

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

Description

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Quick summary

- A slump sale is the transfer of one or more undertakings for a lump sum without values for the individual assets and liabilities (section 2(103)). The profit is a long-term capital gain if the undertaking was held for more than 36 months, and a short-term gain otherwise (section 77).
- The cost of acquisition and of improvement is the net worth of the undertaking, which is its total assets less liabilities as in the books, ignoring revaluation; the sale price is the fair market value of the capital assets worked out under Rule 53.
- An accountant's report in Form 28 must be furnished before the specified date in section 63 (section 77(4) and Rule 54).
- The long-term gain is taxed at 12.5% without indexation.

When a business is sold as a whole, the tax follows special rules. Instead of valuing every asset, the law taxes the profit on the sale of the undertaking as a **slump sale**. The rules are in section 77 of the Income-tax Act, 2025 (earlier section 50B), with the details of valuation in Rule 53 and the accountant's report in Rule 54.

What is a slump sale

Section 2(103): the **transfer of one or more undertakings, by any means, for a lump sum consideration without values being assigned to the individual assets and liabilities**. Fixing a value of an asset or liability only for stamp duty, registration fees or similar taxes is **not** assigning values.

An **undertaking** includes any part of an undertaking, or a unit or division, or a business activity taken as a whole, but not individual assets or liabilities or any combination of them that is not a business activity (section 2(35)).

Two points follow:

- A sale of individual assets, even many of them, is not a slump sale.

- A sale of a business **with a price allocated to each asset** is also not a slump sale. That is an itemised sale, taxed asset by asset.

Long-term or short-term (section 77(1) and (2))

- The profit or gain is chargeable as **long-term capital gain** in the year of the transfer.
- If the undertaking or division was **owned and held for 36 months or less** before the transfer, the gain is **short-term**.

Computing the gain (section 77(3) and (5))

- **Full value of consideration:** the fair market value of the capital assets on the date of transfer, calculated as prescribed (Rule 53).
- **Cost of acquisition and cost of improvement:** the **net worth** of the undertaking or division.

Net worth = the **aggregate value of total assets** of the undertaking, less the value of its liabilities as appearing in the books, with any revaluation of assets ignored. In the aggregate value of total assets:

- **depreciable assets** are taken at the **written down value of the block** of assets (as in section 41(1)(c));
- **goodwill** not acquired by purchase from a previous owner is **nil**;
- assets whose entire expenditure has been or can be deducted under section 46 are **nil**; and
- **other assets** are at their **book value**.

There is no indexation. Because the cost is the net worth, which is based on the books, the gain is largely the amount by which the price exceeds the book value of the net assets.

Rule 53: fair market value

Rule 53 gives the fair market value as the **higher of two figures**:

- **FMV1**, the asset-based value: A + B + C + D - L, where A is the book value of assets other than jewellery, artistic work, shares, securities and immovable property (less income-tax paid net of refunds and unamortised deferred expenditure), B the open market price of jewellery and artistic work on a registered valuer's report, C the fair market value of shares and securities as determined under Rule 57, D the stamp duty value of immovable property, and L the book value of liabilities excluding paid-up capital, proposed dividends, reserves and surplus, provisions for tax beyond tax paid and other provisions and contingent liabilities (as listed in the Rule); or
- **FMV2**, the consideration-based value: the monetary consideration received plus the fair market value of non-monetary consideration, determined in the manner in the Rule.

Report of an accountant (section 77(4); Rule 54)

Every assessee must furnish, **before the specified date referred to in section 63**, a report of an **accountant** in **Form 28**. It must include the **computation of the net worth** of the undertaking or division and **certify that the net worth has been correctly arrived at**. The specified date in section 63 is the date by which the tax audit report must be filed, so the report is due before that.

Tax rate

A long-term slump sale gain is taxed at **12.5%** without indexation (section 197), because the undertaking is not

listed equity. A short-term gain is taxed at the rates for the assessee. The surcharge on the long-term gain is capped at 15% (Finance Act, 2026).

Example

A company sells its manufacturing division, held for five years, for a lump sum of ?5 crore. The aggregate value of total assets of the division, taking depreciable assets at the written down value and other assets at book value, is ?3 crore, and its liabilities are ?1 crore.

- Net worth = 3,00,00,000 - 1,00,00,000 = ?2,00,00,000
- Full value of consideration = the higher of FMV1 and FMV2 under Rule 53; suppose it is ?5,00,00,000 (the consideration)
- Long-term capital gain = 5,00,00,000 - 2,00,00,000 = ?3,00,00,000
- Tax at 12.5% = ?37,50,000, plus surcharge (capped at 15% on this gain) and cess.

Practical points

- **Do not allocate the price to the assets.** If the agreement fixes values for individual assets, the transaction can fail the slump sale test, and each asset is taxed separately, including depreciable assets, under section 74.
- A **demerger** or **amalgamation** that satisfies the Act's conditions is not a transfer at all (section 70), and has no capital gain.
- Keep the **valuation reports**, the **net worth working** and the **Form 28** on file for the return.

Frequently asked questions

What is a slump sale?

The transfer of one or more undertakings, by any means, for a lump sum consideration without values being assigned to the individual assets and liabilities (section 2(103)). Fixing values for stamp duty or registration purposes does not count as assigning values.

Is the gain long-term or short-term?

Long-term if the undertaking or division was owned and held for more than 36 months immediately before the transfer; otherwise short-term (section 77(1) and (2)).

How is the gain computed?

Full value of consideration is the fair market value of the capital assets on the transfer date, worked out under Rule 53; the cost of acquisition and improvement is the net worth of the undertaking (section 77(3)).

What is net worth?

The aggregate value of total assets of the undertaking, less its liabilities as shown in the books, ignoring

any revaluation. Depreciable assets are taken at the written down value of the block, self-generated goodwill at nil, and assets whose cost was fully deductible at nil (section 77(5)).

Which report is needed?

An accountant's report in Form 28 computing and certifying the net worth, furnished before the specified date in section 63, that is the date by which the tax audit report is due (Rule 54).

What is the tax rate on a long-term slump sale gain?

12.5% without indexation (section 197), plus surcharge (at most 15% on this gain) and 4% cess.

Official sources

- Income Tax Department: Income-tax Act, 2025 (sections 2(103), 2(35), 77, 197)
- Income Tax Department: Income-tax Rules, 2026 (Rules 53 and 54, Form 28)

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