

Cost of Acquisition for Capital Gains: Gifted, Inherited and Pre-2001 Assets (Tax Year 2026-27)

Description

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Quick summary

- A gift, will or inheritance is not a transfer, so the giver pays no capital gains tax. The receiver takes over the previous owner's cost of acquisition and counts his holding period (section 70, section 73 Table serial 1, section 2(101)).
- For assets acquired before 1 April 2001, the cost is the actual cost or the fair market value on that date, at your option; for land or building the fair market value is capped at the stamp duty value (section 90(9) and (10)).
- For listed equity shares and equity-oriented fund units bought before 1 February 2018, the cost is the higher of actual cost and the lower of the value on 31 January 2018 and the sale price (section 90(7)).
- If the previous owner's cost cannot be found, his cost is the fair market value on the date he acquired it (section 90(11)).

To compute a capital gain you subtract the cost of acquisition from the sale price. For an asset you bought, that is simple. For an asset you received as a gift or inheritance, or that has been in the family since before 2001, the Income-tax Act, 2025 has specific rules. They are in sections 73 and 90.

Gifts and inheritance: no tax on receipt of the asset

- A transfer by **gift, will or irrevocable trust** by an individual or HUF is **not a transfer** for capital gains (section 70(1)(b)), and a partition of a HUF is also outside it (section 70(1)(a)). The giver does not pay capital gains tax.
- The **receiver** is not taxed on a gift of money or property received from a **relative**, on the occasion of marriage, under a will or by way of inheritance, or in contemplation of death (section 92(3)). A gift from a non-relative above ?50,000 in a year, in cash or property, is taxed as income from other sources (section 92(2)(m)). "Relative" includes the spouse, brothers and sisters, and lineal ascendants and descendants and their spouses (section 92(5)(g)).
- Income from an asset you gift to your spouse or minor child is generally added to your own income (section 99, income of other persons included), and a house gifted to a spouse or minor child remains

yours for house property tax (section 25).

The receiver’s cost and holding period

When the receiver sells the asset:

- **Cost of acquisition** is the cost for which the **previous owner** acquired it, **increased by** the cost of improvement borne by the previous owner or by the receiver (section 73(1), Table serial 1).
- **Previous owner** means the last owner who acquired the asset in a way **other than** gift, will, inheritance, trust transfer, distribution on liquidation and the other modes in that serial (section 73(2)(a)).
- **Holding period** includes the period the previous owner held the asset (section 2(101)(c)(B)(I)).
- If the **cost to the previous owner cannot be found**, it is taken as the **fair market value on the date he acquired the asset** (section 90(11)).
- **Cost of improvement** covers capital expenditure on additions and alterations. For an asset that came to the previous owner before 1 April 2001, only expenditure on or after 1 April 2001 counts (section 90(1)(b)(i)). It excludes expenditure already claimed against house property, business or other sources income (section 90(2)).

Assets held since before 1 April 2001

For an asset that became yours, or the previous owner’s, before 1 April 2001, the cost of acquisition is the **actual cost or the fair market value on 1 April 2001, at your option** (section 90(9)(a) and (b)). For **land or building** the fair market value on 1 April 2001 cannot exceed the **stamp duty value** on that date, where it is available (section 90(10)).

Shares and units bought before 1 February 2018 (grandfathering)

For long-term **equity shares of a company, units of an equity-oriented fund or units of a business trust** that are covered by section 198 and were acquired **before 1 February 2018**, the cost of acquisition is the **higher of**:

- (a) the actual cost; and
- (b) the **lower of** (i) the fair market value, and (ii) the sale price.

The fair market value is the **highest quoted price on 31 January 2018** for a listed asset, the highest price on the nearest earlier trading day if there was no trade that day, and the **net asset value** for an unlisted unit (section 90(8)). For shares not listed on 31 January 2018 but listed on the transfer date, the Act gives an indexed cost formula.

Other cost rules

Asset	Cost of acquisition
Bonus shares or other financial assets allotted without payment on the basis of holding	Nil (section 90(6)(d))
Rights shares you subscribe for	The amount you paid (section 90(6)(c))

Asset	Cost of acquisition
The right to subscribe, if you renounce it	Nil (section 90(6)(b))
Shares you buy from the person who renounced the right	The price paid to him plus the amount paid to the company (section 90(6)(e))
Shares after consolidation, sub-division or conversion	Cost worked out from the original shares (section 90(9)(d))
Shares on distribution of assets in liquidation	Fair market value on the date of distribution (section 90(9)(c))
Shares allotted under an ESOP or RSU	The fair market value taxed as a perquisite (section 73, serial 4)
Goodwill, brand, tenancy rights and other rights	The purchase price, or nil in other cases (section 90(3))

Examples

1. Inherited house. Your father bought a house in 1990 for ?2,00,000. Its fair market value on 1 April 2001 was ?10,00,000, below the stamp duty value on that date. You inherit it in 2018 and sell it in September 2026 for ?80,00,000. You can choose the cost: ?2,00,000 (actual) or ?10,00,000 (value on 1 April 2001). Choose ?10,00,000, which gives the lower gain. The holding period includes your father's, so the gain is long-term: 80,00,000 - 10,00,000 = **?70,00,000**. Tax is at 12.5% without indexation, or, as the house was acquired before 23 July 2024, the lower of that and 20% with indexation, if you are a resident individual (section 197).

2. Gifted shares. Your father gives you listed shares he bought in 2015 for ?1,00,000. They were worth ?3,00,000 on 31 January 2018. You sell them in 2026 for ?5,00,000. The cost is the higher of ?1,00,000 and the lower of ?3,00,000 and ?5,00,000, that is ?3,00,000. The gain is ?2,00,000, long-term, and taxable above ?1,25,000 at 12.5%.

3. Gift from a friend. If a friend (not a relative) gives you land with a stamp duty value of ?20,00,000, you are taxed on ?20,00,000 as income from other sources in the year you receive it (section 92(2)(m)). That value is then your cost of acquisition if you sell the land later (section 73, serial 17).

Points to keep in mind

- Keep the documents of the **previous owner's cost** and any improvements. For old assets, a registered valuer's report for the value on 1 April 2001 supports the option.
- The cost of acquisition cannot include interest you claimed as a deduction elsewhere (section 72(3)).
- For ESOP shares and shares of a foreign company, see our posts on ESOP taxation and on capital gains.
- If the property was inherited, check whether the heir needs a **will or legal heir certificate** to prove the mode of acquisition.

Frequently asked questions

Is there capital gains tax when I gift or inherit an asset?

No. A transfer by gift, will or inheritance is not a transfer for capital gains (section 70(1)(b)), and the receiver is not taxed on a gift from a relative or on an inheritance (section 92(3)). Tax arises when the receiver later sells the asset.

What is the cost of an inherited or gifted asset?

The cost for which the previous owner acquired it, plus any cost of improvement borne by the previous owner or by you (section 73(1), Table serial 1). “Previous owner” is the last owner who acquired it other than by gift, will, inheritance or one of the other modes in that serial.

Does the holding period of the giver count?

Yes. The period for which the previous owner held the asset is included in your holding period (section 2(101)(c)), so an asset held by the giver for a long time is long-term in your hands even if you sell soon after receiving it.

What if the asset was bought before 1 April 2001?

You may take either the actual cost or its fair market value on 1 April 2001. For land or building the fair market value cannot exceed the stamp duty value on that date (section 90(9) and (10)). The same applies where the previous owner held it before that date.

How are shares bought before 1 February 2018 treated?

For long-term listed equity shares, units of an equity-oriented fund or a business trust, the cost is the higher of the actual cost and the lower of (i) the highest quoted price on 31 January 2018 (or net asset value for unlisted units) and (ii) the sale price (section 90(7) and (8)).

What is the cost of bonus and rights shares?

Bonus shares: nil. Rights shares: the amount you paid for them. A right to subscribe that you renounce: nil (section 90(5) and (6)).

Official sources

- Income Tax Department: Income-tax Act, 2025 (sections 2(101), 70, 73, 90, 92)

Related reading

- Section 85 (Earlier 54EC) Capital Gain Bonds, and Sections 83 and 84 (Earlier 54B and 54D) (Tax Year 2026-27)
- Sections 82 and 86 (Earlier 54 and 54F): Capital Gains Exemption on Buying a House (Tax Year 2026-27)
- Capital Gains Tax on Sale of Property: Rates, Indexation Choice, Stamp Duty Value and Exemptions (Tax Year 2026-27)

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