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# What is indexation in property sale and how is it calculated? What has changed after Budget 2024?

In the Union Budget 2024, FM Sitharaman has lowered the tax rates on capital gains from the sale of long-held real estate properties but has scrapped the indexation benefit.

Written by [Mithilesh Jha](#)

July 24, 2024 21:25 IST

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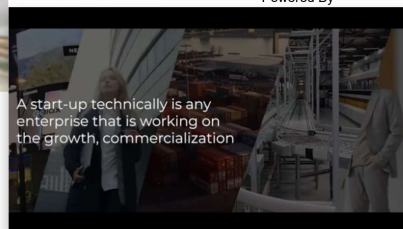


Budget 2024 brings promising changes to real estate sector



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Budget 2024: What has changed in indexation benefit on property sales?

Finance Minister Nirmala Sitharaman, in Budget 2024, announced the scrapping of indexation benefits on property sales, prompting real estate experts to call the move “negative” for the sector from an investment perspective. However, the government has attempted to offset this by lowering the long-term capital gains tax to 12.5% on the sale of property and other financial and non-financial assets. Before moving further, let’s understand what indexation is and how it is calculated on the sale of various assets, including real estate assets held over a certain period.

In case of property sale, indexation helps in adjusting its purchase price according to the prevailing inflation rate. So basically the adjustment inflates the purchase price of a property considering the inflation over the invested years, which ultimately brings down the taxable capital gains on the sale of the property. The government releases cost inflation index (CII) numbers to index capital gains on specified assets. CII number takes into account the prevailing inflation for the particular financial year.

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## How is Indexation Calculated?

Let's break down an example to see how indexation worked under the previous tax rules:

Purchase Price of Property: ₹50 lakh

Adjusted Purchase Price (Indexed): ₹64.82 lakh

Sale Price (2024-25): ₹70 lakh

Long-Term Capital Gain (LTCG): ₹5.18 lakh

LTCG Tax Liability: ₹1.036 lakh (20% of Gain)

## Under New Tax Rules – No Indexation Allowed

Now, let's see how the calculations look under the new tax rules, where indexation is not allowed:

Purchase Price of Property: ₹50 lakh

Sale Price (2024-25): ₹70 lakh

Gain: ₹20 lakh

LTCG Tax Liability: ₹2.5 lakh (12.5% of Gain)

Remember, the purchase price of the asset is adjusted by the cost inflation index (CII). This helps in accounting for inflation over the period of holding the asset.

Formula to calculate the adjusted purchase price using the cost inflation index is:  $\text{Cost Inflation Index (CII)} = \text{Sales Amount} - (\text{Purchase Amount} * (\text{Index in year of sale} / \text{Index in year of purchase}))$

This adjustment ensures that the taxable gain reflects the real increase in the asset's value, not just the effect of inflation.

## Changes in the Union Budget 2024 regarding indexation benefits

In the Union Budget 2024, the Centre has lowered the tax rates on capital gains from the sale of long-held real estate properties but has scrapped the indexation benefit. The LTCG tax rate has been reduced from 20% indexation to 12.5% without indexation on sale of property.

The indexation benefit, however, can be taken on the sale of property or inherited before 2001, which means if someone sells now an old property bought before 2001, he or she will have to pay an LTCG rate of 12.5% on this 'inflation adjustment' benefit.

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Nifty 100	25,389.00 AD Ratio: 0.93	-30.60 -0.12%
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Many experts see this removal of indexation for long-term capital gains (LTCG) on property deals in the Budget a significant blow to property owners selling their ancestral properties.

“The Budget move on change in taxation, effective from July 23, 2024, replaces the 20% LTCG rate with indexation to a flat 12.5% without indexation. This translates to a potentially higher tax burden, often amounting to lakhs of rupees, for those looking to sell older properties,” says KS Roy, a personal finance expert.

The removal of the indexation benefit could have three major consequences.

1. **Slowdown in the resale market:** It may discourage owners of older residential properties and land from selling, as the increased tax liability reduces their potential profit.
2. **Rise in cash transactions:** There's a concern that this change could incentivize under-the-table cash deals to avoid the higher tax burden, counteracting efforts to formalize the real estate sector.
3. **Higher property prices:** Sellers may attempt to offset the increased tax burden by raising property prices, effectively transferring the cost to buyers.

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