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Capital gains: Investment cut-off date extended, but there's a catch

Taxpayers may not be able to avail of it unless last date for filing revised ITR is extended

Bindisha Sarang January 17, 2023 Last Updated at 19:56 IST

Sections 54 to 54GB require taxpayers to make certain investments, say, in a residential property or in specified bonds within certain specified timelines, to claim exemption from capital gains tax.

Individuals who have earned long-term capital gains from the sale of a house or any other asset can avoid paying tax on these gains by investing in another house or in specified bonds. They can do so under the provisions of Section 54 to Section 54GB of the Income-Tax (I-T) Act. Through a circular issued on January 6, 2023, the Central Board of Direct Taxes (CBDT) has extended the deadline for making these investments.

According to an earlier notification, individuals who had to make the required investments between April 1, 2021 and September 29, 2021, could do so by September 30, 2021. According to the latest notification, for investments that had to be made between April 1, 2021 and February 28, 2022, the deadline has now been extended to March 31, 2023.

The Covid-19 pandemic had made it difficult for taxpayers to make these investments. Archit Gupta, founder and chief executive officer (CEO), Clear, says, “The non-availability of many of the tax-saving opportunities caused hardships to taxpayers. The government has taken this step to ease the burden of capital gains tax on taxpayers.”

USE SECTION 54 TO AVOID TAX ON CAPITAL GAINS

SECTION	WHEN DOES IT APPLY
Section 54	Capital gain from sale of residential property, reinvested in another residential property
Section 54B	Capital gain from sale of urban agricultural land, reinvested in other agricultural land
Section 54D	Compulsory acquisition of industrial land and building
Section 54EC	Investment in certain bonds
Section 54F	Capital gain on sale of long-term capital asset, sale proceeds reinvested in a residential property
Section 54GB	Transfer of residential property or plot, reinvested in equity shares of eligible companies

Source: RSM India

Section 54 to 54 GB

Sections 54 to 54GB require taxpayers to make certain investments, say, in a residential property or in specified bonds within certain specified timelines, to claim exemption from capital gains tax.

Suresh Surana, founder, RSM India, says, “Section 54 allows a taxpayer to claim exemption from tax on long-term capital gains derived from the sale of residential property, provided the gains are reinvested in a house property within two years from the date of transfer, or a new property is constructed within three years from the date of transfer.”

Section 54F provides for exemption of capital gains derived from the sale of long-term capital assets -- other than residential property -- by reinvesting the proceeds in a residential property within India within the specified timeline (similar to Section 54).

Invest in the right option

Post-Covid-19, people have access to all the investment options once again. CBDT’s measure will give taxpayers more time to decide and invest in the right option. Maneet Pal Singh, partner, I.P. Pasricha & Co, says, “This measure will provide an opportunity to taxpayers to evaluate all the opportunities that are available now but were not there, or were limited, one year ago.”

Naveen Wadhwa, deputy general manager (DGM), Taxmann, says, “It will provide relief not only to taxpayers who are still required to invest, but also to those who invested after the previous deadline had expired.”

The catch

While the circular is well intended, there’s a catch. Taxpayers have already filed their income-tax returns for assessment year (AY) 2022–23. December 31, 2022, the deadline for filing revised returns, has also elapsed.

Pallav Pradyumn Narang, partner, CNK, says, “The taxpayers who were not able to claim the exemption on the basis of the last circular still have no remedy. They have already taken a position in their tax returns due to their failure to make the eligible investments within the stipulated time limits. In the absence of any option for taxpayers to revisit their claim in the tax return, the benefit of this extension may not accrue to them.”

What can taxpayers do?

Taxpayers may not be able to avail of the benefit of this extension, unless the time limit for filing revised returns is also extended. Sumit Mangal, partner, Luthra and Luthra Law Offices India, says, “If a taxpayer has claimed capital gains tax exemption in the tax return on the basis of difficulties faced by him, even though the eligible investment was not made within the original time limit, he can invest within the extended time period and regularise the claim made in his tax return.”

To avail sections 54 to 54GB benefits, maintain proof of investments made. Invest in the tax-saving investment most suited to you after doing proper research. If you are not sure, consult a chartered accountant.

Many taxpayers may have no option but to wait. Narang says, “Wait and watch for the CBDT to issue further clarifications on this issue.”