

Capital Gain Bond vs Other Investment

Mr. Jain recently sold a property and has incurred a LTCG of Rs 40 Lakhs. He has no intention to buy another property and wants to invest the amount. He is considering all options and wants to consult you where to invest in a tax efficient manner to get maximum IRR.

Assumptions -

LTCG rate on property and other Debt investment - 20.8% (including health & educational cess) with indexation.

Investment Period of Capital Gains Bond Scheme - 5 years.

Interest on Capital Gains Bond Scheme - 5%

Expected Average Yearly Indexation Rate - 5%

Applicable Income Tax Slab - 30% (Mr Jain is on the highest tax bracket)

Fixed Deposit

- a. Expected Return (%) - 6.5%
- b. Taxation Rate (%) - 30%
- c. Indexation Benefit - No.

Debt Fund

- a. Expected Return (%) - 7%
- b. Taxation Rate (%) - 20.8% (including health & educational cess) with indexation.
- c. Indexation Benefit - Yes.

Equity Fund

- a. Expected Return (%) - 12%
- b. Taxation Rate (%) - 10%
- c. Indexation Benefit - No.

Capital Gains Bond vs. Other Investment Planning

Computation of Maturity Amount and Post-Tax IRR

Particulars	54EC Bond	Fixed Deposit	Debt Fund	Equity Fund
Capital Gain Amount	40,00,000	40,00,000	40,00,000	40,00,000
LTCG Tax	0	8,32,000	8,32,000	8,32,000
Net Investment	40,00,000	31,68,000	31,68,000	31,68,000
Assumed Return	5.00 %	6.50 %	7.00 %	12.00 %
Investment Period (Yrs)	5	5	5	5
Indexation Benefit	No	No	Yes	No
Maturity Amount	51,05,126	43,40,435	44,43,284	55,83,098
Indexation Rate	5.00 %	5.00 %	5.00 %	5.00 %
Indexed Cost	40,00,000	31,68,000	40,43,260	31,68,000
Taxable Income	11,05,126	11,72,435	4,00,024	24,15,098
Applicable Tax Rate	30.00 %	30.00 %	20.80 %	10.00 %
Tax Amount	3,31,538	3,51,730	83,205	2,41,510
Post-Tax Maturity Amount	47,73,588	39,88,704	43,60,079	53,41,589
Post-Tax IRR	3.60 %	-0.06 %	1.74 %	5.96 %

* For ease of calculation, It is assumed that in case of 54EC Bond & Fixed Deposit or other interest paying investment, the annual interest is re-invested at the same rate of interest and income tax is paid at the end of investment term. Please note that there is a tax exemption of Rs.1.00 Lac per year on Long Term Capital Gains on Equity and Equity related products. Mutual fund investments are subject to market risks, read all scheme related documents carefully. Returns are not guaranteed. The above is for illustration purpose only.