

How to calculate Indexed Cost of Acquisition

The Central Government notifies the Cost Inflation Index (CII) in the official gazette every year. By taking into consideration indexation, the cost of acquisition of the real estate property and cost of improvement thereon (if any) is reduced for the inflation effect, thus working in your favour to reduce the tax liability in the case of LTCG.

The Indexed Cost of Acquisition in the case of LTCG is computed as under with Financial Year 2001-02 as the base year.

$$\text{Cost of Acquisition} \times \frac{\text{CII in the year of Transfer}}{\text{CII in the year of Acquisition or base year, whichever is later}}$$

If the real estate property is purchased before the base year, the actual Fair Market Value (FMV) as of April 1, 2001, is considered.

If the improvements are carried out on the real estate property, which are incidental expenses of capital nature paid by you to make alterations or additions to the property; then the Indexed Cost of Improvement is calculated as under:

$$\text{Cost of Improvement} \times \frac{\text{CII in the year of Transfer}}{\text{CII in the year of Improvement}}$$

However, if the cost of the improvement is incurred by you before April 1, 2001, then that has to be ignored as per the prevailing tax provisions.

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