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OPINION

Recently a query has been raised by certain persons, regarding the implications of *Shifting base year from 1981 to 2001, for computation of capital gains.*

In this connection, it may be stated that the relevant provisions of sections 55 and 48 of the Income-Tax Act, 1961 (the Act) have been amended by the Finance Act, 2017. As per the Memorandum explaining the provisions of the Finance Bill, 2017 in this regard, as the base year for computation of capital gains has become more than three decades old, assesseees are facing genuine difficulties in computing the capital gains in respect of a capital asset, especially immovable property acquired before 1.4.1981, due to non-availability of relevant information, for computation of fair market value of such asset, as on 1.4.1981. Therefore, section 55 of the Act, has been amended with effect from the assessment year (AY) 2018-19, relevant to financial year (FY) 2017-18, in order to provide that the cost of acquisition of an asset acquired before 1.4.2001, shall be allowed to be taken as fair market value as on 1.4.2001, and the cost of improvement shall include only those capital expenses which are incurred after 1.4.2001. Consequential amendment has also been made in section 48, so as to align the provisions relating to cost inflation index to the said base year of 2001, instead of 1981.

The relevant part of the Memorandum explaining the provisions of Finance Bill, 2017, is reproduced as follows :

“Shifting base year from 1981 to 2001 for computation of capital gains

The existing provisions of section 55 provide that for computation of capital gains, an assessee shall be allowed deduction for cost of acquisition of the asset and also cost of improvement, if any. However, for computing capital gains in respect of an asset acquired before 01.04.1981, the assessee has been allowed an option of either to take the fair market value of the asset as on 01.04.1981 or the actual cost of the asset as cost of acquisition. The assessee is also allowed to claim deduction for cost of improvement incurred after 01.04.1981, if any.

As the base year for computation of capital gains has become more than three decades old, assesseees are facing genuine difficulties in computing the capital gains in respect of a capital asset, especially immovable property acquired before 01.04.1981 due to non-availability of relevant information for computation of fair market value of such asset as on 01.04.1981.

In order to revise the base year for computation of capital gains, it is proposed to amend section 55 of the Act so as to provide that the cost of acquisition of an asset acquired before 01.04.2001 shall be allowed to be taken as fair market value as on 1st April, 2001 and the cost of improvement shall include only those capital expenses which are incurred after 01.04.2001.

Consequential amendment is also proposed in section 48 so as to align the provisions relating to cost inflation index to the proposed base year.

These amendments will take effect from 1st April, 2018 and will, accordingly, apply in relation to the assessment year 2018-19 and subsequent years.”

In this connection, it may be stated that under the relevant provisions of section 55, before the aforesaid amendment, the cost of long-term capital asset acquired before 1.4.1981, was taken to be the cost of acquisition to the assessee or the fair market value of the asset on that date, at the option of the assessee. The cost of improvement was also taken into account after the assessee had acquired the asset on or after 1.4.1981.

Section 55 of the Act has now been amended by the Finance Act, 2017, so as to advance the aforesaid cut-off date to 1.4.2001. After the aforesaid amendment of section 55, the cost of acquisition of an asset acquired before 1.4.2001, shall be allowed to be taken as fair market value as on 1.4.2001 and the cost of improvement shall include only those capital expenses, which are incurred after 1.4.2001.

In this regard, consequential amendment has also been made in section 48 of the Act, relating to mode of computation of capital gains. Vide the aforesaid amendment by the Finance Act, 2017, in clause (iii) of *Explanation* to section 48 of the Act, relating to indexed cost of acquisition, for the figures, letters and words “1st day of April, 1981”, the figures, letters and words “1st day of April, 2001”, shall be substituted.

In the light of the aforesaid amendment, the Central Board of Direct Taxes has issued Notification No.S.O.1790(E), dt.5.6.2017, in regard to cost inflation index for FY 2017-18 [394 ITR (St) 23]. As per the aforesaid Notification, a table has been provided, stating cost inflation index from the FY 2001-02 to FY 2017-18. The cost inflation index for the FY 2001-02, has been taken as 100 and the cost inflation index for FY 2017-18, has been stated to be 272.

The Table providing cost inflation indices for FYs 2001-02 to 2017-18, is as follows :

Cost of Inflation Index from FY 2001-02 to FY 2017-18

Sr. No.	Financial Year	Assessment Year	Cost Inflation Index
1	2001-02	2002-03	100
2	2002-03	2003-04	105
3	2003-04	2004-05	109
4	2004-05	2005-06	113
5	2005-06	2006-07	117
6	2006-07	2007-08	122
7	2007-08	2008-09	129
8	2008-09	2009-10	137
9	2009-10	2010-11	148
10	2010-11	2011-12	167
11	2011-12	2012-13	184
12	2012-13	2013-14	200
13	2013-14	2014-15	220
14	2014-15	2015-16	240
15	2015-16	2016-17	254
16	2016-17	2017-18	264
17	2017-18	2018-19	272

It may also be stated here that the aforesaid Notification shall come into force with effect from 1.4.2018 and shall, accordingly, apply to AY 2018-19 [relevant to FY 2017-18] and subsequent AYs.

Conclusion :

The aforesaid changes brought about in the relevant provisions of sections 55 and 48 of the Act, may be kept in view while computing capital gains in respect of long-term capital assets.

Besides, the changed base year 2001, instead of earlier base year 1981, for the purposes of cost inflation index, may also be kept in view, as regards the computation of capital gains in respect of long-term capital assets.

Place : Pune

Date : 27.6.2017

(S.K.Tyagi)