

Re-imposing LTCG taxes

Why in news?

\n\n

The Union government is planning to re-impose a LTCG tax on equity investments.

\n\n

What are the taxes levied in equity market?

\n\n

\n

- **LTCG** -Long term capital gains taxes are levied on profits on sale of shares after a holding period of at least a year.

\n

- In India LTCG is tax-exempt on the sale of listed securities, since 2005, It is aimed at encouraging long-term equity investments.

\n

- **STCG** - Short Term Capital Gains (STCG) taxes are levied on profits on sale of shares held for less than 12 months, these are taxed at a flat 15 per cent.

\n

\n\n

\n

- **STT** -Securities Transaction Tax is levied on every purchase or sale of securities that are listed on the Indian stock exchanges.

\n

- This would include shares, derivatives or equity-oriented mutual funds units.

\n

\n\n

\n

- STT is deducted at source at the time of the transaction itself.

\n

- In India equity investors are required to pay a securities transaction tax of just 0.10 per cent of the trade value.

\n

\n\n

What is government's plan on LTCG?

\n\n

\n

- Government is considering of removing the distinction between long-term and short-term gains.

\n

- It is considering of stretching the definition of 'long-term' for equity investments from one to three years.

\n

- There are also proposals to prospectively impose a moderate LTCG tax on equities after a three-year holding period.

\n

\n\n

What is the needs for this move?

\n\n

\n

- Tax exempt of returns on equity investments, usually owned by the creamy layer of investors enjoy concessional tax rates.

\n

- While those on post office instruments or bank deposits by non-creamy investors are taxed at the income-tax slab rates, which is discriminative.

\n

- It is also unfair that equities enjoy a lower rate of short-term capital gains tax 15 per cent, at the same time with just a one-year holding treated as 'long-term' (it is three years for other assets).

\n

- Many corporates have used LTCG on penny stocks and shell companies to launder their unaccounted wealth.

\n

- STT was introduced to avoid tax discrimination has significantly upped transaction costs in the Indian market.

\n

- It has raised costs for pass-through vehicles such as mutual funds and pension funds, and not yielded very impressive tax collections.

\n

- Thus re-imposing of LTCG taxes will address tax discrimination issues and also improves tax revenues

\n

\n\n

What are the prospects of this taxation?

\n\n

\n

- Unlike the STT (Security transaction taxes) regime, where the investor shells out tax irrespective of profit or a loss, an LTCG regime taxes investor only if his trades prove profitable.

\n

- LTCG tax can also help long-term investors set off their losses in one year against gains in another, a facility not available with STT.

\n

- LTCG for equities could yield better revenues in a bull market, but it would depend on market conditions.

\n

- Any change in LTCG taxation, may trigger some short-term market upheaval, but it is unlikely to drive away domestic or foreign investors from Indian equities.

\n

\n\n

\n\n

Source: Business Line

\n

