

Capital Gains Tax in India: Short-Term, Long-Term, Rates and Computation (Tax Year 2026-27)

Description

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Quick summary

- Capital gains are the profit on transfer of a capital asset, taxed in the year of transfer under section 67 of the Income-tax Act, 2025; they are computed as the sale value less expenses on the transfer, the cost of acquisition and the cost of improvement (section 72).
- An asset held for 12 months or less (listed securities, equity-oriented fund units, UTI units, zero coupon bonds) or 24 months or less (everything else) is short-term; otherwise it is long-term (section 2(101)).
- Short-term gains on listed equity with STT are taxed at 20%; long-term gains are taxed at 12.5%, and gains on listed equity with STT are taxed at 12.5% only on the part above ?1,25,000 a year.
- Resident individuals and HUFs can choose indexed cost at 20% for land or building acquired before 23 July 2024 if that gives a lower tax.

Profit on selling a house, plot, shares, mutual fund units or gold is taxed as capital gains. The rules sit in sections 67 to 91 of the Income-tax Act, 2025 (they were sections 45 to 55A of the 1961 Act), and the tax rates in sections 196 to 198. This post sets out the framework for tax year 2026-27, from the sale date to the tax.

What is taxed

Section 67(1): profits or gains from the **transfer of a capital asset** in a tax year are chargeable under the head “Capital gains” and are the income of the year in which the transfer took place. “Capital asset” means property of any kind held by you, whether or not connected with your business or profession (section 2(22)).

Some transactions are **not a transfer** (section 70): a gift or will by an individual or HUF, partition of a HUF, certain transfers between a company and its wholly owned subsidiary, amalgamation, and others. A gift is tax free to the giver, but the receiver takes over the cost and holding period of the giver (see our post on cost of acquisition).

The Act also specifically taxes some receipts as capital gains: insurance money received for destruction of a

capital asset (section 67(2)), gains on conversion of a capital asset into stock-in-trade (section 67(6), taxed when the stock is sold), contributing an asset to a firm of which you are a partner (section 67(9)), enhanced compensation (section 67(12)), and a real estate joint development (section 67(14)).

Short-term or long-term (section 2(101))

Asset	Short-term if held for
Security listed on a recognised stock exchange in India, unit of UTI, unit of an equity-oriented fund, zero coupon bond	12 months or less
Every other capital asset (unlisted shares, foreign shares, land, building, gold, debt fund units and so on)	24 months or less

The holding period runs from the date of acquisition to the date of transfer. It includes the previous owner's period for a gift, will, inheritance and the other cases in section 73(1) Table serial 1, and, for shares or securities allotted by an employer under an ESOP, runs from the date of allotment. A specified mutual fund bought on or after 1 April 2023, a market linked debenture, and an unlisted bond or debenture transferred or redeemed on or after 23 July 2024 give short-term gains whatever the holding period (section 76).

How the gain is computed (section 72)

Capital gain = full value of consideration, less expenditure incurred wholly and exclusively on the transfer, less the cost of acquisition, less the cost of any improvement.

- Interest claimed as a deduction under section 22(1)(b) or Chapter VIII and **securities transaction tax** are not deducted.
- For **land or building**, if the sale price is less than the **stamp duty value**, the stamp duty value is taken as the sale price, but a gap of up to 10% is ignored (section 78). For **unquoted shares** sold below fair market value, the fair market value is used (section 79).
- If the price cannot be ascertained, the fair market value on the transfer date is used (section 80).
- Cost of improvement means capital expenditure on additions or alterations, not repairs (section 90(1) and (2)).

Cost of acquisition

Situation	Cost
Bought	What you paid
Gift, inheritance, will, certain transfers	Cost to the previous owner (the last owner who acquired it otherwise), plus his cost of improvement (section 73(1), Table serial 1)
Acquired before 1 April 2001	Cost, or fair market value on 1 April 2001, at your option; for land or building the fair market value cannot exceed the stamp duty value on that date (section 90(9) and (10))

Situation	Cost
Long-term listed equity shares, equity-oriented fund units or business trust units acquired before 1 February 2018	The higher of (a) cost and (b) the lower of the fair market value on 31 January 2018 and the sale price (section 90(7))
Shares allotted under an ESOP or RSU	The fair market value taken for the perquisite (section 73, serial 4)
Bonus shares and rights shares	Nil for bonus shares; the amount paid for rights shares (section 90(5) and (6))

Tax rates (sections 196 to 198)

Gain	Rate
Short-term gain on equity shares or units of an equity-oriented fund or a business trust, sold on a stock exchange with STT paid	**20%** (section 196)
Other short-term gains	Normal slab rates
Long-term gain on listed equity shares, equity-oriented fund units or business trust units, where STT was paid on acquisition and transfer (STT on transfer only for fund and trust units)	**12.5% on the gain above ?1,25,000** in the year (section 198)
Other long-term gains (unlisted shares, property, gold, debt units and so on)	**12.5%, without indexation** (section 197)
Long-term gain on land or building acquired before 23 July 2024, by a resident individual or HUF	The lower of 12.5% without indexation, and 20% with the indexed cost of acquisition and improvement (section 197(3))

Other points on rates:

- For a **resident individual or HUF**, if the rest of your income is below the basic exemption limit, the shortfall is set against the capital gain before tax is applied (sections 196(2), 197(2) and 198(3)).
- **Chapter VIII deductions** (section 123 and others) are allowed only from income other than these capital gains (sections 196(4), 197(5), 198(6)).
- The **rebate under section 156** is allowed against tax on income other than the special-rate capital gains. It does not wipe out tax on long-term gains under section 198 (section 198(7)).
- **Surcharge** on tax on these capital gains is capped at **15%** whatever the income (Finance Act, 2026), and cess is 4%.

Examples

1. Long-term gain on listed shares. A resident individual bought listed shares for ?4,00,000 on 12/06/2025 and sold them on a stock exchange on 20/08/2026 for ?6,10,000, with STT paid on both. Held for more than 12 months, so long-term.

- Gain: 6,10,000 - 4,00,000 = ?2,10,000
- Exempt part: ?1,25,000; taxable: ?85,000
- Tax at 12.5% = ?10,625; cess 4% = ?425; **total ?11,050**

2. Short-term gain on listed shares. Bought on 01/04/2026 for ?2,00,000, sold on 10/10/2026 for ?2,50,000, STT paid. Gain ?50,000; tax at 20% = ?10,000 plus cess ?400 = **?10,400**.

3. Listed shares bought before 1 February 2018. Cost ?1,00,000 in 2015; value on 31 January 2018 ?3,00,000; sold in 2026 for ?5,00,000. Deemed cost = higher of 1,00,000 and the lower of 3,00,000 (value on 31/01/2018) and 5,00,000 (sale price) = ?3,00,000. Gain = ?2,00,000; taxable above ?1,25,000 = ?75,000 at 12.5% = ?9,375.

4. Plot of land. Bought for ?10,00,000 in March 2020 and sold for ?30,00,000 in August 2026. Held more than 24 months, so long-term. Tax at 12.5% without indexation: 20,00,000 × 12.5% = ?2,50,000. If indexing the cost at 20% gives a lower figure, the resident individual pays that lower tax, because the land was acquired before 23 July 2024. See our post on capital gains on property.

Losses

- A **short-term capital loss** can be set off against any capital gain, short-term or long-term; a **long-term capital loss** only against long-term gains (section 108(2)).
- A capital loss cannot be set off against other heads such as salary (section 109(2)).
- Unabsorbed losses carry forward for **eight tax years** against capital gains of the matching kind (section 111), and only if the loss was determined in a return filed by the due date (section 121). See our post on capital loss set-off.

Reporting

Capital gains are reported in the capital gains schedule of the return, with each sale listed (date, cost, sale price). If you have capital gains beyond the long-term gains of ?1,25,000 under section 198, you cannot use the simple ITR-1 (see our post on which ITR form to file). Pay advance tax on gains as they arise.

Frequently asked questions

What is a capital asset?

Property of any kind held by you, whether or not connected with your business, such as land, a house, shares, units, gold and jewellery, and certain other items (section 2(22)). Stock-in-trade and some other items are outside the definition.

When is a gain short-term or long-term?

Short-term if the asset is held for not more than 24 months before transfer; for a security listed in India, a UTI unit, a unit of an equity-oriented fund or a zero coupon bond the period is 12 months. A longer holding makes the gain long-term (section 2(101)).

What are the capital gains tax rates?

Short-term gain on listed equity shares and equity-oriented fund units sold with STT: 20%. Other short-term gains: slab rates. Long-term gains: 12.5%, and on listed equity shares and equity-oriented fund units with STT 12.5% only on gains above ?1,25,000 in the year (sections 196 to 198).

Is indexation still available?

Only for a resident individual or HUF selling land or building acquired before 23 July 2024, who may pay the lower of 12.5% without indexation and 20% with indexation (section 197(3)). Indexation is not available for other assets.

How is the cost of acquisition fixed?

Generally what you paid; for gifted or inherited assets, the cost to the previous owner (section 73); for assets acquired before 1 April 2001, cost or fair market value on that date at your option; for listed equity acquired before 1 February 2018, the higher of cost and the lower of its value on 31 January 2018 and the sale price (section 90).

Can I set off a capital loss?

A short-term loss against any capital gain, a long-term loss only against long-term gains. Unabsorbed losses carry forward for eight tax years if the return was filed on time (sections 108, 111 and 121).

Official sources

- Income Tax Department: Income-tax Act, 2025 (sections 2(22), 2(101), 67, 72, 73, 76, 90, 108, 111, 121, 196 to 198)
- Finance Act, 2026 (surcharge on capital gains)

Related reading

- ESOP Taxation in India: Perquisite on Exercise and Capital Gains on Sale (2026-27)
- Verify Your PAN Name Before You Apply: Free TRACES PAN Verification for Income Tax, TDS, GST, ICEGATE and DSC
- What is Income Tax? Meaning, Rules, Tax Slabs, Types and Tax Guide for Tax Year 2026-27

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