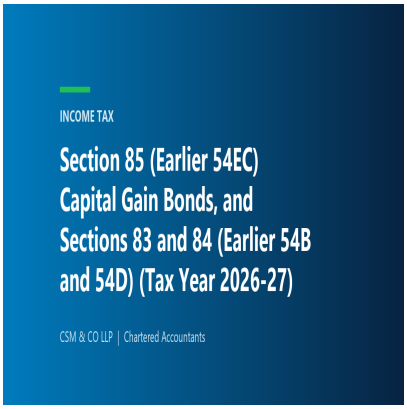

Section 85 (Earlier 54EC) Capital Gain Bonds, and Sections 83 and 84 (Earlier 54B and 54D) (Tax Year 2026-27)

Description

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Quick summary

- Section 85 (earlier 54EC) exempts the long-term gain on land or building if the gain is invested within six months in NHAI or REC bonds redeemable after five years, up to ?50 lakh.
- The bonds must not be sold, converted into money or pledged for a loan within five years, or the exempted gain is taxed in that year (section 85(3) and (4)).
- Section 83 (earlier 54B) exempts the gain on agricultural land if you buy other agricultural land within two years; section 84 (earlier 54D) exempts gain on compulsory acquisition of industrial land or building if you buy or build a replacement within three years.
- Gains not used by the return due date go to the capital gains deposit scheme, except for section 85, where the investment must be within six months.

If you sell land or a building, investing the long-term gain in specified bonds can save tax on it. Two other sections give similar relief for agricultural land and for land taken by the government. This post covers sections 83 to 85 of the Income-tax Act, 2025.

Section 85 (earlier 54EC): investment in specified bonds

Original asset: land or building, or both, with a **long-term** capital gain. Gain on shares, gold or other assets does not qualify.

Who: any assessee, not only individuals.

Investment: all or part of the capital gain, within **six months after the date of transfer**, in a **long-term specified asset**: a bond **redeemable after five years**, issued on or after 1 April 2018 by the **National Highways Authority of India** or **Rural Electrification Corporation Limited**, or another bond notified by the Central Government.

Limit (section 85(2)): the investment from the gain on one or more original assets cannot exceed **?50 lakh**,

either in a tax year, or in the year of the transfer and the next tax year taken together.

Exemption (section 85(1)):

- If the gain is **more than** the investment, the excess is taxed under section 67.
- If the gain is **equal to or less than** the investment, the **whole** gain is exempt.

Lock-in (section 85(3) and (4)): if you transfer the bonds, or convert them into money, within **five years** of acquiring them, the exempted gain is treated as **long-term capital gain** of that year. **Taking a loan or advance on the security of the bonds** is treated as converting them into money on that date.

No double benefit (section 85(5)): if you use the investment for this exemption, you cannot also claim a section 123 deduction for it.

Example. A plot held for six years is sold on 20/08/2026 for a long-term gain of ?60,00,000. Within six months, by 19/02/2027, you invest ?50,00,000 in NHAI bonds. Exempt: ?50,00,000. Taxed: ?10,00,000 at 12.5%, i.e. ?1,25,000 plus cess. If you also sell another plot in the same year, the ?50 lakh limit is shared.

Points to watch:

- The six months run from the **date of transfer**, not the end of the year, and there is **no deposit scheme** alternative for this section. The bond must be bought in time, even if the return is not yet due.
- If the sale price for a **compulsory acquisition** is not received on the date of transfer, the period for investment is counted from the date the compensation is received (section 89).
- Interest on the bonds is taxable; the exemption is only for the capital gain.
- The investment limit is for the gain from land or building, not the sale price. Invest no more than the gain.

Section 83 (earlier 54B): agricultural land

Who: an individual or HUF.

Original asset: land used for agricultural purposes by the assessee, his parent or the HUF in the **two years immediately before** the transfer. (The land must be a capital asset: urban land, as explained in our post on property sales.)

New asset: other land bought **within two years after** the transfer, for use for agriculture.

- If the gain exceeds the cost of the new land, the excess is taxed, and the cost of the new land is nil if it is sold within three years of purchase.
- If the gain is less than or equal to the cost, nothing is taxed, and the cost of the new land is reduced by the gain if it is sold within three years.

Deposit: if the gain is not used by the date of filing the return, deposit it in a specified bank under the capital gains deposit scheme before the due date and attach proof (section 83(2)). Any unused amount is taxed as income of the year in which two years from the transfer expire (section 83(4)).

Section 84 (earlier 54D): compulsory acquisition of an industrial undertaking’s land or building

Original asset: land, building or a right in them, belonging to an **industrial undertaking** and used by the assessee for its business in the **two years before** the transfer, **compulsorily acquired** under any law.

New asset: other land, building or a right, bought **within three years after** the transfer, or a building constructed in that period, **for shifting or re-establishing the undertaking** or setting up another industrial undertaking.

The same two-way rule applies: the gain above the cost of the new asset is taxed, and the cost of the new asset is nil or reduced if it is transferred within three years. The unused gain goes into the capital gains deposit scheme before the return due date, and any amount not used within three years of the transfer is taxed in the year those three years expire (section 84(4)).

Which section for which gain

Asset sold	Residential house	Land or building (not a house)	Agricultural land	Shares and other assets
Reinvest in a house	Section 82	Section 86	Section 86	Section 86
Reinvest in NHAI or REC bonds	Section 85	Section 85	Section 85	Not available
Reinvest in agricultural land	Not available	Not available	Section 83	Not available

Our post on sections 82 and 86 explains the house exemptions, and the post on capital gains on property compares them with the bond route.

Before you invest

1. Count six months from the **date of transfer**, and invest earlier than that if you want a margin.
2. Keep the bond certificate and the allotment letter, and a note of the five-year date.
3. Do not borrow against the bonds.
4. Report the bonds and exemption in the capital gains schedule of the return.

Frequently asked questions

Who can claim the section 85 (earlier 54EC) exemption?

Anyone, including a company, with a long-term capital gain from the transfer of land or building or both who invests the gain, or part of it, within six months after the transfer in a long-term specified asset. Only gain on land or building qualifies.

What is a long-term specified asset?

A bond redeemable after five years issued on or after 1 April 2018 by the National Highways Authority of India or by Rural Electrification Corporation Limited, or any other bond notified by the Central Government

(section 85(6)).

How much can I invest?

Not more than ?50 lakh from the gain on one or more original assets in a tax year, or in the year of transfer and the next tax year together (section 85(2)).

How long must I hold the bonds?

Five years. If you transfer them, convert them into money or take a loan or advance against them within five years, the exempted gain is taxed as long-term gain in that year (section 85(3) and (4)).

Can I also claim section 123 on the same investment?

No. If the investment is used for section 85, no deduction under section 123 is allowed for it (section 85(5)).

When does section 83 apply?

When an individual or HUF sells agricultural land that was used for agriculture by the assessee, his parent or the HUF in the two preceding years, and buys other agricultural land within two years.

Official sources

- Income Tax Department: Income-tax Act, 2025 (sections 83, 84, 85 and 89)

Related reading

- Capital Gains Tax on Sale of Property: Rates, Indexation Choice, Stamp Duty Value and Exemptions (Tax Year 2026-27)

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