Cost of improvement for computation of capital gains

Cost of Improvement is a deductible expense while computing **Capital Gains** under Section 48 read with Section 55 of the Income-tax Act. It refers to **capital expenditure incurred in making additions, alterations, or improvements to a capital asset that enhance its value or utility**.

Formula for Capital Gains

Plain Text

Sale Consideration

(-) Transfer Expenses

(-) Indexed Cost of Acquisition (for eligible long-term assets)

(-) Indexed Cost of Improvement (for eligible long-term assets)

= Capital Gain

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Examples of Cost of Improvement

For an immovable property, the following generally qualify:

- Construction of an additional floor/room
- Structural modifications or extensions
- Installation of lift
- Replacement of electrical wiring or plumbing as part of a capital renovation
- Compound wall, borewell, permanent fixtures
- Legal expenses incurred to perfect or defend title to the property

Expenses Not Treated as Cost of Improvement

The following are generally not allowable:

- Routine repairs and maintenance
- Painting and minor repairs
- Municipal taxes

- Expenses already claimed as a deduction under another head of income
- Personal upkeep expenses

Special Points

- For assets acquired through **gift, inheritance, or succession**, improvement costs incurred by the previous owner may also be considered.
- For eligible long-term capital assets, the **cost of improvement is indexed** from the year in which the improvement was made.
- For certain self-generated intangible assets such as goodwill, the cost of improvement may be deemed **Nil**.

Illustration

- Purchase of house: ₹50,00,000
- Construction of an additional floor in FY 2018-19: ₹10,00,000
- Sale price: ₹1,20,00,000

While computing capital gains, the ₹10,00,000 spent on the additional floor (subject to evidence and indexation, where applicable) can be deducted as **Cost of Improvement**, thereby reducing the taxable capital gain