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INCOME-TAX ACT, 2025

E: Capital gains

Section 72 - Mode of computation of capital gains.

(1) Income chargeable under the head “Capital gains” shall be computed, by deducting from the full value of the consideration received or accruing as a result of the transfer of the capital asset, the following amounts:—

(a) expenditure incurred wholly and exclusively in connection with such transfer; and

(b) the cost of acquisition of the asset and the cost of any improvement thereto.

(2) For the purposes of item B of the formula in section 197(3), the provisions of sub-section (1) shall have effect as if for the words “cost of acquisition” and “cost of any improvement”, the words “indexed cost of acquisition” and “indexed cost of any improvement” had respectively been substituted.

(3) In computing the income chargeable under the head “Capital gains”, the following amounts shall not be allowed as a deduction:—

(a) the interest claimed as deduction under section 22(1)(b) or under Chapter VIII;

(b) any sum paid as securities transaction tax under Chapter VII of the Finance (No.2) Act, 2004.

(4) If a unit holder receives any amount from a business trust with respect to a unit that is not in the nature of income under Schedule V (Table: Sl. No. 3 or 4) and is not chargeable to tax under section 92(2)(k) or 223(2), then,––

(a) such amount shall be reduced from the cost of acquisition of such unit; and

(b) if the transaction of transfer of a unit is not considered as transfer under section 70 and cost of acquisition of such unit is determined under section 73, the amount received with respect to such unit before as well as after such transaction, shall be reduced from the cost of acquisition.

(5) In case of value of any money or capital asset received by a specified person from a specified entity, as referred to in section 67(10), the specified entity, in addition to deductions under sub-section (1), shall also be entitled to a deduction calculated in such manner, as may be prescribed for computing the amount chargeable to income-tax in its hands under that sub-section which is attributable to the transfer of such capital asset.

(6) In the case of an assessee, who is a non-resident, capital gains arising from the transfer of a capital asset being shares in, or debentures of, an Indian company (other than equity shares referred to in section 198) shall be computed––

(a) by converting the cost of acquisition, expenditure incurred wholly and exclusively in connection with such transfer and the full value of the consideration received or accruing as a result of the transfer of the capital asset into the same foreign currency as was initially utilised in the purchase of the shares or debentures; and

(b) the capital gains so computed in such foreign currency shall be reconverted into Indian currency, so, however, that the said manner of computation of capital gains shall be applicable in respect of capital gains accruing or arising from every reinvestment thereafter in, and sale of, shares in, or debentures of, an Indian company.

(7) In the case of an assessee who is a non-resident, any gains arising on account of appreciation of rupee against a foreign currency at the time of redemption of rupee denominated bond of an Indian

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company held by the assessee, shall be ignored for computing the full value of consideration under this section.

(8) For the purposes of this section,––

(a) “Cost Inflation Index”, in relation to a tax year, means such Index as the Central Government may, having regard to 75% of average rise in the Consumer Price Index (urban) for the immediately preceding tax year to such tax year, by notification, specify, in this behalf;

(b) “indexed cost of acquisition” means an amount which bears to the cost of acquisition, the same proportion as Cost Inflation Index for the year in which the asset is transferred bears to the Cost Inflation Index for the first year in which the asset was held by the assessee or for the year beginning on 1st April, 2001, whichever is later;

(c) “indexed cost of any improvement” means an amount which bears to the cost of improvement, the same proportion as Cost Inflation Index for the year in which the asset is transferred bears to the Cost Inflation Index for the year in which the improvement to the asset took place; and

(d) the conversion of Indian currency into foreign currency and the reconversion of foreign currency into Indian currency shall be at such rate of exchange as may be prescribed in this behalf.

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