Tax Treatment of Dividend/Income from units

7.2 Dividend declared, distributed or paid by a domestic company on or after 1.6.1997 is exempt from tax. Similarly income from Units of Unit Trust of India and other mutual funds and from Venture Capital Company/fund is exempt. As for dividend etc. declared, distributed or paid prior to the date from which exemption is effective, the law provides for taxation of such income in case of certain non-residents at a flat rate on gross receipts i.e. without deduction of any expenses incidental to earning such income.

http://www.incometaxindia.gov.in/publications/9_Income_Tax_For_NRI/Chapter007.asp#TaxTreatmentofDividendIncomefromunits (17 March 2011 3:57 AM)

Capital Gains

4.5 Sections 45 to 55A deal with the provisions relating to computation of income from capital gains. Gains arising from the transfer of a capital asset are either short-term or long-term depending upon the period for which the assets giving rise to capital gains were held by the tax payer. A gain is short term if the asset was held for a period up to 36 months. In the case of share of a company, listed security, unit of Unit Trust of India or of any other specified mutual fund, this period is 12 months. All other gains i.e. those arising from assets held for more than this period are called 'Long-term capital gains'.

4.5.1 Capital gain is computed by deducting from the full value of transfer consideration the following:-

a. the cost of acquisition (or the written down value) of and cost of improvement in the asset;
b. the amount of expenditure incurred in connection with such transfer.

The resultant amount in case of short term capital gains is taxable in full at the normal rate of taxation applicable to the tax payer.

4.5.4 There are special provisions for computation of long term capital gains. In such cases, the actual cost of acquisition and the cost of improvement of the asset are adjusted to take account of inflation in terms of the Cost Inflation Index which is notified by the Central Government every year. For those assets which are acquired prior to 1st April, 1981, the actual cost can be taken to be its fair market value as on 1st April, 1981 which is then adjusted for inflation in the same manner. The notified cost inflation index is as under:-

S. No.	Financial Year	Cost Index
1.	1981-82	100
2.	1982-83	109
3.	1983-84	116
4.	1984-85	125
5.	1985-86	133
6.	1986-87	140
7.	3987-88	150
8.	1988-89	161
9.	1989-90	172
10.	1990-91	182
11.	1991-92	199
12.	1992-93	223
13.	1993-94	244
14.	1994-95	259
15.	1995-96	281
16.	1996-97	305
17.	1997-98	331
18.	1998-99	351
19.	1999-2000	389

4.5.5 Long term capital gains computed after taking into consideration the indexed cost of acquisition and/or cost of Improvement is taxable for and from the assessment year 1988-89 at the flat rate of 20% irrespective of the residential status of the assessee. Exceptions are made in the case of certain categories of non-residents and NRIs (Refer para 7.3.4 and 11.3). In respect of gains arising from transfer of listed securities or unit tax so computed @.20% will be limited to 10% of capital gain worked out without indexation benefit.

4.5.8 Gains from any long term asset if used for purchase or construction of residential house where the person has only one residential house is also exempt (Sec. 54F). Similarly gain arising from transfer of any long-term capital asset is exempt-wholly or proportionately as the case may be-if the net consideration in respect of such transfer is wholly or partly invested, within a period of six months, in any of the bonds, debentures, shares of a public company or units of a mutual fund specified by the Board for the purpose of Section 54EA and notified in the official gazette. The assessee has the option to invest only the amount of capital gain in assets specified by the Board for the purpose of Section 54EB in which case the gain will be wholly or proportionately exempt depending upon whether whole or part of the gain is so invested. The new assets cannot be transferred or converted into money within three years (if the net consideration was invested) and within seven years (if the capital gain only was invested). In the event of such transfer or conversion, the gains exempted on investment are brought to tax in the year of transfer or conversion of new assets and Rural Development or by the National Highways Authority of Indian which are redeemable after five years. However gains arising from transfers after 31.3.2000 will be required to be invested only in bonds issues by National Bank for Agriculture.

http://www.incometaxindia.gov.in/publications/9_Income_Tax_For_NRI/Chapter004.asp#CapitalGains (17 March 2011 4:26 AM)
