Transfer of tenancy rights on redevelopment held taxable as capital gain, not as income from other sources:ITAT

Where assessee, as inherited tenant, received larger permanent alternate accommodation on surrender of tenancy rights under a redevelopment arrangement, transaction constituted transfer of tenancy rights chargeable as capital gains under section 45 read with section 48 and not as income from other sources; hence, section 56(2)(x) was not applicable. Where assessee surrendered tenancy rights in an old municipal flat under redevelopment, received a new flat as permanent alternate accommodation and reinvested entire consideration received on surrender of tenancy rights in new property, assessee was entitled to deduction under section 54F and no taxable income arose from transaction

Transfer of Tenancy Rights in Redevelopment Taxable as Capital Gains

Where an assessee, being an inherited tenant, surrendered tenancy rights under a redevelopment scheme and received a larger permanent alternate accommodation (new flat) in exchange, the transaction amounted to a **transfer of a capital asset (tenancy rights)**. Accordingly, the gain is taxable as **Capital Gains under Sections 45 and 48**, and **not as Income from Other Sources**. Therefore, the provisions of **Section 56(2)(x)** are not applicable.

Further, where the assessee reinvested the entire consideration arising from the surrender of tenancy rights into the new property received under redevelopment, the assessee was entitled to claim **exemption under Section 54F**. As a result, no taxable capital gain remained.

Key Takeaways

- Surrender of tenancy rights under redevelopment amounts to transfer of a capital asset.
- Taxable under **Capital Gains** provisions (Sections 45 and 48), not under **Income from Other Sources**.
- Section **56(2)(x)** does not apply to such transactions.
- Reinvestment of the consideration in a new residential property qualifies for **Section 54F exemption**.
- Where the entire eligible consideration is reinvested, **no taxable income/capital gain may arise**.

One-Line Crux:
Surrender of tenancy rights in a redevelopment project is a capital gains transaction, and if the consideration is fully invested in a qualifying residential property, exemption under Section 54F is available, resulting in no taxable income.