Re-imposing LTCG taxes

Why in news?

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

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What are the taxes levied in equity market?

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- **LTCG -**Long term capital gains taxes are levied on profits on sale of shares after a holding period of at least a year.
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- In India LTCG is tax-exempt on the sale of listed securities, since 2005, It is aimed at encouraging long-term equity investments.
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- **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.
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- **STT -**Securities Transaction Tax is levied on every purchase or sale of securities that are listed on the Indian stock exchanges.
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- This would include shares, derivatives or equity-oriented mutual funds units.
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- STT is deducted at source at the time of the transaction itself.
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- In India equity investors are required to pay a securities transaction tax of just 0.10 per cent of the trade value.
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What is government’s plan on LTCG?

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- Government is considering of removing the distinction between long-term and short-term gains.
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- It is considering of stretching the definition of ‘long-term’ for equity investments from one to three years.
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- There are also proposals to prospectively impose a moderate LTCG tax on equities after a three-year holding period.
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What is the needs for this move?

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- Tax exempt of returns on equity investments, usually owned by the creamy layer of investors enjoy concessional tax rates.
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- While those on post office instruments or bank deposits by non-creamy investors are taxed at the income-tax slab rates, which is discriminative.
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- 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).
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- Many corporates have used LTCG on penny stocks and shell companies to launder their unaccounted wealth.
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- STT was introduced to avoid tax discrimination has significantly upped transaction costs in the Indian market.
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- It has raised costs for pass-through vehicles such as mutual funds and pension funds, and not yielded very impressive tax collections.
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- Thus re-imposing of LTCG taxes will address tax discrimination issues and also improves tax revenues
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What are the prospects of this taxation?

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

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