Capital gains tax revamp likely to be put on hold

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The government is likely to put on hold the proposal to revamp the capital gains tax regime because such a move may affect market sentiment amid global uncertainties, said a senior finance ministry official.

"It's a complex regime and has a wider impact on both markets and businesses. Also, it's been just a few years since the changes to the long-term capital gains tax on equity shares," the bureaucrat said.

Industry has been pitching for revamping the regime to make it simpler, including through rationalisation of multiple holding periods.

The government, however, decided not to take it up in the Budget, keeping the complexities in mind. It may not be taken up even after the Budget, at this point, said another official.

ON THE BACK BURNER

Industry for bringing parity in different asset classes, holding periods

Given global uncertainties, rejigging the tax regime may affect market sentiment

Rationalisation would bring changes in current tax rates

The tax regime is currently different for listed and unlisted entities

Finding a common ground for all stakeholders is a difficult task

"Lots of elements need to be considered while reviewing the overall regime as it involves different asset classes ... Everyone has to come to terms with the changes, which at this point looks ambitious," another official said.

Currently, long-term capital gains (LTCG) on listed equities held for more than a year are taxed at 10 per cent, on profits above a threshold of ₹1 lakh. This was introduced with effect from April 1, 2019.

Short-term capital gains on listed equities held for less than a year are taxed at 15 per cent.

"Any change in the tax regime would impact industry and markets. Keeping in mind the wider impact, the government would like to wait. Simplification of the regime requires tweaking the structure, which may not be taken well at this point when there are uncertainties," said Neeraj Agarwala, partner, Nangia Andersen India.

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per cent. Despite the view of the RBI signalling a pause on rate increases, analysts do not expect the central bank to hint at a softer monetary policy anytime soon. Domestic economic growth may be seen slowing down slightly, but several indicators show resilience in the economy, which suggests that demand in many sectors of the economy is holding up, analysts said.

Apps...

The government is exercising its power under Section 69 of the Information Technology (IT) Act, 2000, which allows its agencies to intercept, monitor and decrypt any digital information in special circumstances. "The latest action is part of our overall crackdown on online betting activities. This, along with the online gaming rules, which would be notified shortly, would ensure no betting app operates on the internet, as part of our goal of a safe and trusted internet," said a top government official.

The government made a similar move in June 2020, when it took down 59 Chinese mobile apps, including SHAREit, TikTok, UC Browser, and SHEIN. Over 200 platforms with Chinese links have been banned since then.

Capital gains...

"Since the regime is extremely complicated, the need for simplification cannot be undermined. However, the government would prefer to not make any bold amendment, considering the upcoming elections," said Agarwala.

The capital gains tax regime prescribes holding periods for determining whether the gain made while selling an asset is short-term or long-term.

"Over the years, capital gains tax provisions have become extremely complex with different rates and holding periods (to be considered as long-term) across various assets. It would be beneficial for investors if holding periods and rates are harmonised across assets, so that decisions on investments are made on merits, rather than being clouded by tax considerations," Sudhir Kapadia, senior tax partner, EY India.

Immovable properties, including land, buildings, and houses, held for more than 24 months are categorised under long-term assets. Debt-oriented MFs or jewellery are considered to be long-term assets if held for more than three years.

The indexation benefit, or adjustment for inflation, is available for debt funds and real estate. Short-term capital gains on listed equities held for less than a year is taxed at 15 per cent in the case of listed shares and the applicable tax slab if they are unlisted.

Notably, the direct tax taskforce, headed by former Central Board of Direct Taxes (CBDT) member Akhilesh Ranjan, in its report suggested three categories of assets: Equity, non-equity financial assets, and all others, including property. It proposed indexation benefits for all categories, except equities.

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