Do We Need Long -Term Capital Gains tax?

What is the current domestic and global scenario?

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- Key stock market indices, which have been on a decline since the announcement of demonetisation, and
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- The US presidential elections results and the Federal Reserve rate hike fell to a seven-month low on Monday as the markets were spooked about the possibility of some form of taxation for stock market players.
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- At present, equity investments held over one year do not attract any long-term capital gains (LTCG) tax, while the tax rate on short-term capital gains is at 15 per cent. However, all traders and investors pay a securities transaction tax (STT), which ranges between 0.017 and 0.125 per cent, on their capital market transactions.
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Analysis:

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- On its own, it is not a bad idea to levy tax on LTCG from stock market transactions.
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- In India, where the welfare demands on the state exchequer are far more onerous, just about 500,000 citizens pay income tax above Rs 5 lakh.
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- Also, investments in other asset classes such as debt, real estate and gold attract LTCG tax, albeit with inflation indexation benefits.
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- While Finance Minister Arun Jaitley was quick to clarify that the government had no intention of imposing such a tax, some of the speculations include increasing the holding period to avail the LTCG tax benefit to three years from one year, as is the case in other assets such as gold and property.
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- The idea of not levying LTCG tax was one of the recommendations of the Vijay Kelkar-led task force on direct taxes in 2002.
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- In 2003-04, then finance minister Jaswant Singh removed such a tax in a limited way, with the intention of reviewing the change the next year.
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- The next year when the United Progressive Alliance came to power, Finance Minister P Chidambaram abolished LTCG tax altogether to encourage long-term investment and introduced the STT on trades, which would discourage frequent trading while minimizing loss of tax revenue.
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- There is a thought that since everyone is paying the STT, there shouldn't be capital gains tax.
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- But, the logic does not hold water as there are various levies on gold and jewellery as well as real estate.
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- Also, it is only the more prosperous class of Indians who invest in equities, and when they earn profits, sometimes extraordinary, there is no reason why they should not be taxed.
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- Similarly, foreign investors who make profits by investing in Indian markets should not mind paying tax.
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Conclusion:

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- While most developed countries tax such profits, it is also true that raising the spectre of such a tax at this juncture would be a case of wrong timing.
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- That is because Indian markets have been witnessing a massive outflow of foreign portfolio investments.
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- Even before the government announced demonetisation on November 8, there were concerns about the iffy nature of India's economic recovery.
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- More importantly, the bellwether BSE Sensex is up just 4.4 per cent since Mr. Modi came to power in May 2014, which is less than half of what investors would have made in a savings deposit. What the markets need at present is stability in tax policy.
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