AMENDMENT IN SECTION 54EC (FINANCE BILL 2018)

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54EC Bonds can transfer* after 3 year lock in period even after 01.04.2018:-

Section 54EC of Income Tax Act, 1961 provides an option to save tax on capital gain arising from transfer of long term capital asset subject to fulfillment of certain conditions. Provisions of section 54EC are being discussed herein below for the benefit of all concerned.

Circumstances under which deduction u/s 54EC is available: The deduction u/s 54EC will be available subject to the following conditions:

a). The asset transferred should be a long term capital asset and hence there should be a long term capital gain.

b). Such capital asset should have been transferred after 1-04-2000 by the assessee.

c). The assessee has **within a period of 6 months after the date of such transfer** has invested the capital gain in the long term specified asset.

d). Specified assets are the bonds redeemable **after 3 years** issued by the National Highways Authority of India (NHAI) or the bonds issued by Rural Electrification corporation Ltd. With effect from A.Y 2002-03 National Housing bank and SIDBI have been also included who can issue such bonds u/s 54EC.

e). The cost of long term specified assets which is considered for the purpose of exemption u/s 54EC, shall not be eligible for deduction with reference to such cost u/s 80C. It means investment made in bonds u/s 54EC is not eligible for deduction u/s 80C.

Quantum of Deduction: The capital gain shall be exempt u/s 54EC only to the extent it is invested in the long term specified assets within a period of 6 months from the date of such transfer.

Limit of investment: After 01-04-2007, the investment made in the long term specified capital asset i.e bonds u/s 54EC during any financial year cannot exceed Rs. 50,00,000. Thus investment in bonds in one financial year can be made only to the extent of Rs. 50 Lakhs.

Lock in period of 3 years: Once investment is made u/s 54EC in specified bonds then such bonds cannot be transferred or converted into money (otherwise than by transfer) within a period of three years from the date of their acquisition, otherwise the amount of capital gain exempt u/s 54EC earlier, shall be deemed to be long-term capital gain of the previous year in which such bonds are transferred or converted into money (otherwise than by sale).

If the assessee takes any loan or advance on the security of such long term specified asset, he shall be deemed to have converted (otherwise than by transfer) such long term specified asset into money on the date on which such loan or advance is taken.

Further amendments have been made under this section in the finance bill, 2018

- **In sub-section (1), after the words “Long-term capital assest”, the words “Land or building or both shall be added.**
- **In context with sub-section-(1), the explanation occurring after sub-section-(3), for clause (ba), the following clause shall be added,**

‘(ba)”Long-term specified asset” for making any investment under this section-

(i) On or after the 1st day of April, 2007 but before the 1st of April, 2018, means any bond redeemable after three years and issued on or after the 1st day of April, 2007 but before the 1st day of April, 2018;

(ii) On or after the 1st day of April, 2018, means any bond redeemable after five years and issued on or after the 1st day of April, 2018.

* Transfer means other than redemption I e. taking loan by mortgaging such bonds, sale to open market etc.

Conclusion: Finance Bill, 2018 proposed to amend section 54EC(ba) with the period of 5 years but there is no such propose amendment in section 54EC(2) hence we can conclude that any specified bonds purchased after 01.04.2018 having redemption period of 5 years can sell in open market or mortgage taken on same after 3 years lock in period.

Thanks & Regards,

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