

Sale of Depreciable Assets: Capital Gains Under Sections 74 and 75 (Earlier 50 and 50A)

Description

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Quick summary

- When an asset in a block of assets on which depreciation has been allowed is sold, a capital gain arises only if the sale price exceeds the opening written down value of the block plus additions of the year plus the expenses of transfer (section 74(2)).
- The excess is a short-term capital gain, whatever the holding period; if the block ceases to exist because all its assets are sold, the net result is also a short-term gain or loss (section 74(3)).
- Where depreciation was allowed on an asset in a particular year, its written down value is taken as the cost of acquisition (section 75).
- The tax is at the assessee's slab rate or at the short-term rate, not at 12.5%.

A business that sells machinery, a vehicle or a building on which it has claimed depreciation does not compute the gain asset by asset, as it would for shares. The Income-tax Act, 2025 treats such assets in **blocks**, and sections 74 and 75 (earlier sections 50 and 50A) provide the special rules.

What is a block of assets

Depreciation is allowed on a **block of assets**: assets of the same class with the same depreciation rate. The block has an opening **written down value** (WDV) each year, which is reduced by depreciation and by the sale proceeds of assets sold, and increased by the cost of assets acquired.

Section 74(2): gain when part of a block is sold

If, during the tax year, the **full value of consideration** received or accruing for the transfer of one or more assets in a block **exceeds the total** of:

- (a) the expenditure incurred wholly and exclusively on the transfer;
- (b) the **written down value of the block at the start of the tax year**; and
- (c) the **actual cost of any asset of the block acquired during the tax year**,

then **the excess is deemed to be a short-term capital gain**, irrespective of how long the asset was held. The gain is charged in the year of the sale.

If the sale price is **less than or equal to** this total, there is **no capital gain** under this section, and the sale is dealt with under the depreciation provisions for the block.

Example. The WDV of a block of machinery at the start of the year is ?10,00,000. During the year, you buy a machine of the same block for ?2,00,000 and sell an old machine for ?14,00,000 (expenses ?20,000).

- Total = 20,000 + 10,00,000 + 2,00,000 = ?12,20,000
- Sale price ?14,00,000 is more than ?12,20,000, so short-term capital gain = **?1,80,000**

Section 74(3): the block ceases to exist

If **all the assets** of a block are transferred in the year, so that the block ceases to exist:

- the **cost of acquisition** of the block is the WDV at the beginning of the year plus the actual cost of any asset of the block acquired during the year; and
- the amount received or accruing is **deemed a short-term capital gain** (or a short-term loss, if it is less than that cost less the expenses).

Example. A block has a WDV of ?6,00,000 and is entirely sold for ?4,50,000 with no additions. The result is a **short-term capital loss** of ?1,50,000 (less expenses). The loss is a capital loss and is dealt with under the loss rules (see our post on capital loss), not as a business loss.

Section 75: where depreciation was obtained on an asset

If depreciation has been obtained under section 33(2) for a capital asset in any tax year, then sections 72 and 73 apply with the modification that the **written down value of the asset, as defined in section 41 and adjusted, is its cost of acquisition**. This avoids a double benefit: the depreciation already claimed is not allowed again as a cost.

Who these provisions affect

- **Businesses and professions** that claim depreciation (plant, machinery, vehicles, furniture, buildings, intangible assets).
- **Goodwill**: if you bought goodwill and claimed depreciation before the tax year commencing 1 April 2020, the depreciation reduces the purchase price for its cost of acquisition (section 90(4)).

Tax and reporting

- The gain is **short-term** and is taxed at the **slab rates** (individuals), or the rates for the entity (company, firm).
- Report the gain in the capital gains schedule under short-term gains, with the block details.
- **Advance tax** applies to the gain as it arises.

Points to remember

1. The holding period does not matter: the gain is short-term.
2. A gain arises only when the **sale price exceeds the whole block's WDV plus additions plus expenses** .
3. When a block disappears, a loss on its sale is a **short-term capital loss**, which can be set off only against capital gains.
4. Keep the depreciation schedule to prove the WDV.

Frequently asked questions

How is a gain on a depreciable asset computed?

If the sale price of one or more assets of a block exceeds the total of the expenses of transfer, the written down value of the block at the start of the year and the cost of assets of the block bought during the year, the excess is a short-term capital gain (section 74(2)).

Is the gain long-term if I held the machine for many years?

No. The excess is deemed to be a short-term capital gain irrespective of the holding period (section 74(2)).

What if all assets in the block are sold?

The block ceases to exist. Its cost of acquisition is the written down value at the start of the year plus the cost of assets of that block bought during the year, and the net result is a short-term capital gain or loss (section 74(3)).

What happens if the sale price is lower than the block's written down value?

No capital gain arises under section 74(2). The sale is dealt with under the depreciation provisions for the block, unless the block ceases to exist, in which case section 74(3) gives a short-term loss.

Does section 75 apply to every asset?

It applies where depreciation was obtained under section 33(2) for a capital asset in any tax year: the written down value of the asset as defined in section 41, as adjusted, is its cost of acquisition for sections 72 and 73.

What tax rate applies?

Short-term capital gain rates. Since the transaction is not on a stock exchange with STT, the gain is taxed

at the assessee’s slab rates (or the rate of the entity).

Official sources

- Income Tax Department: Income-tax Act, 2025 (sections 33, 41, 72, 73, 74, 75)

Related reading

- Slump Sale: Capital Gains Under Section 77 (Earlier 50B), Net Worth and Form 28 (Tax Year 2026-27)

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