

Don't lose sight of your capital gains

While it is possible to save tax on long-term capital gains, short-term capital gain is necessarily taxable

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As this column appears exactly one day before the last date for filing tax returns, my dilemma was to choose from the vast maze of Indian tax laws a single topic that would be most useful to taxpayers at this juncture. A quick office poll saw capital gains win hands down. Therefore, the following is a snapshot of our capital gains tax structure encompassing the various rules and rates applicable to different assets.

Basically, capital gains tax is applicable on capital assets such as property, gold, shares, units, bonds debentures, etc. Depending upon your period of holding, these capital assets may be classified as long-term or short-term. Short-term assets are those that are held for three years or less. By corollary, assets held for over three years will be termed as long-term. Note the above

Capital asset	If transaction is covered by Securities Transaction Tax (STT)		If transaction is not covered by Securities Transaction Tax (STT)			
	Long-term	Short-term	Long-term		Short-term	Slab Rates
			Without indexation	With indexation		
Listed Equity Shares	0%	10%	10%	20%		Slab Rates
Unlisted Equity shares	NA	NA	NA	20%		Slab Rates
Listed Debentures	NA	NA	10%	NA		Slab Rates
Unlisted Debentures	NA	NA	20%	NA		Slab Rates
Equity-oriented MFs	0%	10%	10%	20%		Slab Rates
Non equity oriented MFs	NA	NA	10%	20%		Slab Rates
Immovable Property	NA	NA	NA	20%		Slab Rates

rule carefully. A capital asset has to be held for over three years to be deemed long-term. For example, if you sell a property after exactly three years of owning it, it would still be termed as a short-term asset. It has to be owned for over three years (even one day more) to be designated as long-term.

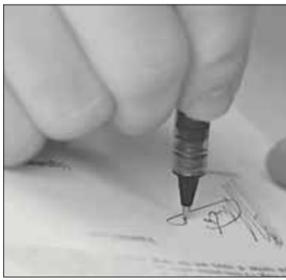
money wise

In the case of shares, debentures, units of mutual funds and deep discount bonds, the period of holding to qualify as long-term assets is reduced to over 12 months instead of the above mentioned three years. The equity share, units and bonds need not be listed or quoted. Only debentures have to be necessarily listed in order to qualify for the 12-month period.

Indexation
Starting with FY 1981-82 as the

base year, the RBI notifies the Cost Inflation Index (CII) every year. Indexed cost is arrived at by multiplying the cost with the ratio of CII for the year of sale and year of purchase, respectively. Indexation essentially adjusts cost for inflation, thereby reducing the amount of capital gains. For example, say a property that was purchased in April 1992 for Rs 10 lakh is sold in March 2008 for Rs 50 lakh. Now, in this case, the capital gain would normally have been Rs 40 lakh (Rs 50 lakh - Rs 10 lakh).

However, this would be unfair to the taxpayer since the value of the rupee in 1992 was not the same as it is today. Hence, the cost would be suitably inflated as per the indices for the specified year. The CII for 92-93 was 223 and that for 2007-08 was 551. Therefore, the indexed cost in the



above example would work out to Rs 24.7 lakh (Rs 10 lakh x 551/223). The resultant capital gain of Rs 25.3 lakh is much lower than the non-indexed Rs 40 lakh.

Tax rates

Long-term capital gain tax rate is 20% after reducing the indexed cost. However, only in the case of listed securities, units and zero-coupon bonds does the taxpayer have the option of choosing to pay 10% after reducing the non-indexed cost from the sale price, if the same works out to be lower. For other assets, such as property or gold, the 10% option isn't available, long-term tax is payable only at 20% after indexation.

Short-term capital gains tax on listed shares and units is 10% (subsequently increased to 15% by the Finance Act 2008). On other assets,

short-term gains is simply added to the other income and taxed at slab rates applicable to the taxpayer.

Saving capital gains tax
Tax on short-term capital gains cannot be specifically saved. In other words, short-term capital gain is necessarily taxable. On the other hand, depending upon the asset, long-term capital gains tax may be saved by making certain investments. For example, long-term gains from sale of a residential house may be saved by investing the capital gain amount in another residential property, either one year before or within two years of date of sale.

Long-term gains on assets other than a residential house may be saved by investing the net sale consideration (and not the capital gain), in another residential property again one year before or within two years from date of sale. If only a part of the consideration is used to buy the new property, proportionate deduction will be available.

Lastly, tax on all long-term capital gain (whether from residential property or otherwise) may be saved by investing the capital gain amount in bonds under sec 54EC. Today, NHAI and REC issue such bonds. The maximum amount investible is Rs 50 lakh in any one financial year.

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MARKET CUES

STOCKS ON CIRCUIT FILTER

Company	H/L Price (Rs)	Company	H/L Price (Rs)
BSE		ICSA India	L 305.35
Zandu Pharma	L 21263.30	NMDC	H 299.00
Ravalaon Sugar	H 8496.95	Bombay Burmah	L 296.85
BF Utilities	L 1787.15	HBL Power Sys	H 301.20
TCI	L 1774.60	Mac Charles	H 278.55
Sandur Mangan	H 1325.52	Wampac Inds	L 267.00
Bharat Electron	L 965.00	Maitan Alloys	H 267.15
Rei Agro	L 908.45	Bang Overseas	L 251.80
Ruby Mills	L 756.55	Sun TV Network	L 229.10
Welcast Steels	L 527.30	Oscar Investmen	H 228.75
Maha Elektro	H 416.95	Geefee Finance	H 221.70
Simplex Trading	H 352.35	Autoline Indus	L 195.40
Selan Explor	H 316.90	Sahara Hsg Fin	L 194.25
Softbpo Global	H 309.45	KLG Capital	H 185.95

52-WEEK HIGH/LOW

Company	Price (Rs)	Company	Price (Rs)
On BSE		Mewar Ind	17.52
Simplex Trading	352.35	Rajkumar Forge	15.82
Sterling Intl	320.00	AKANKSHA FIN	10.65
Selan Explor	316.90	Rids Securities	9.31
Steri Biotech	231.40	Bombay Polymers	4.06
KLG Capital	185.95	Akanksha Power	710.05
Panoram Uni	185.80	Bajaj Holdings	331.50
Coromandel Fert	177.10	Northgate Tech	271.00
Excel Crop Care	177.10	GTL	190.10
Welsat Steels	132.52	Wampac & Co	167.00
Hites Global	103.00	Spice-ETF	134.75
Shikari Fibres	54.20	HCL InfotSystems	119.10
DFM Foods	36.40	Emco	115.00
Vivid Chemicals	24.50	Royal Orchd Hot	82.75

TRENDS

Company	% chng	Company	% chng
UP 7 Days		Bongaigaon Ref	21.14
Phoenix Mills	62.11	Odyssey Tech	21.00
Rajkumar Forge	40.50	Zigma Software	20.35
Invicta Meditec	40.46	Patels Airtemp	19.69
Deccan Bearings	40.45	Steri Biotech	18.84
IEC Software	40.15	Mawana Sugar	16.67
Rosalka Fin	40.13	Anil Sp Steel	16.67
Pearl Global	40.08	Surya Pharma	15.69
Hitkari Fibres	40.05	Simplex Trading	14.81
Mewar Ind	40.05	DOWN 7 Days	
Saven Techno	184.75	Goldstone Techn	-30.06
KLG Capital	34.41	Bafna Sp Mills	-29.75
Anil Product	33.01	Brahmanand Himg	-29.64
Panchsheel Org	32.41	Bhagyas Lease	-28.11
Akanksha Fin	30.13	SpiceETF	-18.85
Swan Mills	29.26	UP 3 Days	
Impex	24.73	Ocean Infrastru	59.81
Factor Alloys	24.36	Kay Power Paper	56.29
Uttam Sugar	21.56	Shriram EPC	41.68

Nifty hourly resistances for July 30, 2008

Time AM/PM	Resistance Upon surpassing (1)	of resistance exhausts (2)	Rally at (3)
09.55 - 10.30	4292	4338	4384
10.30 - 11.30	4282	4332	4378
11.30 - 12.30	4272	4326	4372
12.30 - 13.30	4262	4320	4366
13.30 - 14.30	4252	4314	4360
14.30 - 15.30	4242	4308	4354

NOTES: Trading derivatives is a risky activity. These studies do not assure profits. Please consult a certified financial analyst before trading. **-Vijay Bhamwani**

DELIVERY SPIKE OVER PREVIOUS DAY

Company	Deliv qty	Prev deliv qty	Chng	Price (Rs)	% Chng
IFCI	13127872	3872700	9255172	238.98	43.25 -5.26
IDFC	8051906	3031539	5020367	165.50	88.65 -8.80
Reliance Power	4106291	1474611	2631680	178.47	154.15 -8.89
Cybermate Infot	2905243	361874	2543369	702.83	4.40 -2.22
NTPC	4112893	1883250	2229643	118.39	178.50 -3.38
Markans Pharma	2692890	868215	1824675	210.16	17.80 4.40
DLF	2186656	575788	1610868	279.77	472.00 -5.50
Cairn India	3360204	1760363	1599841	90.88	228.55 0.71
Bank of India	2119707	601541	1518166	252.38	258.00 -12.53
ICICI Bank	4624453	3113542	1510911	48.53	607.70 -8.40
Jalprakash Asso	2775998	1297013	1478985	114.03	153.70 -4.98
Deccan Chronical	1506667	53549	1453118	713.62	111.45 -4.95
HPCL	1560628	225728	1334900	591.38	217.00 -5.78
Whirlpool	1376799	102672	1274127	1240.97	54.70 9.29
Reliance Cap	1799035	522000	1267035	238.16	1219.05 -7.08
Guj NRE Coke	2179066	928973	1250093	134.15	103.60 -8.40
Lloyds Steel	1388105	178058	1210047	679.58	12.50 19.62
GMR Infrastr	2341146	1198257	1142889	95.38	84.90 -6.91
Unitech	1699399	582697	1116702	191.64	157.05 -6.35
Indiabulls Real	2123226	1017271	1105955	108.72	264.00 -8.09

RISING VOLUME, RISING DELIVERY AND RISING PRICE

Company	Jul 25, 2008			Jul 28, 2008			Jul 29, 2008		
	Traded qty	Del %	NSE price	Traded qty	Del %	NSE price	Traded qty	Del %	NSE price
Ateek	217869	34.89	37.75	1684813	30.23	40.60	3546202	22.89	41.80
Assam Co	269152	46.02	22.00	717164	53.14	24.20	1461677	41.39	24.35
Bihar Tubes	35443	100.00	154.00	76990	100.00	157.00	490789	100.00	163.00
Deepak Fert	313433	29.39	90.10	384000	30.17	95.65	1212452	18.92	96.60
Escorts	223465	29.39	72.25	260203	35.97	72.95	760631	22.08	73.10
Gwalior Chem	124734	31.00	85.45	473775	17.29	89.10	2644556	16.43	103.25
Himachal Futur	2973534	36.81	15.50	21235473	25.63	18.20	32983470	18.69	18.30
Hind Motors	739626	31.77	24.70	1975711	26.44	25.80	4419967	17.40	26.25
India Glycols	22643	66.55	231.60	30945	51.20	234.05	437017	22.17	246.90
Lloyds Steel	181973	50.60	10.10	384039	46.36	10.45	4942545	28.08	12.50
MTC Electronics	103789	64.46	101.40	343192	39.52	107.55	435509	35.99	109.65
PNB Gilts	89851	67.63	19.10	132839	99.93	22.95	3003922	28.37	27.55
Polaris Soft	554312	17.53	79.55	1181108	8.91	98.00	29528230	4.11	100.65
Rain Commoditie	87170	64.93	190.65	94616	69.17	198.55	202061	53.06	210.75
TVS Motor	806590	33.29	2900	880783	36.00	29.50	2955304	21.31	31.05

Such data help identify stocks which are genuinely in a trend, which have seen regular buying orders. Trade above the three-day high with stop-losses

RISING VOLUME, RISING DELIVERY AND FALLING PRICE

Company	Jul 25, 2008			Jul 28, 2008			Jul 29, 2008		
	Traded qty	Del %	NSE price	Traded qty	Del %	NSE price	Traded qty	Del %	NSE price
Aban Offshore	125538	16.45	2699.60	137399	38.70	2647.30	266938	40.30	2488.90
Akruti City	18450	38.01	742.95	38479	24.24	738.85	151210	12.13	703.95
Andhra Bank	536128	37.89	56.65	638804	50.43	55.55	870342	44.37	53.45
Axis Infrans	509075	37.97	93.15	970221	31.15	92.95	5955463	65.66	90.10
Axis Bank	2904365	32.70	712.85	3973525	36.86	697.30	5955463	37.54	619.70
Bank of Baroda	618566	26.59	253.25	725050	29.46	251.35	1250099	27.96	227.50
Bharat Biljee	6208	71.02	1328.30	6883	85.05	1295.25	57665	96.68	1250.15
Bharat Forge	34551	43.73	244.40	54227	64.62	243.95	89883	65.35	243.15
Elder Pharma	979	62.61	322.85	1806	77.63	320.30	105672	95.99	308.95
Guj NRE Coke	2121413	23.59	116.45	2221203	41.82	113.10	3963397	54.98	103.60
Hindalco Inds	2947620	28.34	149.40	3654466	33.66	146.15	4014527	46.08	139.20
Jindal Saw	18367	64.48	517.55	36137	63.00	510.10	109745	62.89	510.00
Kalpataru Power	23238	26.68	739.90	56335	54.40	713.45	237688	73.20	733.35
Lanco Infratech	1941591	70.41	368.90	2154119	19.85	348.75	2913408	23.47	311.80
Swan Ashtavaha	9135	100.00	2564.00	100.00	546.20	27938	100.00	535.40	

Though there is a rise in volume, the falling share price indicates genuine selling. One can either go short or get out below the low of three days

Short stories

CCCL net rises

Consolidated Construction Consortium Ltd reported a net profit of Rs 18.22 crore for the April-June quarter on net sales of Rs 380 crore. The company had an order backlog of Rs 2,820 crore at the end of June. Comparative numbers for the same quarter last year were not available.

Era Infra to invest Rs5,000 cr

Construction firm Era Infra Engineering Ltd will invest Rs 5,000 crore over four years in a 1,200-mw power project in Madhya Pradesh. Chairman H S Bharana said, "We are in last-stage discussions for coal linkages. Once we get all clearances, it will take four years to complete. The project will be funded with equity and debt."