

## COST INFLATION INDEX 2010-11



The Central Board of Direct Taxes ('CBDT') has recently issued a Notification providing for the Cost Inflation Index for FY 2010-11. The provisions relating to Cost Inflation Index ('CII') and the new CII form the subject matter of this Tax Alert.

Under the Income-tax Act, 1961 ('Act'), the gain arising from transfer of any capital asset is charged to tax as 'capital gains'. The Act follows the commercial way of computing capital gains i.e. sale value minus cost price. However, in respect of long term capital assets i.e. assets which are held for a period of more than 12/36 months, the taxable gain is computed by reducing the sale value from the '**indexed cost of acquisition**'. The objective to allow indexation of cost is to provide for the effect of inflation and to tax the gain in real terms.

Indexed cost of acquisition is computed as under:

$$\text{ICOA} = \text{COA} \times \frac{\text{CII of the year of transfer}}{\text{CII of the year of acquisition by the}}$$

ICOA: Indexed Cost of Acquisition

COA: Cost of Acquisition

CII: Cost Inflation Index

The is determined by the CBDT having regard to 75 per cent of average rise in the Consumer Price Index for urban non-manual labour for the immediately preceding financial year.

The CBDT has notified '711' as the CII for FY 2010-11. Accordingly, where a long term capital asset which is eligible to claim the benefit of indexation is transferred in FY

2010-11, the numerator to compute the Indexed Cost of Acquisition will be 711.

To illustrate, if a house purchased in FY 1991-92 (CII: 199) for Rs. 10 lacs is sold in FY 2010-11, the indexed cost of acquisition will be computed as under:

$$\begin{aligned} \text{ICOA} &= 10,00,000 \times \frac{711}{199} \\ &= 35.73 \text{ lacs} \end{aligned}$$

It is pertinent to note that the CII remains the same for all the days of the financial year. That is, the indexed cost of acquisition for a long term capital asset which is transferred on 1<sup>st</sup> April 2010 or on 31<sup>st</sup> March 2011 will be computed by using the same CII of 711.

The CII may be borne in mind while computing capital gains earned during the year while estimating the advance tax payable for the year.

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