50 lakh, with higher deductions at 20% if the sellers PAN is unavailable. TDS must be deposited via Form 26QB within 30 days, followed by issuing Form 16B to the seller. Non-compliance attracts penalties, including late fees and interest.GST applies to under-construction properties but not to completed ones. Affordable housing attracts 1% GST, while non-affordable projects incur 5%, and commercial properties face 12%. Input Tax Credit (ITC) is generally unavailable for immovable property but allowed in specific cases, such as for plant and machinery.For sellers, tax treatment depends on the holding period. Short-term capital gains are taxed as per income slabs, while long-term gains offer indexation benefits at 20% or a lower rate of 12.5% for certain transactions. Registrars must report transactions above 30 lakh to tax authorities, increasing scrutiny on compliance.Understanding these provisions and consulting tax experts can help buyers and sellers navigate financial complexities, ensure compliance, and optimize outcomes in property transactions.Introduction The purchase of immovable property is not just a strategic investment but also a transaction laden with tax implications under various provisions of the Income Tax Act, 1961. Beyond the cost of acquisition, person must navigate taxes such as Tax Deducted at Source (TDS), and Goods and Services Tax (GST), depending on the nature and value of the property. Applicability of Income Tax Act,1961 on purchase and sale of Immovable PropertyIf a buyer purchases immovable property from seller whose value exceeds Rs 50 lakh then buyer is liable to follow the provisions of Section 194-IA of the Income Tax Act, 1961.Before moving towards Instructions of Section 194 IA lets understand some terms1. Immovable Property: Immovable property includes both Residential Immovable property and Commercial immovable property except agriculture land.2. Seller: -Seller includes Resident Individual, Hindu Undivided Family (HUF) and Builders as well.3. Buyer Any personSection 194-IA mandates that the Buyer deduct TDS at 1% of the propertys sale value provided its value or consideration exceeds Rs 50 lakhs. However, if there is more than 1 seller or buyer then the consideration shall be calculated by aggregating the amount paid or payable by all the buyers to the seller or sellers.If the PAN of the seller is not available or is inoperative, then Buyer shall deduct TDS at 20% of the propertys sale value. If the payments are made in instalments, then TDS has to be deducted on each instalment paid.Time Limit to pay TDS in respect of Immovable propertyThe TDS on the immovable property has to be paid using Form 26QBwithin 30 days from the end of the month in which TDS was deducted. After depositing TDS to the government, the buyer is required to furnish the TDS certificate in form 16B to the seller. This is available around 10-15 days after depositing the TDS.Interest, Penalty & late fees for non-deducting or non-depositing TDS to GovernmentThere are different types of penalties levied under section 194-IA which are as follows: Late filing Fee:-If a person fails to file TDS return on time then penalty of Rs 200 per day under section 234E until the fee equals the TDS amount.Interest for Delays: 1. TDS not deducted on time: If a person fails to deduct TDS at time of payment then penalty of 1% per month from the date on which TDS supposed to deduct until the day on which TDS is actually deducted.2. TDS not deposited on time:-If person fails to deposit TDS within time then penalty of 5% per month or part of the month is levied from the date of deduction to the date of deposit.For better understanding it is presented in following tabular form-:CategoryPenalty DetailsLate Filing FeeRs. 200 per day until the fee equals the TDS Amount.Interest for Delay1% per month for late deduction.1.5% per month for late payment.Additional PenaltiesFrom Rs 10,000 to Rs 1,00,000 for non-filing or errors in the TDS statement levied by Assessing officer as per Section 271HSpecified Financial Transaction Reporting (SFT Reporting) in case of purchase and sale of immovable propertyIf a person buys an immovable property for Rs 30 lakh or more, then it is the duty of the registrar to provide the details of the person who carried out these transactions to the Income Tax Department by filing Form SFT-012. Once this information reaches the Income Tax Department, it is shown in the 26AS, and the department waits until the treatment is done by the assessee in his ITR. If the department is not satisfied with the treatment by the assessee, then the department may issue a notice and ask for information regarding this transaction. Therefore, it is also advisable to consult a tax expert before entering into a transaction of purchasing or selling immovable property, so that no consequences have to be suffered in the future.Tax implication in case of sale of Immovable PropertyIf a person sells immovable property and it result in Short Term Capital Gain (STCG) i.e. sold within 24 months, then it is taxable at the rate of slab rate.If a person sells immovable property and it result in Long Term Capital Gain (LTCG) i.e. sold after 24 months, then assessee has two option for this which are as follows-:ParticularsOption 1 (With Indexation)Option 2 (Without Indexation)Indexation BenefitYesNoTax Rate20%12.5%*However for sale of Land and Building after 23rd July 2024 taxpayer has either of the above options to opt (However, this option is restricted for purchase made on or before 22nd July, 2024) If the property is purchased on or after 23rd July 2024 and sold thereafter, then Option 2 is applicable.Applicability of Goods & Service Tax (GST) on purchase and sale of Immovable PropertyNot only Income Tax Act, 1961 are applicable when the immovable property is purchased, rather Goods and Services Tax (GST) also implicated with some exceptions.Immovable property under construction intended for sale, is considered for supply of services under Goods and Services Tax (GST). On the other hand, if the immovable property is complete or we can say ready to sale then it is exempt from Goods and Services Tax (GST).As per paragraph 5(b) of Schedule II of the CGST/IGST Act, supply of services is defined as the construction of a complex, building, civil structure, or a part of it, which is meant for sale wholly or in part. However, if full consideration is received after the issuance of the certificate of completion, it is not considered a supply of services and is exempt from GST.Example: If a buyer purchases any immovable property which was under construction and buyer made any payment to the seller before the issuance of completion certificate from the competent authority then it is considered as supply of services under Goods and Services Tax (GST). On the other hand, if payment is made after the issuance of completion certificate then it is exempt from GST.Rates of GST applicable on on purchase and sale of Immovable PropertyThere are majorly two types of immovable properties on which different GST rates are applicable are: 1. Residential Property: It is any property used or meant to be used as a residence.Further Residential properties sub categorised into two types of projects on which different types of GST rates are applicable.a) Affordable apartment housing projects: Affordable housing projects is defined as residential properties that has> A carpet area of 60 square metres in metro cities and 90 square metres in non-metro cities, and> Maximum amount of Rs. 45 lakhs for both cases The Rate of GST applicable on affordable apartment housing projects are %1b) Non- Affordable apartment housing projects: If any of the above conditions are not complied then such project is known as non- affordable apartment. The Rate of GST applicable on non-affordable apartment housing projects are 5%2. Commercial Property: It can be defined as any real estate property that is used or intended to be used for commercial purposes, including industrial, retail, office, and hospitality properties. The Rate of GST applicable on commercial properties is 12%.Summary of GST Rates are as follows-:Property TypeRate of GST applicableResidential Property (Affordable)1 %Residential Property (Non-Affordable)5 % (without ITC)Commercial Property12 % (with ITC)Availability of Input Tax Credit (ITC) in case of Immovable PropertySection 17(5)(c) of CGST/IGST Act, 2017 deals with availability of Input Tax credit on work contract services for construction of immovable property.Work contract means a contract for building, construction, fabrication, completion, erection, installation, fitting out, improvement, modification, repair, maintenance, renovation, alteration or commissioning of any immovable property wherein transfer of property in goods (whether as goods or in some other form) is involved in the execution of such contract.ITC is blocked on input service relating to construction activity like office building, factory, building etc.ITC on work contract services of immovable property is available only in the following three situations-:When the value of works contract service is not capitalized or we can say it is debited to Profit of loss A/c. Whether the value of work contract service is capitalized or not are depends on Accounting Standard 10 and Ind AS 16 as the case may be.When the works contract service is availed by a work contractor for being used in providing in furtherance of business of the work contract service.When the Work contract services are availed for construction of Plant and machinery*. In this case ITC is allowed to all recipients irrespective of their line of business.*Plant and machinery means apparatus, equipment, and machinery fixed to earth by foundation or structural supports that are used for making outward supply of goods and/or services and includes such foundation or structural support.*Above definition of plant and machinery excludes: Land, building or other civil structures,Telecommunication towers and,Pipelines laid outside the factory premises.Further as per Section 17(5)(d) of CGST/IGST Act, 2017, ITC is not allowed on goods or services or both received by a taxable person for construction of an immovable property (other than plant or machinery) on his own account including when such goods or services or both are used in the course or furtherance of business. The Phrase on his own account means activities undertaken by the taxable person for self-use or for their own benefit rather than resale or as part of providing a taxable supply. In other words, on his own account means that construction of immovable property is carried for the taxpayer own business purpose such as office building, factory or warehoulse. Therefore, if above goods or services taken by taxable person for making same category of further taxable supply then ITC shall be allowed. Also if amount of expenditure is debited to profit or loss account then ITC shall be allowed.* For the purposes of clauses (c) and (d), the expression construction includes re-construction, renovation, additions or alterations or repairs, to the extent of capitalisation, to the said immovable property;As per latest SC Judgement (Chief Commissioner of Central Goods and Services & Ors. v. M/s. Safari Retreats Private Limited & Ors.,) if any commercial building is constructed for letting or renting out purpose, same shall be considered as Plant & Machinery accordingly ITC is not blocked.ConclusionThe purchase of immovable property involves substantial financial commitment, accompanied by complex tax considerations. Proper planning and awareness of tax provisions such as deductions, exemptions, and compliance requirements can help buyers and sellers optimize their financial outcomes. By understanding the tax implications, buyers can approach property transactions with confidence, ensuring compliance, financial efficiency and long term benefits. Consulting with tax expert is highly recommended to navigate these complexities effectively and avoid pitfalls. The sale of property in India has tax implications which depend on various factors like the type of property, holding period, and the residential status of the seller. Basically, it attracts capital gains tax. Following is an overview: 1. Nature of Capital Gains Holding period i.e. ownership period of the property determines the nature of capital gains Short-term Capital Gains (STCG): If the property is held for 24 months or less, the gains are treated as STCG and taxed at the applicable slab rate of the seller. Long-term Capital Gains (LTCG): If the holding period of the property is more than 24 months, the gains are treated as LTCG and taxed at 12.5% without the benefit of indexation. If the property is purchased on or before 22nd July 2023 the seller has option of choosing 20% taxation with indexation benefit. One can choose the more beneficial option between the two. This option is not available for property purchased on or after 23rd July 2023. 2. Computation of Capital Gains Long Term Full Value of Consideration: The sale price of the property. Less: Indexed Cost of Acquisition/Improvement (for LTCG): Cost of acquisition or improvement adjusted for inflation using the cost inflation index (CII). Or Actual cost of acquisition as per the option selected Less: Expenses on Transfer: Brokerage, legal fees, etc. Net Capital Gains: The taxable amount Short Term Full Value of Consideration: The sale price of the property. Less: Actual cost of acquisition Less: Expenses on Transfer: Brokerage, legal fees, etc. Net Capital Gains: The taxable amount 3. Exemptions from Long-Term Capital Gains The following exemptions are available to save on LTCG tax: Section 54: Exemption for reinvestment in another residential property within specified period. Section 54EC: Investment in bonds of NHAI, REC, etc., within six months of transfer. Section 54F: Applicable for sale of assets other than residential property if proceeds are invested in a residential house. The specified period for Sections 54 and 54f is 1 year before the date of sale/transfer or 2 years after the date of sale/transfer in case of house is purchased. In case the seller is constructing a house, the seller has an extended time, i.e. the seller will have to construct the residential house within 3 years from the date of sale/transfer. Note: The exemption u/s 54 and 54F can be claimed maximum up to 10 crores as per amendments brought in by the Budget 2023 4. TDS (Tax Deducted at Source) Applicability The buyer must deduct 1% TDS under Section 194-IA if property value exceeds 50 lakh For non-resident sellers, the TDS rate is 20% 5. Tax Implications for Non-Residents Capital Gains from property sale by non-residents are subject to TDS: 20% for LTCG. Higher applicable slab rate for STCG. 6. Special Considerations for determination of sales value Stamp Duty Valuation: If the sale consideration is less than the stamp duty value, the latter is deemed to be the sale price for tax calculation. Joint Ownership: Each co-owner is taxed as per their respective share of the gains. For tax filing purposes following documents are required to be kept by the seller: Sale/ purchase deeds Record of improvement costs incurred with receipt Receipts of advance received if any for transaction If property is purchased before 1-4-2001, its valuation as on 1-4-2001 by a registered valuer The author is a practicing Chartered Accountant at Chhatrapati Sambhajinagar (MH)

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