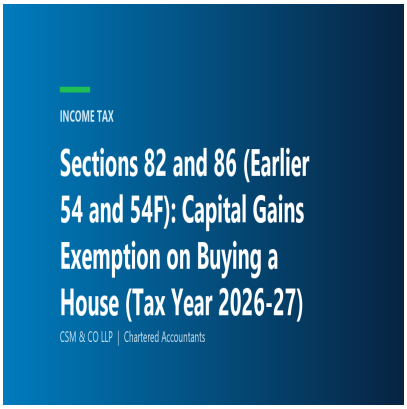

Sections 82 and 86 (Earlier 54 and 54F): Capital Gains Exemption on Buying a House (Tax Year 2026-27)

Description

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Quick summary

- Section 82 (earlier 54) exempts the long-term gain on sale of a residential house if you buy one house within 1 year before or 2 years after, or build one within 3 years; only the gain has to be reinvested.
- Section 86 (earlier 54F) exempts the long-term gain on sale of any other long-term asset, such as shares, gold or land, if the whole net sale proceeds go into one house; the exemption is proportionate if only part is invested.
- Both are for an individual or HUF, both need the new house to be in India, and both allow a deposit in the capital gains account scheme before the return is filed.
- Both ignore cost or proceeds above ?10 crore. Section 82 allows two houses once if the gain is up to ?2 crore. Section 86 is lost if you own more than one other house.

Two sections of the Income-tax Act, 2025 let an individual or HUF avoid tax on long-term capital gains by buying or building a house. Section 82 (the old section 54) covers the sale of a house. Section 86 (the old section 54F) covers the sale of any other long-term asset.

Section 82 (earlier 54): sale of a residential house

Who: an individual or HUF.

Original asset: buildings or land appurtenant to them, being a **residential house** whose income is taxed as house property, with a **long-term** gain.

New asset: one residential house in India that you:

- **buy** within **one year before** or **two years after** the date of transfer; or
- **construct** within **three years after** the date of transfer.

Exemption:

- If the capital gain is **more than the cost of the new house**, the excess is taxed under section 67, and if you transfer the new house within three years the cost is taken as **nil**.
- If the gain is **equal to or less than the cost** of the new house, **none of it is taxed**, and if the new house is transferred within three years its cost is **reduced by the gain**.

Two houses (section 82(5) and (6)): if the gain is up to **?2 crore**, you may buy or build **two** houses instead of one. You can use this option **only once**, for one tax year only.

Limits (section 82(7) and (8)): a cost of the new house above **?10 crore**, and a gain above **?10 crore** for the deposit requirement, are not taken into account.

Example. A flat held for five years is sold for ?1,20,00,000; indexation aside, the long-term gain is ?50,00,000. You buy another house for ?35,00,000 within two years. Exempt: ?35,00,000. Taxed: ?15,00,000 as long-term gain. If the new house cost ?55,00,000, the whole ?50,00,000 is exempt, and the new house has a reduced cost of ?5,00,000 if you sell it within three years.

Section 86 (earlier 54F): sale of any other long-term asset

Who: an individual or HUF.

Original asset: any **long-term** capital asset that is **not a residential house** (shares, mutual fund units, gold, land, a commercial property and so on).

New asset: one residential house in India bought within one year before or two years after the transfer, or built within three years after.

Exemption (section 86(1)): compare the **net consideration** (sale price less expenses of the transfer) with the **cost of the new house**:

- If the net consideration is **equal to or less than** the cost, **no** capital gain is taxed.
- If it is **more**, the exempt part of the gain is: **gain × cost of the new house ÷ net consideration**.

Example. Shares are sold for ?1,00,00,000 (net consideration), long-term gain ?40,00,000. You buy a house for ?60,00,000. Exempt: 40,00,000 × 60,00,000 ÷ 1,00,00,000 = ?24,00,000. The rest, ?16,00,000, is taxed under the capital gains rates. If you invest the whole ?1,00,00,000, the whole gain is exempt.

Conditions that take the exemption away (section 86(5) and (6)):

- The exemption is **not available** if, on the date of transfer, you **own more than one residential house** other than the new house; or if you **buy another house** (other than the new one) within **one year**, or **build** one within **three years**, after the transfer, and the income of that other house is taxed as house property.
- If you buy, within **two years** after the transfer, or build, within three years, a house other than the new one whose income is taxed as house property, the gain that was exempted is taxed as long-term gain in the year you buy or build it.

Withdrawal (section 86(7)): if you **transfer the new house within three years** of buying or finishing it, the exempted gain is taxed as long-term gain in the year of transfer.

Limits (section 86(8) and (9)): cost of the new house above ?10 crore, and net consideration above ?10 crore

for the deposit, are ignored.

Capital gains deposit scheme (sections 82(2) and 86(2))

If you have not bought or built the house **before filing the return**, you must **deposit the unutilised amount** in a specified bank or institution under the scheme notified by the Central Government. The deposit must be made **before the return is filed and not later than its due date** under section 263(1), and the **proof of deposit** must be attached to the return.

- The amount utilised plus the deposit is treated as the cost of the new house.
- If the deposit is **not fully used** within the time limit (three years from the date of transfer, or from the date compensation is received for a compulsory acquisition under section 89), the unutilised amount is **taxed as income of the year in which three years from the transfer expire**, and you may withdraw the unutilised amount under the scheme.
- For section 86, the tax on unutilised amount is worked out by the formula X minus Y in section 86(4).

Compare the two

Point	Section 82	Section 86
Original asset	Residential house	Any long-term asset other than a residential house
What must be invested	The **gain**	The **net consideration** (proportionate exemption)
House restriction	None	No more than one other house when the asset is sold
Two houses	Once, if gain up to ?2 crore	No
Cap	?10 crore	?10 crore
Lock-in	Three years, otherwise cost reduced or nil	Three years, otherwise gain taxed

Before you claim

1. Work out the long-term gain correctly, using the cost and holding period rules (see our post on capital gains).
2. Decide how to meet the time limits: one year before, two years after, three years for construction.
3. If funds are not used by the return due date, **deposit them first**.
4. Keep the sale deed, purchase or construction documents and the deposit proof for the return and for any notice.

Frequently asked questions

Who can claim the exemption under section 82 (earlier 54)?

An individual or HUF with a long-term capital gain on sale of a residential house (building or land appurtenant to it) whose income is taxed as house property, who buys one residential house in India within one year before or two years after the sale, or builds one within three years after the sale.

How much is exempt under section 82?

The capital gain, up to the cost of the new house. If the gain is more than the cost of the new house, the excess is taxed as long-term gain.

Who can claim section 86 (earlier 54F)?

An individual or HUF with a long-term gain from the transfer of any long-term asset other than a residential house, who invests the net sale proceeds in one new residential house in India within the same time limits, and does not own more than one other house when the asset is sold.

How much is exempt under section 86?

All the gain if the net consideration is invested in the house. If only part is invested, the exempt gain is the gain multiplied by the cost of the new house and divided by the net consideration.

Can I buy two houses?

Under section 82, if the gain is ?2 crore or less, you may buy or build two houses, but only once in your lifetime.

What if I cannot buy the house before filing the return?

Deposit the unutilised amount in a specified bank under the capital gains account scheme before the due date of filing, attach proof, and use it within the time limit. Any amount not used by the end of three years from the date of transfer is taxed in that year.

Official sources

- Income Tax Department: Income-tax Act, 2025 (sections 82, 86 and 89)

Related reading

- Capital Gains Tax on Sale of Property: Rates, Indexation Choice, Stamp Duty Value and Exemptions (Tax Year 2026-27)
- Agricultural Income: Exemption, Partial Integration and Tax Calculation

- RSU vs ESOP vs Sweat Equity Shares: Differences and Tax Treatment (2026-27)

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