

## Retrospective Tax

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### Why in News?

Recently, the Retrospective tax on Sovereign Gold Bonds (SGB) in the Budget 2026 shocked investors, raising fairness and policy credibility concerns.

- **Retrospective tax** - A tax on transactions that occurred in the past by applying a new or amended tax law backwards in time.
- **Historical context** - The retrospective tax provision was introduced in India by the Finance Act 2012.
- This was later largely withdrawn in 2021 with refunds promised.
- **Purpose** - To align taxation with current fiscal rules and remove perceived tax loopholes for secondary-market SGB gains.
- **Issue - Amendment to Section 70(1)(x)** - Capital gains exemption will only apply to bonds subscribed at the original issue and held till maturity.
- **Secondary market buyers affected** - Previously, both primary and secondary buyers enjoyed tax exemption if the bond was held till maturity.
- **Implication for investors** - SGBs purchased from the secondary market will be subject to capital gains tax.
- **Tax rates** - Long-term gains (held for more than 12 months) will be taxed at 12.5%, while short-term gains (held for less than 12 months) will be taxed at the applicable slab rate.
- **Effective date** - Changes apply from 1 April 2026.
- **Issue for investors** - While not legally retrospective, this change alters expectations of tax-free gains and may affect secondary market demand.
- **Implications - Unfair Policy** - While not legally retrospective, the change breaks investor expectations of tax-free gains on SGBs purchased in secondary markets.
- **Investor Confidence Loss** - Alters perceptions of policy predictability and may reduce investor trust.
- **Counterproductive Revenue** - Generates very small revenue (~₹200 crore) but causes large confidence damage.
- **Weak Investment Climate** - Could affect secondary-market liquidity and demand, though primary issuance remains unaffected.
- **Capital Flight Risk** - May discourage some investors from participating in domestic SGB markets, indirectly affecting gold investment patterns.

### Reference

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