Exemptions from Capital Gains

The Income-tax Act allows exemption from capital gains tax if the amount of capital gains or sale consideration, as the case may be, is further invested in specified new assets. These exemptions are provided as per the following sections:

(a) Section 54: Exemption from the capital gains arising from the transfer of residential house property and investment in new house property.
(b) Section 54B: Exemption from the capital gains arising from transferring land used for agricultural purposes and investing in new agricultural land.
(c) Section 54D: Exemption from the capital gains arising from the compulsory acquisition of land and building, forming part of the industrial undertaking and investing in land or building for setting up or shifting of the industrial undertaking.
(d) Section 54EC: Exemption from the capital gains arising from the transfer of land or building or both and investing in specified bonds
(e) Section 54EE: Exemption from the capital gains arising from the transfer of any long-term capital asset and investing in specified assets
(f) Section 54F: Exemption from the capital gains arising from the transfer of a long-term capital asset other than a house property and investing in a residential house property
(g) Section 54G: Exemption from the capital gains arising from the transfer of assets on shifting of industrial undertaking from the urban area to a non-urban area
(h) Section 54GA: Exemption from the capital gains arising from the transfer of assets on shifting of industrial undertaking from the urban area to any SEZ
(i) Section 54GB: Exemption from the capital gains arising from the transfer of residential property and investing in eligible companies or eligible start-ups.

Exemption under Section 54

- The exemption under section 54 is allowed only if the capital gain arises from the transfer of a long-term capital asset being a residential house property or land appurtenant thereto whose income is taxable under the head of 'income from house property'. Exemption under this section can be claimed only by an Individual or HUF.
- Here, long-term capital asset means an immovable property (land or building or both), held for more than 24 months immediately preceding the date of transfer.
- The exemption under this section can be claimed if the amount is invested for the purchase or construction of a residential house property. However, the exemption is allowed only if such new house property is situated in India.
- Exemption under Section 54 is allowed only for investment in one house property. However, the exemption can be claimed for the purchase or construction of 2 house properties if the amount of long-term capital gains does not exceed Rs. 2 crores. This option can be availed once in a lifetime, i.e. once this option is claimed, it cannot be further availed for the same or any succeeding financial years.
- The maximum amount of exemption under Section 54 will be lower of the following:
  a) Amount of long-term capital gains; or
  b) Rs. 10 crores;
  c) Aggregate of the amount invested in new house property and the amount deposited in the capital gain account scheme.

- To claim an exemption under Section 54, the taxpayer should purchase another house within one year before or two years after the date of transfer of the old house or should construct another house within three years from the date of transfer.
- Accounts opened under Capital Gains Accounts Scheme are special-purpose accounts opened with an authorised bank. If the assessee could not utilise the capital gains to purchase or construct a residential house by the due date of filing the return of income, he may deposit the amount in such account to claim the exemption from capital gains.
- The amount deposited in the Capital Gains Account Scheme has to be utilised within the specified period for the purchase/construction of the residential house.
- The exemption claimed by the assessee under Section 54 can be withdrawn in the following circumstances:
  (a) Where the amount deposited is not utilised for purchasing a residential house property within 2 years or constructing a house property within 3 years from the date of transfer, the unutilised deposit in the account is deemed to be long-term capital gains in the year in which the prescribed time limit expires.
  (b) Where the new house is transferred before 3 years from the date of its purchase/completion of construction, then at the time of computation of capital gain arising on transfer of the new house, the amount of capital gain claimed as exempt under Section 54 will be deducted from the cost of acquisition of the new house.

Exemption under Section 54B

- Section 54B provides the exemption from short-term and long-term capital gains arising from the transfer of agricultural land.
- Only Individuals and HUFs are eligible to claim an exemption under this section.
- The exemption shall be allowed if the agricultural land was used for agricultural purposes for at least 2 years before the date of transfer by the assessee, his parents, or HUF.
- The exemption can be availed if the capital gain is invested in purchasing new agricultural land within the prescribed time limit.
- Exemption under section 54B will be lower of the following:
  (a) Amount of capital gains arising on the transfer of agricultural land; or
  (b) Investment in new agricultural land [including the amount deposited in Capital Gains Deposit Account Scheme]
- To claim the exemption under this section, the assessee needs to purchase the agricultural land within 2 years after the date of transfer of the original asset.
- If, till the date of filing the return of income, the capital gain is not utilised for the purchase of another agricultural land, then the exemption can be availed by depositing the unutilised amount in Capital Gains Deposit Account Scheme.
- The new land can be purchased by withdrawing the amount from the said account within the specified time limit of 2 years.
- The exemption claimed by the assessee under Section 54B can be withdrawn in the following circumstances:
  a) Where the new agricultural land is transferred before 3 years from the date of its purchase, then at the time of computation of capital gain arising on transfer of the new agricultural land, the amount of capital gain claimed as exempt under Section 54B will be deducted from the cost of acquisition of the new house.
  b) Where the amount deposited in the capital gains scheme account is not utilised to purchase agricultural land within 2 years after the date of transfer, the unutilised deposit is deemed to be a long-term capital gain of the relevant previous year in which the time-limit of 2 years expires.

Exemption under Section 54D

- Section 54D allows exemption from the short-term and long-term capital gains arising from the compulsory acquisition of land or building which forms a part of an industrial undertaking. Such land or building should be used by the assessee for the business of the industrial undertaking for 2 years before the date of compulsory acquisition.
- The exemption is allowed if the assessee purchases any other land or building or any right in any other land or building or constructs any other building for the purposes of shifting or re-establishing the undertaking or setting up another industrial undertaking.
- This exemption is available to all assessees.
- Exemption under Section 54D will be lower of the following:
  (a) Amount of capital gains arising from transfer of land or building; or
  (b) Investment in new land or building [including the amount deposited in Capital Gains Account Scheme]
- The assessee has to purchase a new asset within 3 years after the date of compulsory acquisition of the undertaking.
- Where the capital gain is not utilised for purchasing any land or building or any right in any other land or building for construction of any building till the date of filing the return of income, then the exemption can be availed by depositing the unutilised amount in Capital Gains Deposit Account Scheme.
- The new land or building can be purchased or constructed by withdrawing the amount from the said account within the specified time limit of 3 years.
- The exemption claimed by the assessee under Section 54D can be withdrawn in the following circumstances:
  a) Where the new land or building is sold within a period of 3 years from the date of its purchase/construction, then at the time of computation of capital gain arising from the transfer of the new land or building, the amount of exemption claim under this section will be deducted from the cost of acquisition of such land or building.
  b) Where the amount deposited in the Capital Gains Account Scheme in respect of which the taxpayer has claimed exemption is not utilised within the specified period for the purchase or construction of another land or building, then the unutilised amount will be taxed as income of the previous year in which the specified period of 3 years expires.

Exemption under Section 54EC

- Section 54EC allows an exemption from the capital gains arising from the transfer of a long-term capital asset, being land or buildings, or both.
- This exemption is available to all assesses.
- The exemption is allowed if the assessee makes an investment in the bonds issued by the following entities:
  (a) National Highway Authority of India (NHAI Bonds)
  (b) Rural Electrification Corporation Limited (REC Bonds)
  (c) Any other bond notified by the Central Government
- The amount of exemption will be the lower of the following:
  (a) The amount of capital gains;
  (b) The amount invested in specified bonds; or
  (c) Rs. 50,00,000.
- The investment should be made within six months from the date of the transfer of the land, building, or both.

- The exemption claimed by the assessee under Section 54EC can be withdrawn in the following circumstances:
  a) Where the bonds are transferred within five years, the previously exempted amount of capital gains from the transfer of the original asset will be subject to tax as a long-term capital gain in the previous year in which the bonds are transferred.
  b) Where the bonds are converted into cash within five years of their acquisition, the previously exempted amount of capital gains will be subject to tax as a long-term capital gain in the previous year in which the bonds are converted into cash.

Note: The Central Board of Direct Taxes has notified the bonds redeemable after 5 years issued by Housing and Urban Development Corporation Limited (HUDCO) as a "long-term specified asset" for the purposes of section 54EC. [Notification no. 31/2025, dated 07-04-2025]

Exemption under Section 54EE

- Section 54EE provides an exemption from the capital gains arising from the transfer of any long-term capital asset if the assessee uses the proceeds to purchase long-term assets as specified by the government to fund start-ups.
- This exemption is available to all assesses.
- The amount of exemption will be the lower of the following:

  (a) Amount of long-term capital gains;
  (b) Amount invested in specified assets; or
  (c) Rs. 50,00,000

- Investment in long-term specified assets during the financial year in which the original asset is transferred and in the subsequent financial year should not exceed Rs. 50 lakhs.
- The investment should be made within 6 months from the date of the transfer of the long-term capital asset.
- The exemption claimed by the assessee under Section 54EE can be withdrawn in the following circumstances:
  a) Where the long-term specified assets are transferred within 3 years, the exempted amount of capital gain arising from the transfer of the original asset is chargeable to tax as long-term capital gain in the previous year in which bonds are transferred.
  b) If long-term specified assets are converted into money within 3 years from the date of its acquisition, the exempted amount of capital gain is chargeable to tax as long-term capital gain in the previous year in which such assets are converted into money.

Exemption under Section 54F

- Section 54F provides an exemption for the capital gains arising from the transfer of a long-term capital asset (other than a residential house property) if the net sale consideration is invested in one residential house property in India within the prescribed time limit.
- The exemption is available only to individuals and Hindu Undivided Families (HUFs).
- To claim an exemption under Section 54F, the taxpayer should purchase another house within 1 year before or 2 years after the date of transfer of the old house or construct another house within 3 years from the date of transfer.
- If the assessee could not utilise the sale consideration to purchase or construct a residential house by the due date of filing the return of income, he may deposit the amount in such account to claim the exemption from capital gains.

- The amount deposited in the Capital Gains Account Scheme has to be utilised within the specified period for the purchase/construction of the residential house.
- The exemption allowed under Section 54F shall be calculated as follows:

  A x B / C
  A = Investment in the residential house *plus* the amount deposited in the capital gain account scheme. The total amount of investment cannot exceed Rs. 10 crores.
  B = Long-term Capital Gains
  C = Net consideration from the transfer of the original asset

- The exemption may be denied if the assessee already owns more than one residential house on the date of transfer of the original asset, other than the house acquired within one year before the date of transfer.
- The exemption claimed by the assessee under section 54F can be withdrawn in the following circumstances:
  a) Where the assessee purchases a residential house, other than the new house, within 2 years after the date of transfer of the original asset or constructs a residential house, other than the new house, within 3 years after the date of transfer of original asset and the income from such house is chargeable to tax under the head Income from House Property, the exempted long-term capital gain becomes taxable in such previous year.
  b) Where the amount deposited in the capital gain account scheme is not utilised to purchase a residential house within 2 years after the date of transfer or to construct a residential house within 3 years of the date of transfer, the unutilised deposit shall be deemed to be a long-term capital gain of the relevant previous year in which the time-limit of 3 years expires.
  c) Where the new house so purchased or constructed is transferred within 3 years of its purchase/construction, the exempted capital gain becomes chargeable to tax as long-term capital gain in the relevant previous year in which the transfer takes place.

Exemption under Section 54G

- Section 54G provides an exemption from long-term or short-term capital gains arising from the transfer of assets in the course of shifting an industrial undertaking from an urban area to a non-urban area.
- The exemption is available if a capital asset, such as plant, machinery, land, or building, or any right in land or building used for the purpose of an industrial undertaking situated in an urban area, is transferred as part of the shifting of the industrial undertaking to any area other than an urban area.
- To claim this exemption, the capital gain arising from the transfer of the original asset should be used to purchase a new plant or machinery, purchase or construct a building, shift the original asset and its establishment, or incur expenses for other purposes as specified in a scheme framed by the Central Government for this purpose.
- The exemption is available to all assesses.
- An "urban area" is any area within the limits of a municipal corporation or municipality that the Central Government declares as an urban area for the purposes of Section 54G.
- The capital gain must be used for the specified purposes within 1 year before or 3 years after the date of transfer. Capital gain that has not been utilised on or before the due date of furnishing the return of income for the specified purposes should be deposited in a bank under the capital gain account scheme on or before the due date of furnishing the return of income.
- The amount of exemption will be the lower of the following:

(a) Amount of capital gains; or
(b) Aggregate of the amount invested in new assets, expenses on transfer or establishment, and the amount deposited in the capital gain account scheme.

- The exemption claimed by the assessee under this provision can be withdrawn in the following circumstances:
  a) Where the new asset or any rights in it are sold within 3 years of its purchase or construction, the cost of the new asset will be reduced by the amount of capital gain previously exempted. The classification of the capital gain from the sale of the new asset into a long-term or short-term will be determined based on the length of time it was held.
  b) Where the funds deposited in a capital gains account scheme are not used for the specified purposes within 3 years after the date of transfer, the unspent deposit will be considered as capital gain in the relevant previous year in which the 3-year time period expires. The nature of capital gain will be the same as the original gain.

Exemption under Section 54GA

- Section 54GA provides an exemption from the long-term or short-term capital gains arising from the transfer of assets in the course of shifting an industrial undertaking from an urban area to a Special Economic Zone (SEZ).
- The exemption is available if a capital asset, such as plant, machinery, land, or building, or any right in land or building used for the purpose of an industrial undertaking situated in an urban area, is transferred as part of the shifting of the industrial undertaking to a Special Economic Zone.
- To claim this exemption, the capital gain arising from the transfer of the original asset should be used to purchase a new plant or machinery, purchase or construct a building, shift the original asset and its establishment, or incur expenses for other purposes as specified in a scheme framed by the Central Government for this purpose.
- The exemption is available to all assesses.
- The capital gain must be used for the specified purposes within 1 year before or 3 years after the date of transfer. Any capital gain that has not been utilised before the due date of submitting the income tax return for the intended purposes should be deposited into a capital gains account at a bank before the due date for submitting the income tax return.
- The amount of exemption will be the lower of the following:

  (a) Amount of capital gains; or
  (b) Aggregate of the amount invested in new assets, expenses on transfer or establishment, and the amount deposited in a deposit scheme.

- The exemption claimed by the assessee under this provision can be withdrawn in the following circumstances:
  (a) Where the new asset or any rights in it are sold within 3 years of its purchase or construction, the cost of the new asset will be reduced by the amount of capital gain previously exempted. The classification of the capital gain from the sale of the new asset into long-term or short-term will be determined based on the length of time it was held.
  (b) Where the funds deposited in a capital gains account scheme are not used for the specified purposes within 3 years after the date of transfer, the unspent deposit will be considered as capital gain in the relevant previous year in which the 3-year time period expires. The nature of capital gain will be the same as the original gain.

Exemption under Section 54GB

- Section 54GB provides an exemption from the capital gain earned from selling a long-term capital asset being residential property (a house or plot of land).
- This exemption can be availed if the assessee invests the net consideration in equity shares of an eligible company and such a company uses this investment to buy a new plant and machinery.
- This exemption is available only to an 'Individual' or a 'Hindu Undivided Family'.
- The exemption is available only if the original asset is transferred between April 1, 2012, and March 31, 2017. However, if the investment is to be made in an eligible start-up, the original asset can be transferred up to March 31, 2022.
- An eligible company means a company incorporated in India on or after April 1 of the previous year in which capital gains arise and engaged in the business of manufacture of any article or thing or in an eligible business. Further, the transferor (assessee) of residential property has more than 25% share capital or voting right of such company, and the company is either an SME under the MSME Act, 2006, or an eligible start-up.
- 'Eligible Start-up' means a company engaged in eligible business and satisfies the following conditions:

  (a) It is incorporated between April 1, 2016, and March 31, 2025;

(b) The total turnover of its business does not exceed Rs. 100 crores in the previous year relevant to the assessment year for which deduction under sub-section 80-IAC(1) is claimed; and

  (c) It has been certified as a start-up by the Inter-Ministerial Board of Certification, notified by the Central Government.

- The assessee should utilise the amount of net consideration from the original asset for the purchase of equity shares of an eligible company or eligible start-up before the due date for furnishing of income-tax return.
- The eligible company should utilise the amount for the purchase of new assets within 1 year from the date of subscription of equity shares by the assessee.
- Where the company does not utilise the amount to purchase a new asset before the due date of furnishing of return of income by the transferor (assessee), it shall be deposited by the company in the capital gain account scheme.
- The exemption shall be calculated as follows:

  A x B/C
  A = Investment in the new asset by the eligible company
  B = Capital gains
  C = Net Sales Consideration

- The exemption claimed by the assessee under this provision can be withdrawn in the following circumstances:

  a) Where the individual or HUF sells or otherwise disposes of the equity shares in the eligible company within 5 years from the date of purchase, the earlier granted exemption or proportionate exemption on the capital gain will be considered as long-term capital gain and will be subject to tax in the year of sale or transfer.

  b) Where the new asset, such as plant or machinery, is sold or transferred by the eligible start-up company within 5 years (3 years in case of computer or computer software) from the date of acquisition, the previous exemption given on the capital gains invested in the company will be considered as a long-term capital gain and subject to taxation in the year in which the asset is sold or transferred.

  c) Where the eligible company fails to use the funds deposited in the capital gains scheme account to acquire new assets within one year of subscribing to equity shares, the earlier granted exemption (or proportionate exemption) will be considered as a long-term capital gain of the assessee for the financial year in which the one-year time limit expires.

MCQs on Exemptions from capital gains

Q1. Exemption under section 54 is allowed from ____________.

(a) Long-term capital gains
(b) Short-term capital gains
(c) Both (a) and (b)
(d) None of the above

Correct answer: (a)

Explanation: The exemption under section 54 is allowed only if the capital gain arises from the transfer of a long-term capital asset being a residential house property or land appurtenant thereto whose income is taxable under the head of 'income from house property'.

Q2. Exemption under section 54 can be claimed by ____________.

(a) Individual or HUF
(b) Eligible Start-ups
(c) All assessees
(d) None of the above

Correct answer: (a)

Explanation: Exemption under section 54 can be claimed only by an Individual or HUF.

Q3. Exemption under section 54B is allowed from ____________ arising from the transfer of agricultural land.

(a) Long-term capital gains
(b) Short-term capital gains
(c) Both (a) and (b)
(d) None of the above

Correct answer: (c)

Explanation: Section 54B provides the exemption from short-term and long-term capital gains arising from the transfer of agricultural land.

Q4. Exemption under section 54B is allowed only if the assessee purchases the agricultural land within ____________ after the date of transfer of the original asset.

(a) 1 year
(b) 2 years
(c) 3 years
(d) 5 years

Correct answer: (b)

Explanation: To claim the exemption under section 54B, the assessee needs to purchase the agricultural land within 2 years after the date of transfer of the original asset.

Q5. Exemption under section 54D is allowed only if the assessee purchases ________ for the purposes of shifting or re-establishing the undertaking or setting up another industrial undertaking.

(a) Other land or building
(b) Right in any other land or building
(c) Constructs any other building
(d) All of the above

Correct answer: (d)

Explanation: Exemption under section 54D is allowed if the assessee purchases any other land or building or any right in any other land or building or constructs any other building *for the purposes of shifting or re-establishing the undertaking or setting up another industrial undertaking.*

Q6. Exemption under section 54EC is limited to a maximum of ________.

(a) Rs. 10 crores
(b) Rs. 50 lakhs
(c) Rs. 2 Crores
(d) Rs. 5 crores

Correct answer: (b)

Explanation: Exemption under section 54EC will be the lower of the following:

(a) The amount of capital gains;
(b) The amount invested in specified bonds; or
(c) Rs. 50,00,000.

Q7. Exemption under section 54GA can be withdrawn if ______.

(a) the new asset or any rights in it are sold within 3 years of its purchase or construction
(b) the funds deposited in a capital gains account scheme are not used for the specified purposes within 3 years after the date of transfer
(c) Either (a) or (b)
(d) None of the above

Correct answer: (c)

Explanation: The exemption claimed by the assessee under this provision can be withdrawn in the following circumstances:

(a) Where the new asset or any rights in it are sold within 3 years of its purchase or construction, the cost of the new asset will be reduced by the amount of capital gain previously exempted. The classification of the capital gain from the sale of the new asset into long-term or short-term will be determined based on the length of time it was held.
(b) Where the funds deposited in a capital gains account scheme are not used for the specified purposes within 3 years after the date of transfer, the unspent deposit will be considered as capital gain in the relevant previous year in which the 3-year time period expires. The nature of capital gain will be the same as the original gain.

Q8. Which of the following is true in relation to Section 54GB?

(a) The exemption is available only if the original asset is transferred between April 1, 2012, and March 31, 2019. However, if the investment is to be made in an eligible start-up, the original asset can be transferred up to March 31, 2022.
(b) This exemption can be availed if the assessee invests the capital gains in equity shares of an eligible company and such a company uses this investment to buy a new plant and machinery.
(c) This exemption is available only to an 'Individual' or a 'Hindu Undivided Family'
(d) None of the above

Correct answer: (c)

Explanation: Exemption under section GB is available only to an 'Individual' or a 'Hindu Undivided Family'. Further, this exemption is available only if the original asset is transferred between April 1, 2012, and March 31, 2017. However, if the investment is to be made in an eligible start-up, the original asset can be transferred up to March 31, 2022. This exemption can be availed if the assessee invests the net consideration in equity shares of an eligible company and such a company uses this investment to buy a new plant and machinery.