



INTRODUCTION OF SECTION 54F:

Section 54F of the Income Tax Act, 1961 provides a tax **exemption** on **long-term capital gains** arising from the sale of any **capital asset other than residential house property**, subject to specific conditions. The exemption is available to individual or Hindu Undivided Family (HUF) taxpayers who reinvest the **net sale consideration** from the transfer into the **purchase or construction of a residential house property** within the prescribed time limits.

Net Sale Consideration – In relation to this section, it refers to the full value of sale consideration received or accrued from the transfer of capital assets, reduced by any expenditure incurred exclusively in connection with such transfer (i.e., Brokerage/legal fees).

BASIC CONDITIONS FOR AVAILING EXEMPTION:

To avail the exemption under section 54F, the taxpayer should fulfill the following conditions:

- The Taxpayer should be an Individual/HUF.
- The assets sold must be Long-term capital assets (Held more than 12 months)
- Capital assets transferred should be other than Residential House Property.
- The Taxpayer should invest in **One** Residential House Property.

ADDITIONAL ELIGIBILITY CONDITIONS:

1. **Ownership Condition:** The taxpayer should not own more than one residential house property as on the date of transfer of capital assets.
2. **Investment timeline:** The new residential house property must be:
 - a. **PURCHASE** before ONE YEAR or within a period of TWO years from the date of transfer of capital Assets.
 - OR**
 - b. **CONSTRUCT** within a period of THREE YEARS from the date of transfer of capital Assets.
3. **Usage of the Property:** The income from such residential house is chargeable under the head “Income from House property”
4. **Cap on exemption amount:** If the cost of a new residential house property exceeds Rs. 10 Crore, the amount to be taken for exemption is limited to Rs. 10 Crores only. (w.e.f 01-04-2024).



IMPORTANT CONDITIONS TO REMEMBER:

1. The taxpayer should not :
 - a. Purchase within a period of 2 years from the date of transfer of capital assets other than new assets, **and**
 - b. Constructed within 3 years from the date of transfer of capital assets other than new assets.

If the taxpayer failed to comply with the condition above –

Exemption u/s 54F taken earlier shall be deemed as long-term capital gain under the head Income from capital gain. Which will be taxable in the year of purchase or construction of the residential house property.

2. If the Taxpayer transferred the residential house property (For which the exemption claimed), within 3 Years from the date of acquisition/construction, the exemption taken earlier shall be deemed as long-term capital Gain under the capital gain head.

CAPITAL GAIN ACCOUNTS SCHEME (CGAS):

The taxpayer does not utilize or partially utilizes the net sale consideration for the purchase of the house property or for constructing the residential house property before the due date of return filing u/s 139, then the full amount or the remaining amount shall be deposited in the Capital Gain Account Scheme before filing the Income Tax return.

UNABLE TO FULLY UTILIZE THE AMOUNT HELD IN THE CGAS A/C

If the taxpayer is unable to utilize the amount for the purchase or construction of a residential house property within a period of 2/3 years, the amount unutilized in the accounts shall be taxable in the year in which the period of three years from the date of transfer of capital assets expires, and the taxpayer shall be entitled to withdraw the unutilized amount.

HOW TO CALCULATE EXEMPTION U/S 54F:

Exemption under Section 54F is available in proportion to the amount invested in relation to the sale consideration. It can be arrived by the formula below:

54F Exemption = Capital Gains * Amount invested in residential property / Net Sale Consideration.



ILLUSTRATION 1

Amount received from the sale of shares on 11-10-25 – INR 15 Crore

Purchase the shares on 15-10-2020 – INR 50 Lakhs

Amount invested for the purchase of House Property in July 2026 – INR 12 Crore

Assuming the taxpayer does not own any residential property on the date of transfer.

Capital Gain is calculated as follows:

Particulars	Amounts (INR)
Sale Consideration	15,00,00,000
Index COA (INR 50,00,000*376/301)	62,45,847
Long-term capital Gain	14,37,54,153
Exemption u/s 54F	
(INR 14,37,54,153 / INR 15,00,00,000 * INR 10,00,00,000**)	9,58,36,102
Taxable Capital Gain	4,79,18,051

** As per the provision of section 54(1) Proviso II

NEW SECTION NUMBER IN INCOME TAX ACT, 2025

The section number has been changed from 54F to section 86 in the Income Tax Act 2025, which will be applicable from 01st April 2026.

COMMONLY ASKED QUESTIONS

1. Can a taxpayer claim a capital gains exemption under section 54F on the sale of multiple assets?

Answer: A taxpayer who sold multiple assets and invests all proceeds into one residential house property can claim exemption u/s 54F.

2. Can a taxpayer invest 2-year long-term capital gains amount in the capital gain account scheme and utilize the amount for the purchase/construction of a residential house property?

Answer: YES

3. Can 2 RHP purchases/construct from 1 year capital gain.

Answer: Provisions of Section 54(1) clearly state “a residential house property”. Means a taxpayer can’t buy 2 residential house properties from one capital gain.



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