



## TAX FAQs

**Q: Are any concessions available under the income tax laws with regard to profit on sale of residential property?**

**A:** Concession is available by way of exemption from income tax on capital gains arising on transfer of a residential property. The exemptions are provided in Sections 54 and 54EC of the Income-tax Act (the Act). The exemption is available on re-investment of the capital gains in specified assets by the assessee.

**Q:** Who is entitled to such concessions?

**A:** The exemption under Section 54 of the Act is available to an assessee who is either an individual or a Hindu Undivided Family (HUF). The exemption under Section 54EC is available to any assessee.

**Q:** Is there a minimum holding period for such property before transfer to be eligible for the concessions?

**A:** The residential property should be a long-term capital asset i.e. it should be held by the assessee for a period of 36 months, prior to the date of the transfer.

**Q:** What is the nature of assets in which the sale proceeds should be re-invested by the assessee to avail the exemption?

**A:** Under the provisions of Section 54 of the Act, the capital gains should be re-invested in the construction or purchase of another residential property. Under the provisions of Section 54EC of the Act, the capital gains should be re-invested in 'long-term specified asset'. For the purpose of this provision, long-term specified asset means any bond redeemable after 3 years, issued on or after 1 April 2000, by National Bank for Agriculture and Rural Development or by National Highways Authority of India.

**Q:** Is there any time limit for such investments to be made?

**A:** Under the provisions of Section 54 of the Act, the assessee should, within a period of one year before or 2 years after the date on which the transfer took place, have purchased or within a period of 3 years, after the date of transfer, constructed a residential house. Under the provisions of Section 54EC of the Act, the assessee should invest the capital gains in the specified capital asset, within a period of 6 months, after the date of such a such transfer.

**Q:** What are the restrictions on transfer of such newly acquired or constructed property or long-term capital asset?

**A:** Under Section 54 of the Act, there are no restrictions on transfer of such newly acquired or constructed property. Under Section 54EC of the Act, where the long-term capital asset is transferred or converted into money



at any time, within a period of 3 years, from the date of acquisition, the exemption stands withdrawn. The exemption under Section 54F of the Act stands withdrawn if the assessee transfers the residential property, within a period of 3 years of the purchase or construction.

**Q:** Are there any concessions in the income tax laws for investment of capital gains on transfer of any other capital asset if the gains are re-invested in a residential property? Is there any time limit for making such an investment?

**A:** Under Section 54F of the Income Tax Act, 1961 capital gains arising on transfer of any long-term capital (other than a residential property), would be exempt from income tax if the capital gain is re-invested in a residential property. The assessee should either (i) purchase a residential house within a period of one year before or two years after the date on which the transfer took place, or (ii) construct a residential house within a period of 3 years, after the date of transfer.

The exemption under this provision would however not be available if the assessee:-

- owns more than one residential house, other than the new asset, on the date of transfer of the original asset; or
- purchases any residential house, other than the new asset, within a period of one year after the date of transfer of the original asset; or
- constructs any residential house, other than the new asset, within a period of 3 years after the date of transfer of the original asset.

**Q:** How income from house property is taxed?

**A:** The annual value of house property owned by a person is charged to income tax as income from house property.

**Q:** What is the annual value of house property?

**A:** When the property is not let out: Annual value of a property means expected rent to be receivable from house property (fair rent) or municipal value, which is high. In short your annual rentable value as determined by the competent authority could be taken as annual value. When the property is let out: here, rent received or receivable is in excess of the sum mentioned above, then the rent so received or receivable shall be taken to be the annual value.

Where the property remains vacant for part of the year: here, the remains vacant for part of the year: Here, the rent actually received or receivable is less than expected rent, then rent actually received or receivable is taken as annual value of house property.

**Q:** How is the annual value of a self-occupied property computed?

**A:** The annual value of a self-occupied house or part of the house shall be taken to be nil if:

- It is in the occupation of the owner for the purposes of his own



residence

·It is not actually let during any part of the previous year and no other benefit there from is derived by the owner

Where a person owns two or more property then he has the option to declare any one of the property as self-occupied, in which case the annual value of said property shall be taken as nil. The annual value of the other house/houses will be computed as if the said house/houses were let out.