

How to calculate acquisition cost for a new house



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- Stamp duty and registration fees paid for the new property form part of the acquisition cost

In computing capital gains on sale of an immovable property, one important figure to be considered is the cost of acquisition of the property. This is required not only for computing the basic capital gains, but also for computing exemption of long-term capital gains available for reinvestment in a residential house, where the cost of the new house has to be considered. The exact meaning of the term ‘cost of acquisition’ for capital gains purposes has not been defined, but has been effectively analysed by courts. Cost of acquisition

The cost of acquisition is not just the basic price agreed to be paid to the seller. When you enter into an agreement for purchase of an immovable property, you also agree to pay the stamp duty, registration fee and transfer fees (if applicable). These certainly form part of the cost of acquisition. You may also be paying expenses such as brokerage and legal fees. If these are directly connected with the transaction of purchase of the property, they also form part of the cost of acquisition. Any GST on such expenses will also form part of the cost.

If you are purchasing a house which is under construction or to be constructed, you will be paying GST on the purchase price, which will also form part of the cost. Besides, you would be paying various other amounts, such as legal fees, society formation fees, share capital contribution, clubhouse one-time membership fees, electricity and gas deposit, and often, a deposit towards maintenance charges and taxes for the first year or two. All these, except the contribution towards maintenance charges and taxes, will be included under cost of acquisition.

There are also often cost of property renovation. If you have purchased a property on a bare shell basis (with just the walls and basic plumbing), then expenses on civil work, flooring, wiring, etc, which are incurred to make the house habitable would be treated as part of the cost of acquisition. The cost of furniture would however not be included, even though it may be built in and not removable, such as cabinets and cupboards attached to the walls.

If you have purchased a house from a person living in it earlier, the renovation expenses, such as replacing the flooring, tiles and bathroom fixtures, etc., may not be treated as part of the

acquisition cost, since the house was already habitable when you acquired it. However, if you can demonstrate that the house was not habitable unless such expenditure was incurred, then it may qualify as part of acquisition cost.

Cost of improvement

Can such renovation expenses, which cannot be treated as part of acquisition cost, be treated as cost of improvement, which is also deductible in computing capital gains? For instance, if the flooring is replaced after a few years, can it be treated as cost of improvement? What if a balcony is enclosed and converted into a small room?

Normally, for an expenditure to be allowed as a cost of improvement, it has to result in an enhancement of the asset, and not just an increase in its life. Therefore, while replacement of the flooring would not qualify as cost of improvement, creation of an additional room would.

Interestingly, interest on a loan taken for acquisition of the house may also qualify as cost of acquisition. Of course, such expenditure also qualifies as a deduction in computing income from house property, and if so, the allowability of such interest again as a cost of acquisition is highly likely to be contested by the tax authorities on the ground that it amounts to a double deduction for the same interest.

If such interest has not been claimed or allowed as a deduction in any other year, the position is far better, and such interest should be allowable as a cost of acquisition.

Therefore, any decision to treat an expenditure as part of the acquisition cost has to be made after much thought and analysis.

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