

Relaxation in LTCG on Residential Property Sale

Why in news?

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A proposal was made in 2019 Budget to relax the condition required for saving on long term capital gains (LTCG) made on the sale of a residential property.

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What is the current norm under Sec 54 of IT Act?

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- Gain from sale of a residential property (land, house or apartment) within 2 years of its purchase is considered short-term capital gain (STCG).

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- After two years, the gain is considered long-term capital gains (LTCG).

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- While STCG is taxed at the slab rate, LTCG is taxed at the rate of 20.6% (including cess) with indexation done for property (by applying CII (cost inflation index)).

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- So currently, Section 54 of the Income-tax Act, 1961 offers a benefit of rollover of capital gains on sale of property.

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- This means that the otherwise taxable proceeds (from sale of property) is allowed to be reinvested (rolled over) within a specified time and with certain preconditions, for exemption from capital gains tax.

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- Under this, LTCG arising from the sale of an immovable property is exempt from tax if the profit is reinvested in a single property or other specified instruments, within the stipulated timeline.

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- The assessee needs to buy the new property within 1 year before the date of transfer of the property or 2 years after the transfer.

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- In case of under-construction properties, the construction needs to be completed within 3 years from the date of transfer.

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- However, if the person is unable to stick to these conditions, the amount may be deposited in a public sector bank (or other banks as per the Capital Gains Account Scheme, 1988).

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- Also, currently, the above exemption cannot be claimed for properties bought or constructed outside India.

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What is the relaxation made now?

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- The benefit of rollover of capital gains under section 54 of the IT Act will be now increased from investment in one residential house to two residential houses.

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- This will be applicable for a taxpayer having capital gains up to Rs 2 crore.

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- Also, this benefit can be availed only once in a life time.

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- So if one spreads out the capital gains in 2 different properties, the next time s/he has LTCG from sale of a house, s/he has to restrict only to one property to avail the benefit.

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Source: Financial Express, Livemint

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Quick Facts

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Tax Exemption, Deduction and Rebate

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- **Exemption** - While calculating tax liability, certain sources of income that are 'exempt' from tax are reduced from the salary or other income i.e. they are not considered for tax payment.

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- E.g. if a person avails House rent allowance (HRA), she can claim tax exemption on that component

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- **Deduction** - Besides, under section 80C, a deduction of Rs 1,50,000 can be claimed from total income, for investments made in LIC, PPF, Mediclaim, incurred towards tuition fees, etc.

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- After exemptions and deductions, what remains is the total income on which one pays the tax.

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- **Rebate** - Now, under Section 87A of the IT Act, if the annual income is less than 3 lakh (under the existing provisions), then a person can claim a 'rebate' of up to Rs 2,500.

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- **Illustration** - If a person earns Rs 5 lakh with HRA (House Rent Allowance) of Rs 50,000, after the 'exemption', her income will be 4.5 lakh rupees.

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- If we assume that under *Section 80C*, she has taken advantage of 'deduction' of Rs 1.5 lakh, then her total taxable income will be Rs 3 lakh.

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- Now as per the tax rate of 5%, she has to pay a tax of Rs 2,500.

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- But under the tax rebate provision, the person will not have to pay any (Rs. 2500) income tax as the taxable income was Rs 3 lakh.

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- So, in effect, tax exemption reduces the total taxable income itself.

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- On the other hand, a rebate offers relief in the amount of income tax that one has to pay after the tax calculation is done.

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