

Capital gains tax: Adding unclaimed loan interest to cost of acquisition

It may be safer to claim cost indexation from the respective year of payment of the home loan interest, and not from the year of acquisition of the house, while computing the capital gains tax liability

[Gautam Nayak](#)

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With effect from 23 July 2024, indexation of the cost of acquisition is not available for computing capital gains income but is available as an alternative computation for computing the long-term capital gains tax on the sale of immovable property. Image: Pixabay

I will be adding unclaimed interest on my home loan to the cost of acquisition. Should I add indexed cost or absolute cost of unclaimed interest while calculating capital gain?

- Name withheld on request

Various high court and tribunal decisions have favoured allowing unclaimed home loan interest to be included in the cost of acquisition when computing capital gains. With effect from 23 July 2024, indexation of the cost of acquisition is not available for computing capital gains income but is available as an alternative computation for computing the long-term capital gains tax on the sale of immovable property.

[Long-term capital gains](#) tax is payable on the lower of 12.5% without cost indexation or 20% with indexation. This indexation of the cost of acquisition (in its entirety) is available for computing all alternative long-term capital gains tax on the sale of immovable property acquired prior to 23 July 2024.

The indexed cost of acquisition is to be computed by taking indexation from the date of acquisition of the asset, irrespective of the year of payment for the asset. The plain language of the law supports this view.

However, in this case, the cost of acquisition by way of interest is paid over the years, and not in the year of acquisition. There has been controversy as to the manner of indexation of cost where the payment for the property is made in instalments – whether from the year of acquisition or from the respective year of payment.

Therefore, a claim of indexation of all years' home loan interest from the year of acquisition is likely to be subject to litigation. It may, therefore, be safer to claim cost indexation from the respective year of payment of the home loan interest, and not from the year of acquisition of the house, while computing the capital gains tax liability.

Gautam Nayak is partner, CNK & Associates LLP.