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# Budget 2018 - Long Term Capital Gains Tax

## Why in news?

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Stock markets have reacted adversely to the proposed Long-Term Capital Gains Tax (LTCG) on securities.

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## What is a LTCG?

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- Any profit from the sale of a capital asset is deemed as 'capital gains'.
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- A capital asset is officially defined as any kind of property held by an assessee, excluding goods held as stock-in-trade, agricultural land and personal effects.
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- If an asset is held for less than 36 months, any gain arising from selling it is treated as a short-term capital gain (STCG).
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- If an asset is held for 36 months or more, any gain arising from selling it is treated as a 'long-term' capital gain (LTCG).
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- Shares and equity mutual funds alone enjoy a special dispensation which is, holding period of 12 months or more qualifies as 'long-term' in this case.
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## What is the current scenario?

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- Prior to the budget, long-term capital gains arising from the transfer of long-

term capital assets, which are held as equity shares is exempt from taxation.
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- However, transactions in such long-term capital assets are liable to securities transaction tax (STT).
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- This regime is seen as inherently biased against manufacturing and has encouraged diversion of investment to financial assets.
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- It has also led to significant erosion in the tax base, which has been further compounded by abusive use of tax arbitrage due ambiguities in exemptions.
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## What is the new proposal?

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- The withdrawal of the exemption to LTCG from April 1, has been proposed in the budget.
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- Hence, the long-term capital gains arising from transfer of long-term capital assets like such as shares or share-oriented products, exceeding Rs. 1 lakh will be taxed at a concessional rate of 10%.
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- The short-term capital gains tax at 15% will continue for transfer of shares within 1 year.
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- **The Application -** The new tax is applied if the assets are held for a minimum period of 1 year from the date of acquisition.
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- Long-term capital gains will be computed by deducting the **cost of acquisition** from the full value of consideration on transfer of the capital asset.
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- The proposed tax applies to the following types of equity capital:
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1. Equity Shares in a company listed on a recognised stock exchange
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2. Unit of an equity oriented fund
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3. Unit of a business trust
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- **'Grandfathering' Clause -** It is the exemption granted to existing investors or gains made by them before the new tax law comes into force.
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- The government said that gains from shares or equity mutual funds made till January 31, will be grandfathered/exempted. There will be no LTCG tax on notional profit in shares till then.
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## What are the concerns?

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- **Inflation Indexing -** Inflation indexation is a technique to adjust the the cost of acquisition to present level of inflation.
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- This will convert the profit earned by transaction of long term capital assets in real terms and safeguards the purchasing power of the public.
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- But in the current proposal, Inflation indexation of the cost of acquisition would not be available for computing LTCG tax.
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- This has been provided in the proposal and has been subsequently clarified.
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- **Continuation of STT -** The STT is made to continue.
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- STT is paid at the time of transaction.
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- But it is to be noted that the STT was introduced as an alternative to LTCG tax on equities.
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- So retaining STT is a bigger shock for investors.
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- Logically there should only be on tax.
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**Source: Business Standard**

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