Capital Gain Report :

Equity – Grandfathering Method.
The existence of Capital Gain Report since WT Software was introduced to clients. Some changes we made with different reason, Some due to RTA feeds, some due to taxation policy.

Change in Calculation and Presentation is as per,

Year 2011 - Debt Investments Policy Changed.
Investors were allowed to take Advantage of cost calculations with WPI (Indexing Method)

The option was implemented.
The same way in Eligible for Notional Capital Gain Report also for Estimation of Capital Gain in Advanced to take decision for Redemptions.

Year 2018: Equity Investments Policy Changed.
1st February, 2018, Union Budget was presented in Parliament.
It was Historical moment for Budget Presentation Date and Time.
Earlier (Since 1947/51) the union Budget was present in Parliament on Last day of February.

What Changes were introduced for financial Market?

Implication of Taxation on sales of Equity Investments(Long Term Capital Gain).

Implication of Taxation on Dividend Income of Equity.

Impacted on any sales of Equity Mutual Funds and Equity Stock after1st April, 2018.

Taxation on Equity Income were not welcoming steps for Investors.(and for entire Market Also)

To hedge the action, Government has introduced Grandfathering theory to calculate Long Term Capital Gain (Amount).

A Benchmarked Market Price for Equity Investments is of 31- January -2018.

For Mutual Funds Closing NAV of 31-Jan-2018.
For Equity-Share Market Scripts, highest Price (Not closing) of 31-Jan-2018.

If Investor has Investments before 31-January, 2018, The Grandfathering clause will be applicable, at the time of Sales. (Disinvestments)

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What is Grandfathering Method?
How to calculate Long Term Capital Gain for Sales of Equity-MF for Listed Shares.?

Scenario 1- The selling price is higher than the price of Actual Buying Price and Higher than NAV of 31st January 2018 , Cost of acquisition will be the price as on 31st Jan,2018.Hence there will be long term Capital Gain.

Long Term Capital Gain Taxation for existing Equity Holdings			
	Scenario 1	Scenario 2	Scenario 3
Buying price at 1-Jan-2010	10,000	10,000	10,000
Price as on 31-Jan-2018	22,107	22,107	22,107
Selling price @ 1-Feb-2019	25,000	20,000	9,000
Cost of Acquisition w ill be	22,107	20,000	10,000
LTCG w ill be	2,893	-	(1,000)
LTCG Tax 10%	289		
How your taxes will work out:	Selling Price is more than the Price as on 31st Jan, 2018 and the actual buying price. Cost of acquisition w ill be the Price as on 31st Jan, 2018. Hence, there w ill be Long Term Capital Gain implication	Selling Price has fallen below than the Price as on 31st Jan, 2018 but is still higher than the actual buying price, Cost of acquistion w ill be the Selling price. Hence, No tax is applicable.	Selling Price has fallen below than both Price as on 31st Jan, 2018 and the actual buying price. Cost of acquisition w ill be the actual buying price. Hence, there w ill be Long Term Capital Loss implication

Scenario 2- The selling price is higher than the price of Actual Buying Price and Lower than NAV of 31st January 2018 , Cost of acquisition will be the price as of Selling Price. Hence there will be No long term Capital Gain.

Scenario 3 - The selling price is lower than the price of Actual Buying Price and lower than NAV of 31st January 2018, Cost of acquisition will be the Actual buying price. Hence there will be long term Capital loss consider.

The grandfathering method is deciding the "Cost of Acquisition" in different three scenarios.

The benchmark NAV-Closing Price is of 31st January, 2018.
The day before presentation of the budget and Introducing Taxation of Equity Long term Capital Gain.

Why Grand Fathering?

What is motive behind Grand fathering Method?

The idea is to balance the effect of implication of Tax on Long term Capital Gain on Equity Market related Instrument.

To attract the people to invest in Equity Market and (It's) related Instruments, There were no taxation on Long term Income and Dividend Income.
Investors had invested money with assumptions of No taxation on Long term Investments.

After Implication of the Long Term Cap Gain Tax, Investors still have current Investments planned for Long term goal. (As the thumb rule for Equity Market)

To provide the benefit in the form of Cost of acquisition, Benchmark NAV- Closing (High) Value of the Equity Investments helps the investors to reduced Tax liabilities.

Some FAQ's to clear the Grandfathering Method (Cost of Acquisition) .

(1) Does Grand fathering method applicable to all Investments?
No Grand fathering Method only Applicable for Equity Investments.
(2) Does Grand fathering method applicable to all Equity Investments?
No Grand fathering Method only Applicable for Equity Investments done on or before 31st January, 2018 and Sales after 01- April-2018.
(3) If Investor Invests money after 31-January-2018 (i.e. from 1st February, 2018) and Sales on/after any date No Grandfathering Method apply.
(4) Does Grand fathering method Applicable for Both Long term and Short term Capital Gain, No Grand Fathering Method is applying on only for Long Term Capital Gain.
(5) Does Grand Fathering Cost is Closing Value/NAV of 31-January- 2018?
No, not in all cases , Closing Value/NAV of 31- January-2018 is a benchmark value to decide Grandfathering Cost as per condition in Table.

(6) Shall Investor booked loss as per Grandfathering Method?
No. Grand fathering Method is to reduce or null the profit booked only.
If Investor is selling investments @ lesser value than purchase Value ,Only than loss will be considered.

(7) IF Investor is making profit, why Scenario 1 or 2 required?
In Scenario 1, Investor is making profit as well as beating benchmark date Price/NAV Advantage of Grand fathering is restricting to reduce the profit.
In Scenario 2, Investor is making profit but compare to Benchmark Date Price, Loss shall visualize. Loss is not permissible as per Grand Fathering Method, to square off the profit.

(8) In Scenario 2, Investor is making profit but compare to Benchmark Date Price
If Investor is selling stocks/MF lesser than Purchase price, only than booked the losses. With advantage of Grand fathering method loss booking is not permissible.

For any queries kindly write to us on kc@fin-soft.com