Capital Gain Tax

- Any profit or gain that arises from the sale of a **'capital asset'** is a capital gain. This gain or profit comes under the category of 'income'.
- Hence, the capital gain tax will be required to be paid for that amount in the year in which the transfer of the capital asset takes place. This is called the capital gains tax, which can be both short-term or long-term.
- **Long-term Capital Gains Tax:** It is a levy on the profits from the sale of assets held for **more than a year.** The rates are 0%, 15%, or 20%, depending on tax bracket.
- **Short-term Capital Gains Tax:** It applies to assets **held for a year or less** and is taxed as ordinary income.
- Capital gains can be reduced by deducting the capital losses that occur when a taxable asset is sold for less than the original purchase price. The total of capital gains minus any capital losses is known as the **"net capital gains".**
- Tax on capital gains is triggered only when an asset is **sold**, or **"realized"**. Stock shares that appreciate every year will not be taxed for capital gains until they are sold.

Capital Assets

Land, building, house property, vehicles, patents, trademarks, leasehold rights, machinery, and jewellery are a few examples of capital assets. This includes having rights in or in relation to an Indian company. It also includes the rights of management or control or any other legal right.

Realized Gain

- It results from selling an asset at a price higher than the original purchase price. It occurs when an asset is sold at a level that exceeds its book value cost.
- While an asset may be carried on a balance sheet at a level far above cost, any gains while the asset is still being held are considered unrealized as the asset is only being valued at fair market value.

Inherited property

- Capital gains are **not applicable to an inherited property** as there is no sale but only a transfer of ownership.
- The Income Tax Act has specifically exempted assets received as gifts by way of an inheritance or will. However, if the person who inherited the asset decides to sell it, capital gains tax will be applicable.