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Scrip-wise details to be provided only for capital gains eligible for grandfathering benefit

The Central Board of Direct Taxes has issued Press Release dated 26 September 2020, to clarify that scrip-wise details need to be furnished in the income-tax return for Financial Year 2019-20, only with respect to long-term capital gains eligible for grandfathering benefit.

Background:

- Long-term capital gains (LTCG) on sale of certain equity shares (shares) and / or units of equity-oriented funds / infrastructure investment trust / real estate investment trust (units) were exempted from tax under section 10(38) of the Income-tax Act, 1961 (ITA) till 31 March 2018, subject to satisfaction of other conditions. The Finance Act, 2018 amended the provisions of the ITA with effect from 1 April 2018, to tax the LTCG arising from the sale of such shares and / or units.

  While the tax on LTCG was introduced as mentioned above, grandfathering mechanism by way of adjusted cost of acquisition[1] (for computing capital gains) was also introduced, with respect to investments made in such shares / units up to 31 January 2018.

  Capital gains / losses arising from sale of listed equity shares and equity oriented funds are treated as LTCG, if such shares / units are held for more than twelve months before the date of transfer, otherwise gains / losses from such sale are treated as short-term capital gains / losses.

- The income-tax return Form for the Financial Year (FY) 2019-20, corresponding to the Assessment Year (AY) 2020-21, requires scrip-wise details to be provided by the taxpayer with respect to the LTCG arising from sale of shares / units which are eligible for the grandfathering provisions.

- The Central Board of Direct Taxes (CBDT) has issued press release dated 26 September 2020[2] (Press Release), clarifying that scrip-wise details are required to be furnished only with respect to the reporting of the LTCG for shares / units which are eligible for the grandfathering benefit.

Highlights of the Press Release:

- The grandfathering benefit is allowed by comparing different values (such as cost, sale price and market price as on 31 January 2018) for each share / unit. Hence, there is a need to capture the scrip-wise details for computing capital gains in respect of such share / unit.

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[1] Adjusted cost of acquisition under section 55(2)(ac) of the ITA

https://www2.deloitte.com/content/dam/Deloitte/in/Documents/tax/Global%20Business%20Tax%20Alert/in-tax-gbt-faqs-issued-by-cbdt-on-ltcg-noexp.PDF

[2] https://www.incometaxindia.gov.in/Lists/Press Releases/Attachments/857/Press-Release-No-requirement-of-scrip-wise-reporting-for-day-trading-dated-26-09-2020.pdf

- Providing these details will enable the tax authorities to carry out the cross verification electronically with stock exchange, brokerage companies, etc. and there will be no need to subject these income-tax returns to further audits or scrutiny.
- The main intent behind requiring scrip-wise detail is to facilitate the taxpayer in correctly computing the long-term capital gains on these shares/units.
- Accordingly, the scrip-wise details in the income-tax return for the FY 2019-20, corresponding to the AY 2020-21, are required to be filled up only for the reporting of the LTCG for such shares / units which are eligible for grandfathering benefit and not for computation of capital gains / business income from shares / units which are not eligible for the grandfathering benefit.

Comments:

- The Press Release will provide clarity to the taxpayers with respect to details to be furnished in respect of capital gains / business income from shares / units which are not eligible for grandfathering benefit, while filing their income-tax return for the FY 2019-20, corresponding to the AY 2020-21.