Capital gains exempt from tax

178. The Act grants total/partial exemption from capital gains tax in terms of sections 54, 54B, 54D, 54EC, 54EE, 54F, 54G, 54GA, 54GB and 54H. These provisions are explained in paras 179 to 185. It is possible to avail of multiple exemptions under these sections. However, the aggregate amount of exemption cannot exceed the quantum of capital gain amount of capital gain. In order to understand these provisions, it is advised that one should first refer to the table given below which summarises these provisions.

Different questions	*Section 54*	*Section 54B*	*Section 54D*	*Section 54EC*	*Section 54F*	*Section 54G*	*Section 54GA*
1. Who can claim exemption under these sections	Individual/Hindu undivided family	Individual/HUF	Any person	Any person	Individual/Hindu undivided family	Any person	Any person
2. Which capital asset — short-term or long-term is eligible for exemption	Long-term	Short-term/long-term	Short-term/long-term	Long-term	Long-term	Short-term/long-term	Short-term/long-term
3. Which specific asset is eligible for exemption	A residential house property	Agricultural land if it was used by the individual or his parents or HUF for agricultural purposes for at least 2 years immediately prior to transfer	Land or building forming part of an industrial undertaking which is compulsorily acquired by the Government and which is used for 2 years for industrial purposes prior to its acquisition	Land or building	Any long-term capital asset (other than a residential house property) provided on the date of transfer the taxpayer does not own more than one residential house property (except the new house as stated in *4 infra*).	Land, building, plant or machinery in order to shift an industrial undertaking from urban area to rural area	Land, building, plant or machinery in order to shift an industrial undertaking from urban area to any special economic zone
4. Which asset the taxpayer should acquire to get the benefit of exemption	Only one† residential house property in India	Agricultural land (maybe in rural area or urban area)	Land or building for industrial purposes	Bonds of National Highways Authority of India or Rural Electrification Corpn.	Only one residential house property in India	Land, building, plant or machinery in order to shift an undertaking to rural area.	Land, building, plant or machinery in order to shift an undertaking to any special economic zone
4.1 What is time-limit for acquiring the new asset‡	*Purchase*: 1 year backward or 2 years forward *Construction*: 3 years forward	2 years forward	3 years forward	6 months forward	*Purchase*: 1 year backward or 2 years forward *Construction*: 3 years forward	1 year backward or 3 years forward	1 year backward or 3 years forward
4.2 From which date the time-limit shall be determined	From the date of transfer of house property but in case of compulsory acquisition from the date of receipt of compensation	From the date of transfer of agricultural land	From the date of receipt of compensation	From the date of transfer of long-term capital asset but in the case of compulsory acquisition from the date of receipt of compensation	From the date of transfer of capital asset but in case of compulsory acquisition from the date of receipt of compensation	From the date of transfer	From the date of transfer

† If the amount of capital gain does not exceed Rs. 2 crore, the assessee can purchase/construct two residential house properties (from the assessment year 2020-21). However, this concession is available only once in lifetime.
‡ If time-limit expires during March 20, 2020 and June 29, 2020, it has been extended to June 30, 2020 by virtue of the Taxation and Other Laws (Relaxation of Certain Provisions) Ordinance, 2020.

Different questions	*Section 54*	*Section 54B*	*Section 54D*	*Section 54EC*	*Section 54F*	*Section 54G*	*Section 54GA*
5. How much is exempt	Investment in the new asset or capital gain, whichever is lower	Investment in the new asset or capital gain, whichever is lower	Investment in the new asset or capital gain, whichever is lower	Investment in the new asset or capital gain, whichever is lower (subject to maximum of Rs. 50 lakh - *see* para 182)	Investment in the new asset/net sale consideration × capital gain	Investment in the new asset or capital gain, whichever is lower	Investment in the new asset or capital gain, whichever is lower
6. Is it possible to revoke the exemption in a subsequent year	If the new asset is transferred within 3 years of its acquisition	If the new asset is transferred within 3 years of its acquisition	If the new asset is transferred within 3 years of its acquisition	If the new asset is transferred or it is converted into money or a loan is taken on security of the new asset within 3 years† of its acquisition	(*a*) If the new asset is transferred within 3 years of its acquisition, (*b*) if another residential house is purchased within 2 years of transfer of original asset, or (*c*) if another residential house is constructed within 3 years of the transfer of original asset	If the new asset is transferred within 3 years of its acquisition	If the new asset is transferred within 3 years of its acquisition
6.1 When the exemption is revoked it is taxable in the year in which the default is committed. What will be status of the notional income	Short-term capital gain	Short-term capital gain	Short-term capital gain	Long-term capital gain	Long-term capital gain	Short-term capital gain	Short-term capital gain
7. Whether scheme of deposit is applicable	*Yes*	*Yes*	*Yes*	*No*	*Yes*	*Yes*	*Yes*
7.1 What is the scheme of deposit	*See* Note *infra*	*See* Note *infra*	*See* Note *infra*	—	*See* Note *infra*	*See* Note *infra*	*See* Note *infra*

Note - ***Scheme of deposit*** - If the new asset is not acquired up to the due date of submission of return of income, then the taxpayer will have to deposit the money in "Capital gain deposit account scheme" with a nationalised bank. The proof of deposit should be submitted along with return of income. On the basis of actual investment and the amount deposited in the deposit account, exemption will be given to the taxpayer.

The taxpayer can acquire a new asset by withdrawing from the deposit account. But the new asset should be acquired within the time-limit mentioned in 4.1 *supra*. If the deposit account is not fully utilised for acquiring the new asset, the unutilised amount [but in case of section 54F it is unutilised amount/net sale consideration × capital gain] will become chargeable to tax in the previous year in which the specified time-limit [as mentioned in para 4.1 *supra*] expires [in case of sections 54 and 54F when the 3-year time limit expires]. It will be taxable as short-term/long-term capital gain depending upon the original capital gain. The unutilised amount can be withdrawn by the taxpayer after the expiry of the aforesaid time-limit.

Capital gains arising from transfer of residential house [Sec. 54]