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What is capital gain?

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WHAT DOES IT MEAN?

Capital gain refers to the profit from selling a capital asset (such as property, stocks or bonds), when the selling price is higher than the purchase price.

A capital loss is incurred when the selling price of an asset is lower than its purchase price.

When an asset is sold, capital gains or losses are realised. For example, if you bought a property at $1 million and sold it for $1.5 million, ignoring transaction costs, you would realise a capital gain of $500,000.

Unrealised capital gains and losses can be calculated when you are still holding the capital asset, and they are also known as "paper" gains or losses.

WHY IS IT IMPORTANT?

Capital gain is an important component of the total return of an investment. For example, the total return of a stock equals the capital gains plus the dividends. For real estate, the return could come from both capital gains and rental incomes.

Many countries charge some form of capital gains tax. For example, investors and corporations in the United States will need to pay income tax on their total net capital gains. There is no capital gains tax in Singapore.

IF YOU WANT TO USE THE TERM, JUST SAY:

"Mr Lim is very happy about the $300,000 capital gains from selling his condominium."

• The writer is senior lecturer of the Department of Finance at NUS Business School. The opinions expressed are those of the writer and do not represent the views and opinions of the National University of Singapore.