Suggestion on LTCG exemption

Why in news?

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Bombay Stock Exchange (BSE) submitted its suggestion on long-term capital gains (LTCG) tax on equity investments to the union government.

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What is LTCG tax exemption?

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- LTCG are profits on sale of shares on a stock exchange platform after a holding period of at least a year.
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- Short-term capital gains (STCG) are profits on sale of shares held for less than 12 months, these are taxed at a flat 15 per cent.
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- LTCG is tax-exempt on the sale of listed securities, since 2005.
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- LTCG exemption is a great concept as it is aimed at encouraging long-term equity investments, necessary for the economy.
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- In lieu of these tax breaks, equity investors are required to pay a securities transaction tax of just 0.10 per cent of the trade value.
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- This had made India one of the most liberal markets in this regard.
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What is the recent suggestion on LTCG?

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- Bombay Stock Exchange suggested that benefits related to the long-term capital gains (LTCG) tax on equity investments should be removed to curb market manipulation via the exchange platform.
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- Since India has one of the lowest tax collection to GDP ratio within G-20 countries, every effort must be taken to shore up the revenue collection, LTCG taxation could help in this regard.
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- Talk of LTCG tax has been doing the rounds in the past few years. It remains to be seen whether the government will muster the courage to do it, as this will be a huge market disruptor
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How LTCG is misused?

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- Securities and Exchange Board of India (SEBI) recently barred 240 entities and individuals for making illicit gains through LTCG tax benefits.
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- According to this, the modus operandi used by companies is to make preferential allotments to known entities.
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- These shares are locked in for a year if allotted to promoters and for three years if allotted to non-promoters.
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- Often allotments are made to 'Benami' entities that are closely linked to promoters but are not classified as such.
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- These entities act in concert and use the stock exchange to artificially increase the volume and price of the scrip.
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- The BSE's suggestion that the differential tax treatment for listed and unlisted shares be done away with is also a sensible one as that is the only reliable way of curbing tax arbitrage between the two categories of securities.
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- The LTCG tax on stock investments in unlisted companies is 20 per cent if the investment in such companies is sold before three years.
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Source: Business Standard

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