Retrospective Tax

Prelims: *Current events of national and international importance | Economy*

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- This was later largely ***withdrawn in 2021*** with refunds promised.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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