



Global Business Tax Alert Sharp Insights

CBDT notifies Cost Inflation Index pursuant to shifting of base year from 1981 to 2001 for purposes of capital gains

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Background

- Prior to the Finance Act of 2017, section 55 of the Income-tax Act of 1961 (the 'Act') provided a taxpayer an option to either adopt the fair market value of the asset as on 1 April, 1981, or the actual cost of the asset as cost of acquisition, for computing capital gains with respect to assets acquired before 1 April, 1981. The taxpayer was also allowed to claim deduction for cost of improvement incurred on or after 01 April, 1981, if any.
- As the base year became three decades old, genuine difficulties were faced by taxpayers in computing capital gains due to non-availability of relevant information for computation of fair market value as on 1 April 1981. To overcome such practical difficulties, the Finance Act 2017 shifted the base year from 1981 to 2001, thereby allowing the taxpayer to substitute fair market value of the capital asset as on 1 April 2001, as the cost of acquisition for assets acquired before 1 April 2001. Further, the claim for cost of improvement would be allowed only if the same is incurred on or after 1 April, 2001.
- Consequential amendments were also made in section 48 of the Act to align the provisions relating to Cost Inflation Index ('CII') to the revised base year for computing indexed cost of acquisition in relation to long-term capital assets.
- Following the amendments, the CBDT has now notified¹ the CII with the new base year as 2001.

¹ Notification No. 44/2017/F.No.370142/11/2017-TPL

Notification

For the purpose of computing indexed cost of acquisition/improvement in relation to long-term capital assets, the central government has specified CII as:

Financial Year	CII
2001 – 02	100
2002 – 03	105
2003 – 04	109
2004 – 05	113
2005 – 06	117
2006 – 07	122
2007 – 08	129
2008 – 09	137
2009 – 10	148
2010 – 11	167
2011 – 12	184
2012 – 13	200
2013 – 14	220
2014 – 15	240
2015 – 16	254

2016 - 17	264
2017 - 18	272

Conclusion

The notification specifies the revised CII in accordance with the amendment brought in vide the Finance Act 2017, shifting the base year for computation of capital gains from 1981 to 2001. The same is to be considered to determine indexed cost of acquisition in relation to long-term capital assets, wherever applicable, for the purpose of computing capital gains arising during assessment year 2018-19 and subsequent years.

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