

## CHANGE IN BASE YEAR AND INDEXATION

As per the Income tax act 1961 an indexation benefit is given to the assessee due to inflated cost occurring in the market at the time of the selling of the asset.

### Indexation

- It is the benefit given to the assessee to adjust in purchase price of an investment for the inflation rate during the period for which it was held.
- This inflated cost is considered as the purchase price while computing the gains arising from sale of the asset from the taxation perspective.
- The difference between the indexed cost of the acquisition and the selling price is the capital gains. The indexed cost of acquisition is based on the year of purchase or the base year.

### **Base year:**

A base year is the first of a series of years in an financial index and it is normally set to the arbitrary to 100.

### Base year for capital gain computation

### Old Rule

- If the asset was acquired before 01-04-1981, the purchase price has to be indexed with cost inflation index computed with a base as 100 on above date
- If the asset was acquired before 01-04-1981, we could use the fair market value as on the date or the actual cost and claim a deduction for the cost of improvement incurred from above date.

## New Rule

- If the asset was acquired after 01-04-2001, the purchase price has to be indexed with cost inflation index computed with a base as 100 on above date (i.e 01-04-2001)
- If the asset was acquired before 01-04-2001, we could use the fair market value as on 01-04-2001 or the actual cost and claim a deduction for the cost of improvement incurred from above date (i.e on or after 01-04-2001 if any)

### ***Fair Market Value***

It is Price at which the property shall ordinarily fetch if sold in the open market on the valuation date for which the assessee may obtain a valuation report from a valuer recognized by the Government of a country .

### Applicability

- This applicable w.e.f 01.04.18 .
- The sale of property should be done on or after 01.04.18
- Cost of improvement is allowed only after 01.04.2001

### FAQ

**Q. *Asset is acquired on 01.06.1996 and it is sold on 16.04.18.what is the cost of acquisition ?***

**A. *Fair Market value or the cost of acquisition of the asset as on 01.04.2001***

*Q. Is Cost of improvement on 01.07.1998 is allowed when the asset is sold 16.04.18?*

*A No , the cost of improvement is not allowed .It is allowed only if it is incurred after 01.04.2001*

Note:

The Cost of Indexation numbers will be revised from 01.04.2001 as the base year as cost of indexation as 100 and the series of years by the income tax department shortly.

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