

## Meaning of “adjusted”, “cost of improvement” and “cost of acquisition”.

55. (1) For the purposes of sections 48 and 49,—

(a) [\*\*\*]

(b) “cost of any improvement”,—

(1) in relation to a capital asset being goodwill of a business or a right to manufacture, produce or process any article or thing or right to carry on any business shall be taken to be *nil* ; and

(2) in relation to any other capital asset,—

(i) where the capital asset became the property of the previous owner or the assessee before the 1st day of April, 1981, means all expenditure of a capital nature incurred in making any additions or alterations to the capital asset on or after the said date by the previous owner or the assessee, and

(ii) in any other case, means all expenditure of a capital nature incurred in making any additions or alterations to the capital asset by the assessee after it became his property, and, where the capital asset became the property of the assessee by any of the modes specified in sub-section (1) of section 49, by the previous owner,

but does not include any expenditure which is deductible in computing the income chargeable under the head “Interest on securities”, “Income from house property”, “Profits and gains of business or profession”, or “Income from other sources”, and the expression “improvement” shall be construed accordingly.

(2) For the purposes of sections 48 and 49, “cost of acquisition”,—

(a) in relation to a capital asset, being goodwill of a business or a trade mark or brand name associated with a business or a right to manufacture, produce or process any article or thing or right to carry on any business, tenancy rights, stage carriage permits or loom hours,—

(i) in the case of acquisition of such asset by the assessee by purchase from a previous owner, means the amount of the purchase price; and

(ii) in any other case not being a case falling under sub-clauses (i) to (iv) of sub-section (1) of section 49, shall be taken to be *nil*;

(aa) in a case where, by virtue of holding a capital asset, being a share or any other security, within the meaning of clause (h) of section 2 of the Securities Contracts (Regulation) Act, 1956 (42 of 1956) (hereafter in this clause referred to as the financial asset), the assessee—

(A) becomes entitled to subscribe to any additional financial asset ; or

(B) is allotted any additional financial asset without any payment,

then, subject to the provisions of sub-clauses (i) and (ii) of clause (b),—

(i) in relation to the original financial asset, on the basis of which the assessee becomes entitled to any additional financial asset, means the amount actually paid for acquiring the original financial asset ;

- (ii) in relation to any right to renounce the said entitlement to subscribe to the financial asset, when such right is renounced by the assessee in favour of any person, shall be taken to be *nil* in the case of such assessee ;
- (iii) in relation to the financial asset, to which the assessee has subscribed on the basis of the said entitlement, means the amount actually paid by him for acquiring such asset ;
- (iiia) in relation to the financial asset allotted to the assessee without any payment and on the basis of holding of any other financial asset, shall be taken to be *nil* in the case of such assessee; and
- (iv) in relation to any financial asset purchased by any person in whose favour the right to subscribe to such asset has been renounced, means the aggregate of the amount of the purchase price paid by him to the person renouncing such right and the amount paid by him to the company or institution, as the case may be, for acquiring such financial asset;
- (ab) in relation to a capital asset, being equity share or shares allotted to a shareholder of a recognised stock exchange in India under a scheme for demutualisation or corporatisation approved by the Securities and Exchange Board of India established under section 3 of the Securities and Exchange Board of India Act, 1992 (15 of 1992), shall be the cost of acquisition of his original membership of the exchange:

**Provided** that the cost of a capital asset, being trading or clearing rights of the recognised stock exchange acquired by a shareholder who has been allotted equity share or shares under such scheme of demutualisation or corporatisation, shall be deemed to be *nil*;

- (b) in relation to any other capital asset,—
  - (i) where the capital asset became the property of the assessee before the 1st day of April, 1981, means the cost of acquisition of the asset to the assessee or the fair market value of the asset on the 1st day of April, 1981, at the option of the assessee;
  - (ii) where the capital asset became the property of the assessee by any of the modes specified in sub-section (1) of section 49, and the capital asset became the property of the previous owner before the 1st day of April, 1981, means the cost of the capital asset to the previous owner or the fair market value of the asset on the 1st day of April, 1981, at the option of the assessee ;
  - (iii) where the capital asset became the property of the assessee on the distribution of the capital assets of a company on its liquidation and the assessee has been assessed to income-tax under the head “Capital gains” in respect of that asset under section 46, means the fair market value of the asset on the date of distribution ;
  - (iv) [\*\*\*]
  - (v) where the capital asset, being a share or a stock of a company, became the property of the assessee on—
    - (a) the consolidation and division of all or any of the share capital of the company into shares of larger amount than its existing shares,

- (b) the conversion of any shares of the company into stock,
  - (c) the re-conversion of any stock of the company into shares,
  - (d) the sub-division of any of the shares of the company into shares of smaller amount, or
  - (e) the conversion of one kind of shares of the company into another kind,
- means the cost of acquisition of the asset calculated with reference to the cost of acquisition of the shares or stock from which such asset is derived.

(3) Where the cost for which the previous owner acquired the property cannot be ascertained, the cost of acquisition to the previous owner means the fair market value on the date on which the capital asset became the property of the previous owner.