

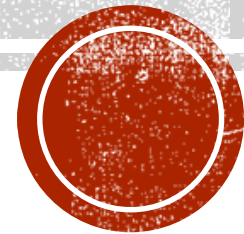
LTCG TAX ON EQUITY

Taxing Genuine Investors instead of catching and penalizing Tax Evaders/Money Launderers.

Author – Nooresh Merani

www.analyseindia.com

www.nooreshtech.co.in



LET ME ADMIT

- It's a late post
- LTCG tax was introduced in 2018 budget
- Our digging started post tax proposals in 2019 budget - The Super Rich Tax of 12000 cr is a very small number in the whole Budget.
- We may be losing the plot in taxation.
- The Tax Department job is to maximize Revenue and not morally decide which form of Income is Noble.
- Being morally and socially right but losing Tax Revenues is a double whammy.

Disclosure – The post is purely based on public data.



BUDGET SPEECH OF 2018

Rationalisation of Long Term Capital Gains (LTCG)

155. Madam Speaker, currently, long term capital gains arising from transfer of listed equity shares, units of equity oriented fund and unit of a business trust are exempt from tax. With the reforms introduced by the Government and incentives given so far, the equity market has become buoyant. The total amount of exempted capital gains from listed shares and units is around `3,67,000 crores as per returns filed for A.Y.17-18. Major part of this gain has accrued to corporates and LLPs. This has also created a bias against manufacturing, leading to more business surpluses being invested in financial assets. The return on investment in equity is already quite attractive even without tax exemption. There is therefore a strong case for bringing long term capital gains from listed equities in the tax net. However, recognising the fact that vibrant equity market is essential for economic growth, I propose only a modest change in the present regime.

I propose to tax such long term capital gains exceeding `1 lakh at the rate of 10% without allowing the benefit of any indexation. However, all gains up to 31st January, 2018 will be grandfathered. For example, if an equity share is purchased six months before 31st January, 2018 at `100/- and the highest price quoted on 31st January, 2018 in respect of this share is `120/-, there will be no tax on the gain of `20/- if this share is sold after one year from the date of purchase. However, any gain in excess of `20 earned after 31st January, 2018 will be taxed at 10% if this share is sold after 31st July, 2018. The gains from equity share held up to one year will remain short term capital gain and will continue to be taxed at the rate of 15%. Further, I also propose to introduce a tax on distributed income by equity oriented mutual fund at the rate of 10%. This will provide level playing field across growth oriented funds and dividend distributing funds. In view of grandfathering, this change in capital gain tax will bring marginal revenue gain of about `20,000 crores in the first year. The revenues in subsequent years may be more.



INTERVIEWS FOLLOWING THE BUDGET

- Finance Minister Arun Jaitley explaining LTCG Tax on India TV
<https://www.youtube.com/watch?v=pwL7GL4Tf2w>
- Clarification by Finance Secretary
<https://www.youtube.com/watch?v=heoTw3PQvSA>
- Estimates by Finance Secretary – 20k crores in 2019 and 40k crores in 2020.
<https://economictimes.indiatimes.com/news/economy/policy/budget-2018-hasमुखh-adhia-clarifies-on-ltcg/videoshow/62739653.cms>



THE BIG STATEMENT

- **3.67 Lakh Crores** of Exempted LTCG Tax from Equity &
- **20k crores** expected in tax revenue in 2019 &
- **40k crores** in 2020.

In the subsequent slides, let us try and find how can we arrive at the above data estimates.

Is it possible ? Is it logical ?

Let us find out



CBDT – DIRECT TAXES DATA

- Central Board of Direct Taxes (CBDT) for the 1st time in 2016 made public data on Income Tax Return Statistics
- It gives data of Income Tax Returns of All taxpayers under various Income heads
- Data Source : - <https://www.incometaxindia.gov.in/Pages/Direct-Taxes-Data.aspx>
- The Budget came out in February 2018. Till that time the data for Assessment Year 2017-2018 was not available.
- So, the last available data would be till Assessment Year 2016-2017.
- **Total Long Term Capital Gains** in Last 5 A.Y. were as follows :

Assesment Year	Long Term Capital Gains (Cr)
2012-2013	80,622
2013-2014	49,154
2014-2015	64,521
2015-2016	84,850
2016-2017	94,356
Total	3,73,503



1.5 All Taxpayers - Range of Long Term Capital Gains (AY 2012-13)

Range	No. of Returns	Sum of Long Term Capital Gains Income (in Crore INR)	Average Long Term Capital Gains Income(in Lakh INR)
< 0	-	-	-
= 0	3,10,76,651	-	-
>0 and <=1,50,000	1,01,638	574	0.56
>150,000 and <= 2,00,000	17,475	303	1.74
>2,00,000 and <=2,50,000	10,593	237	2.24
>2,50,000 and <= 3,50,000	12,781	378	2.96
>3,50,000 and <= 4,00,000	4,796	180	3.75
>4,00,000 and <= 4,50,000	3,803	161	4.24
>4,50,000 and <= 5,00,000	3,420	163	4.75
>5,00,000 and <= 5,50,000	2,950	155	5.25
>5,50,000 and <= 9,50,000	15,511	1,126	7.26
>9,50,000 and <= 10,00,000	1,386	135	9.76
>10,00,000 and <=15,00,000	9,228	1,135	12.30
>15,00,000 and <= 20,00,000	5,674	984	17.35
>20,00,000 and <= 25,00,000	3,669	821	22.38
>25,00,000 and <= 50,00,000	8,593	3,017	35.10
>50,00,000 and <= 1,00,00,000	4,910	3,435	69.96
>1,00,00,000 and <=5,00,00,000	4,286	8,694	202.85
>5,00,00,000 and <=10,00,00,000	602	4,197	697.22
>10,00,00,000 and <=25,00,00,000	368	5,544	1,506.64
>25,00,00,000 and <=50,00,00,000	105	3,588	3,417.60
>50,00,00,000 and <=100,00,00,000	58	3,923	6,763.55
>100,00,00,000 and <=500,00,00,000	53	10,503	19,817.16
>500,00,00,000	9	31,368	3,48,535.59
Total	3,12,88,559	80,622	

1.5 All Taxpayers - Range of Long Term Capital Gains (AY 2015-16)

Range (in INR)	No. of Returns	Sum of Long Term Capital Gains Income (in Crore INR)	Average Long Term Capital Gains Income(in Lakh INR)
< 0	-	-	-
= 0	4,33,37,632	-	-
>0 and <=1,50,000	1,07,909	579	0.54
>150,000 and <= 2,00,000	17,611	307	1.74
>2,00,000 and <=2,50,000	15,544	350	2.25
>2,50,000 and <= 3,50,000	20,935	616	2.94
>3,50,000 and <= 4,00,000	6,620	248	3.75
>4,00,000 and <= 4,50,000	5,464	232	4.25
>4,50,000 and <= 5,00,000	5,036	239	4.75
>5,00,000 and <= 5,50,000	4,068	213	5.24
>5,50,000 and <= 9,50,000	21,359	1,552	7.27
>9,50,000 and <= 10,00,000	1,894	185	9.77
>10,00,000 and <=15,00,000	13,202	1,619	12.26
>15,00,000 and <= 20,00,000	8,303	1,438	17.32
>20,00,000 and <= 25,00,000	5,435	1,217	22.39
>25,00,000 and <= 50,00,000	12,776	4,502	35.24
>50,00,000 and <= 1,00,00,000	7,527	5,254	69.80
>1,00,00,000 and <=5,00,00,000	6,316	12,900	204.24
>5,00,00,000 and <=10,00,00,000	810	5,652	697.78
>10,00,00,000 and <=25,00,00,000	458	7,046	1,538.43
>25,00,00,000 and <=50,00,00,000	156	5,369	3,441.67
>50,00,00,000 and <=100,00,00,000	69	4,864	7,049.28
>100,00,00,000 and <=500,00,00,000	53	11,399	21,507.55
>500,00,00,000	15	19,069	1,27,126.67
Total	4,35,99,192	84,850	

1.5 All Taxpayers - Range of Long Term Capital Gains (AY 2013-14)

Range (in INR)	No. of Returns	Sum of Long Term Capital Gains Income (in Crore INR)	Average Long Term Capital Gains Income(in Lakh INR)
< 0	0	-	-
= 0	3,58,53,374	-	-
>0 and <=1,50,000	1,03,646	554	0.53
>150,000 and <= 2,00,000	18,088	316	1.75
>2,00,000 and <=2,50,000	11,795	264	2.24
>2,50,000 and <= 3,50,000	13,881	410	2.96
>3,50,000 and <= 4,00,000	4,736	177	3.74
>4,00,000 and <= 4,50,000	4,170	177	4.24
>4,50,000 and <= 5,00,000	3,704	176	4.75
>5,00,000 and <= 5,50,000	3,019	158	5.25
>5,50,000 and <= 9,50,000	16,213	1,177	7.26
>9,50,000 and <= 10,00,000	1,513	148	9.75
>10,00,000 and <=15,00,000	10,447	1,285	12.30
>15,00,000 and <= 20,00,000	6,108	1,060	17.35
>20,00,000 and <= 25,00,000	4,216	946	22.43
>25,00,000 and <= 50,00,000	9,666	3,396	35.13
>50,00,000 and <= 1,00,00,000	5,430	3,802	70.02
>1,00,00,000 and <=5,00,00,000	4,604	9,242	200.74
>5,00,00,000 and <=10,00,00,000	583	4,031	691.41
>10,00,00,000 and <=25,00,00,000	313	4,798	1,532.76
>25,00,00,000 and <=50,00,00,000	103	3,617	3,511.84
>50,00,00,000 and <=100,00,00,000	38	2,569	6,760.10
>100,00,00,000 and <=500,00,00,000	39	7,244	18,574.61
>500,00,00,000	5	3,609	72,170.29
Total	3,60,75,691	49,154	

1.5 All Taxpayers - Range of Long Term Capital Gains (AY 2016-17)

Range (in INR)	No. of Returns	Sum of Long Term Capital Gains Income (in Crore INR)	Average Long Term Capital Gains Income(in Lakh INR)
< 0	-	-	-
= 0	4,91,83,834	-	-
>0 and <=1,50,000	1,21,963	674	0.55
>150,000 and <= 2,00,000	20,448	356	1.74
>2,00,000 and <=2,50,000	17,656	398	2.25
>2,50,000 and <= 3,50,000	24,927	734	2.94
>3,50,000 and <= 4,00,000	7,945	297	3.74
>4,00,000 and <= 4,50,000	6,594	280	4.25
>4,50,000 and <= 5,00,000	5,929	282	4.76
>5,00,000 and <= 5,50,000	4,971	261	5.25
>5,50,000 and <= 9,50,000	25,953	1,882	7.25
>9,50,000 and <= 10,00,000	2,210	216	9.77
>10,00,000 and <=15,00,000	16,081	1,976	12.29
>15,00,000 and <= 20,00,000	9,666	1,675	17.33
>20,00,000 and <= 25,00,000	6,475	1,449	22.38
>25,00,000 and <= 50,00,000	15,094	5,315	35.21
>50,00,000 and <= 1,00,00,000	8,956	6,273	70.04
>1,00,00,000 and <=5,00,00,000	7,100	14,426	203.18
>5,00,00,000 and <=10,00,00,000	870	6,044	694.71
>10,00,00,000 and <=25,00,00,000	567	8,722	1,538.27
>25,00,00,000 and <=50,00,00,000	171	6,026	3,523.98
>50,00,00,000 and <=100,00,00,000	68	4,636	6,817.65
>100,00,00,000 and <=500,00,00,000	66	15,345	23,250.00
>500,00,00,000	15	17,089	1,13,926.67
Total	4,94,87,559	94,356	

1.5 All Taxpayers - Range of Long Term Capital Gains (AY 2014-15)

Range (in INR)	No. of Returns	Sum of Long Term Capital Gains Income (in Crore INR)	Average Long Term Capital Gains Income(in Lakh INR)
< 0	0	-	-
= 0	3,89,04,169	-	-
>0 and <=1,50,000	98,214	518	0.53
>150,000 and <= 2,00,000	16,022	281	1.75
>2,00,000 and <=2,50,000	12,555	280	2.23
>2,50,000 and <= 3,50,000	15,122	446	2.95
>3,50,000 and <= 4,00,000	5,286	198	3.74
>4,00,000 and <= 4,50,000	4,477	190	4.24
>4,50,000 and <= 5,00,000	4,056	193	4.75
>5,00,000 and <= 5,50,000	3,398	178	5.25
>5,50,000 and <= 9,50,000	18,023	1,313	7.29
>9,50,000 and <= 10,00,000	1,575	154	9.76
>10,00,000 and <=15,00,000	11,094	1,362	12.27
>15,00,000 and <= 20,00,000	6,817	1,184	17.36
>20,00,000 and <= 25,00,000	4,560	1,021	22.40
>25,00,000 and <= 50,00,000	10,637	3,727	35.04
>50,00,000 and <= 1,00,00,000	6,113	4,283	70.06
>1,00,00,000 and <=5,00,00,000	4,931	9,920	201.18
>5,00,00,000 and <=10,00,00,000	639	4,389	686.83
>10,00,00,000 and <=25,00,00,000	348	5,314	1,526.90
>25,00,00,000 and <=50,00,00,000	96	3,291	3,428.56
>50,00,00,000 and <=100,00,00,000	56	3,810	6,804.26
>100,00,00,000 and <=500,00,00,000	45	8,363	18,585.32
>500,00,00,000	14	14,105	1,00,748.01
Total	3,91,28,247	64,521	

1.5 All Taxpayers - Range of Long Term Capital Gains (AY 2017-18)

Range (in INR)	No. of Returns	Sum of Long Term Capital Gains Income (in Crore INR)	Average Long Term Capital Gains Income(in Lakh INR)
< 0	-	-	-
= 0	4,95,28,653	-	-
>0 and <=1,50,000	1,43,114	755	0.53
>150,000 and <= 2,00,000	21,466	375	1.75
>2,00,000 and <=2,50,000	17,764	399	2.25
>2,50,000 and <= 3,50,000	26,801	792	2.96
>3,50,000 and <= 4,00,000	8,805	329	3.74
>4,00,000 and <= 4,50,000	7,331	311	4.24
>4,50,000 and <= 5,00,000	6,528	310	4.75
>5,00,000 and <= 5,50,000	5,455	286	5.24
>5,50,000 and <= 9,50,000	28,833	2,097	7.27
>9,50,000 and <= 10,00,000	2,448	239	9.76
>10,00,000 and <=15,00,000	17,314	2,130	12.30
>15,00,000 and <= 20,00,000	10,442	1,814	17.37
>20,00,000 and <= 25,00,000	7,254	1,624	22.39
>25,00,000 and <= 50,00,000	16,666	5,858	35.15
>50,00,000 and <= 1,00,00,000	9,733	6,833	70.20
>1,00,00,000 and <=5,00,00,000	7,752	15,846	204.41
>5,00,00,000 and <=10,00,00,000	997	6,877	689.77
>10,00,00,000 and <=25,00,00,000	587	8,903	1,516.70
>25,00,00,000 and <=50,00,00,000	196	6,682	3,409.18
>50,00,00,000 and <=100,00,00,000	113	7,876	6,969.91
>100,00,00,000 and <=500,00,00,000	104	22,464	21,600.00
>500,00,00,000	24	40,567	1,69,029.17
Total	4,98,68,380	1,33,367	



IS IT A CO-INCIDENCE ?

- Govt. says the total amount of exempted capital gains from listed shares and units is around **3,67,000 crores** as per returns filed for **A.Y.17-18**. (Single Year)
- The above data from Income Tax website suggests that **Total Long Term Gains in Last 5 A.Y. (12-13 to 16-17)** collectively was **3,73,503 crores**
- Adding up the last 5 years data from A.Y 2012-2013 to A.Y 2016-2017 the number comes to 3.63 – 3.73 lakh cr.
- This is the only way the numbers match!!

But wait ...

- LTCG Tax is applicable across various asset classes but only Equity was exempt from taxation.



PROBABILITIES

- The data on Income Tax India website for Long Term Capital Gains is only for **Other Capital Assets** which are taxed?
In that case we have **no data for Long Term Capital Gains for Equity!!!**
- Or the budget used a **Cumulative data of 5 years and mentioned it as 1 year?**
- Or the data used in the budget for Long Term Capital Gains for Equity is an **Estimate** and we have no way to verify it.



NOW WHAT ?

- Assuming that the data is not available for LTCG exemption every year we can only try to **INVERT** and check if the future estimates of 20k and 40k crore yearly collection from LTCG is possible or not.
- Also check if the 3.67 lakh crores number can be inverted.



INVERT, INVERT, INVERT !!

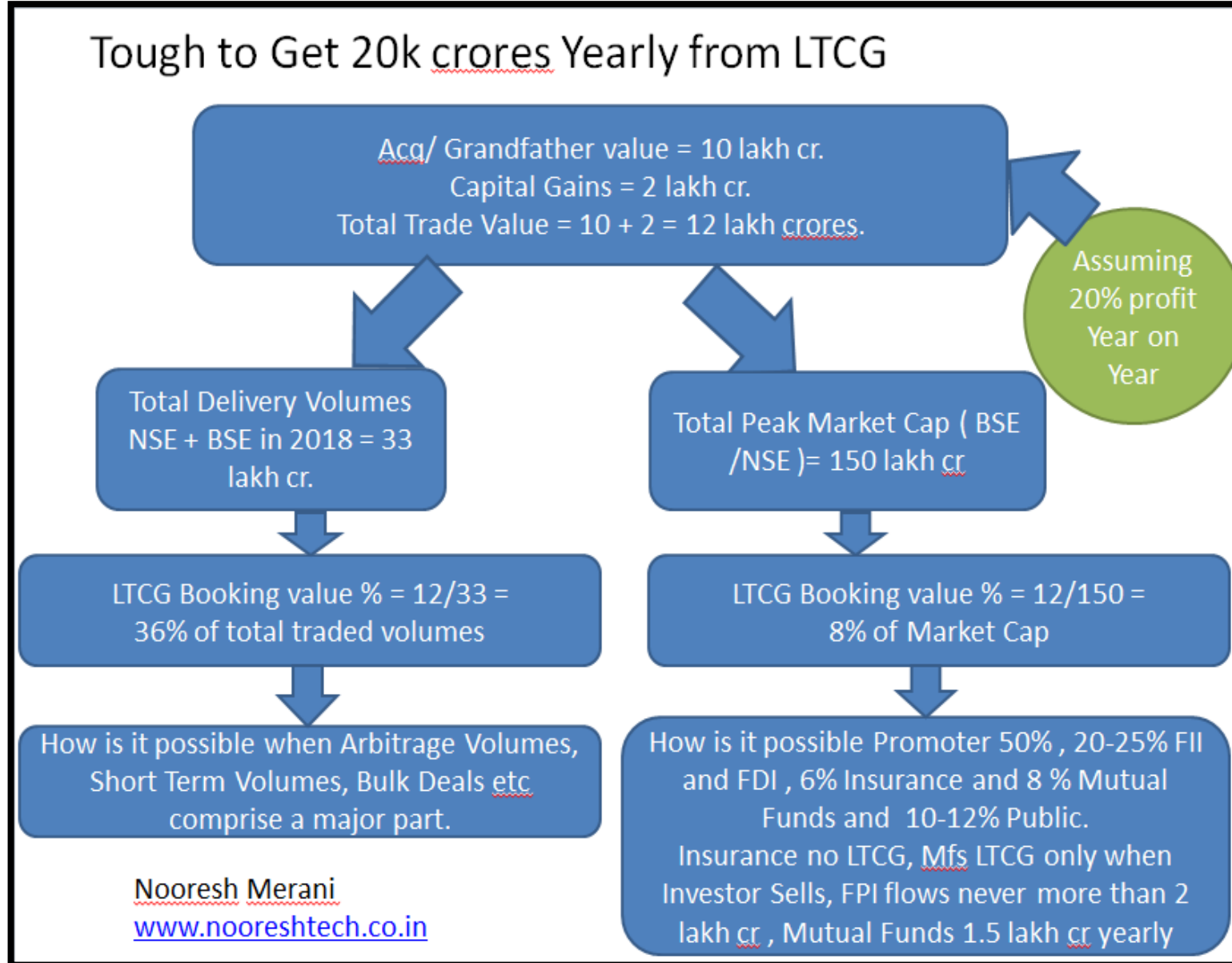
Part 1 – LTCG – Can it generate 20000 cr or 40000 cr in near Future ?

How much LTCG Tax can the Government get ?

- As per the statements of FM and Finance Secretary the expectation was 20,000 cr in 1st year and 40,000 cr in 2nd year.
- Considering the LTCG is applicable as per grandfathering let's see a few scenarios.
- One way to check would be if the Budget has the Long Term Capital Gains Tax revenue number as Real Estate, Debt Funds, Gold are not exempted. But the Budget document does not have this bifurcation.
- **The other way would be to see Performance of Benchmark Index , Total Market Capitalization, Trading Volumes, Shareholding etc.**



LTCG AS A % OF TOTAL VOLUMES AND MKT CAP



■ Total Turnover, Delivery Turnover and Total Market Cap (Detailed)

Year	Total Turnover(BSE + NSE) cr	Delivery Turnover @ 40% (Est)	Market Cap (Cr)
2018-2019	93,64,707	37,45,883	1,50,43,275
2017-2018	83,17,794	33,27,118	1,40,44,152
2016-2017	60,54,174	24,21,669	1,19,78,421
2015-2016	49,77,072	19,90,829	93,10,471
2014-2015	51,84,499	20,73,800	99,30,122
2013-2014	33,30,152	13,32,061	72,77,720

The 10 year delivery volume average is around 40% so taking that number.
(It hit 35% in 2019)

How is LTCG Tax calculated

- LTCG transaction will have
Acquisition/Grandfather Value + Capital Gain = Sell Value.
- Acquisition Value could be say from Grandfathering date or buying post Feb 2018.

Volumes to be traded for LTCG Tax (Detailed)

GF Value (cr)	Selling Value (cr)	%ge Move	Capital Gains (cr)	Tax (cr)
10,00,000	11,00,000	10%	1,00,000	10,000
10,00,000	12,00,000	20%	2,00,000	20,000
10,00,000	13,00,000	30%	3,00,000	30,000
10,00,000	14,00,000	40%	4,00,000	40,000
10,00,000	15,00,000	50%	5,00,000	50,000



- **Selling Value as a % of Yearly Volumes and % of Market Cap. (Detailed)**

Selling value be traded	Max Del Vols (Cr)	20% above Peak Mkt cap (cr)	% of Yearly Vol	% of Mkt Cap
11,00,000	35,00,000	1,80,00,000	31.43%	6.11%
12,00,000	35,00,000	1,80,00,000	34.29%	6.67%
13,00,000	35,00,000	1,80,00,000	37.14%	7.22%
14,00,000	35,00,000	1,80,00,000	40.00%	7.78%
15,00,000	35,00,000	1,80,00,000	42.86%	8.33%

- The 35 lakh number and 180 lakh crore market cap is also way higher when total volumes in 2016-2017 were only 24 lakh cr and Market Cap is now down 5-10% from grandfathering date.
- The LTCG tax estimate of 20000 cr and 40000 cr from LTCG Tax just does not add up as it expects 30-40% of all Volumes to be LTCG profit booking.
- It also expects 6-10% of Equity of Indian Markets to change hands every year!! When the Public Float is only 10%.

P.S – Trying to be liberal by taking 20% profits and zero set-offs !!



WHO HOLDS HOW MUCH? & WHY NUMBERS DON'T ADD UP

- The total value of Equity Holding in Mutual Funds is 10-11 lakh crores.
- The total value of Equity Holding in Insurance Companies is less than 10 lakh crores.
- The total holding of Retail Investors and Corporates apart from Promoters and FIIs is way lesser than 10 lakh crores.
- The rough holding of total equities is
50% promoters,
20% FIIs,
12-14% MFS and Insurance ,
5% FDI ,
1-2% PMS AIF and
Rest 5-10% with Public Investors.
- Insurance and MF trades only get taxed on end client, Promoters don't trade as much, and FDI also does not churn much



WHAT DOES IT MEAN ?

- Over the years a lot of operators/promoters have used the system to launder money by taking defunct listed companies up by 10-100 times. SEBI has not been able to do much but had been lobbying for LTCG to stop the tax evasion.

Check Link - Sebi unearths Rs 34,000-crore tax evasion https://www.business-standard.com/article/markets/sebi-finds-11-000-entities-misusing-capital-gains-benefit-117051501396_1.html

- Such money laundering transactions will stop with a 10% tax and surcharge.
- The data of previous years need to discount the fraudulent Tax Evasion.
- The estimates seem to be an extrapolation of the past 3-4 years which is masked by Bull Market in Smallcaps and Manipulation.
- As per us a practical estimate is if we grow Equities at 12-15% as per GDP and a starting market capitalization of 150 lakh crores and 2-4% of equity changing hands the government **can barely get 3000-9000 cr of LTCG Tax annually.**
- The **broader markets have corrected 40% since the budget.** If we include that even if new investments become profitable there will be a lot of set-offs available for LTCG Loss also. This will cut the LTCG Tax by a big margin for the first few years.



CANT INVERT THE 3.67 LAKH CRORE NUMBER !!

3.67 Lakh crore LTCG Exempt Income from Budget 2018. Cant Invert !!



CANT INVERT THE 3.67 LAKH CRORE NUMBER !!

DETAILED EXPLANATION

■ **Case 1 = A.Y 2017-2018**

Assesment Year 2017-2018 implies the tax to be paid for Financial Year 2017.

■ **Market Capitalisation Returns**

Year	Market Cap BSE (Crs)	Market Cap NSE (Crs)
31st March 2016	94,75,328	93,10,471
31st March 2017	1,21,54,525	1,19,78,421
% Return	28%	29%

Market Capitalization is up 28-29% but that also considers New Issues and Equity Dilutions but we need this number later

■ **Indices Returns**

Year	Sensex	Nifty
March 31st 2016	25341.8	7738.4
March 31st 2017	29620.2	9173.75
% Return	14.40%	15.60%

The Benchmark Indices are up 15% in FY 2017.



- How is Long Term Capital Gains calculated in simple Terms.
One buys 1000 shares at a price of 10 rs.
A few years later sells it for 100 rs.
The Total Profit is $1000 * (100 - 10) = 90000$ Rs.
The Tax on this income is 10% i.e 9000 rs.
This implies the sell transaction of $100 * 1000$ shares or 1,00,000 Rs.
- So when the LTCG number of 3.67 lakh crore would imply a sell transaction of 3.67 lakh crore + the Acquisition cost.
- From the lows of 2008 the Index is less than 4 times.
Even from the lows of 2002 which is 15 years back the Index is up 10 times.
- If we consider 10 times money was made the acquisition cost would be 0.367 lakh crores and total value 4.03 lakh cr in minimum case or
- Suppose the acquisition cost is 0.91 lakh cr would mean a trade value of 4.58 lakh crores. (Taking the best possible investment timing !!)



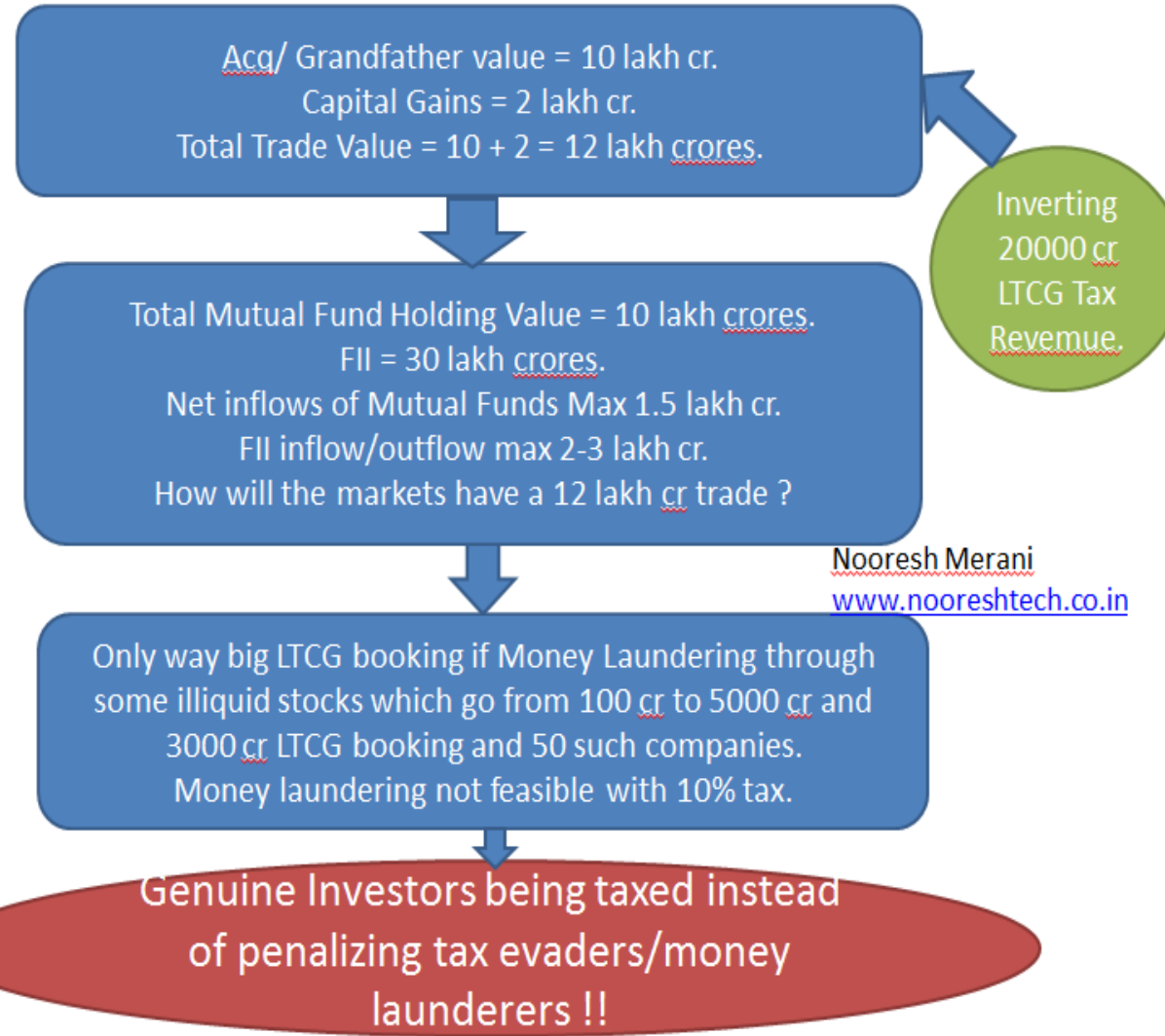
- **Total Volumes in 2016-2017**
- NSE Total Volumes = 50,55,913 cr
- BSE Total Volumes = 9,98,260 cr
- Total Volumes = 60,54,173
- The delivery volumes have been around 40%. (Taking 10 year average.)
- So actual volumes where LTCG booking can happen would be 24.2 lakh crores.

- **The booked value of LTCG transaction of 4-5 lakh crores implies roughly 16-20% of the total volumes of 2016-2017 is LTCG booking !!**
- Also a transaction of 4-5 lakh crores in a Total Market Capitalization 120 lakh crores would imply 4% of Equity of India being sold and LTCG booked. (That too when all money is making 4-10 times the acquisition value.)
- So when we try inverting the 3.67 lakh crores number it almost makes us doubt the Budget estimate of AY 2017-2018 but there is **no way to verify it as lack of data.**



CONCLUSION

LTCG Tax Revenue – Penalizing Genuine Investors.



CONCLUSION

- The 3.67 lakh crores of LTCG exempted Income number in the Budget of 2018 does not add up as per the CBDT Website or on Reverse Calculating from the Market Cap and Market Volumes data.
- Post grandfathering even in the best case of 20% upside in Total Market Cap to get a 10k crore Tax Revenue will need LTCG booking to be 30% of all volumes in India. Doesn't add up.
- A quick estimate if 2-4% of Equity changes hands every year and Market Cap goes up 12-15% the max collections without any set-offs being considered would be 3000-5000 cr.
- The government collects 10000 cr plus from STT and for quite a few years may not even get LTCG equivalent to STT.
- Scrapping LTCG Tax and increasing STT would give better Tax Revenues.
- LTCG Tax revenues may not cross STT for 5 years even with 15% growth year on year.
- Over the last few years a lot of money laundering happened through small shell cos. and that inflated the LTCG exempted income. With 10% Tax plus surcharge this laundering should stop.



CONCLUSION

- Focus should be to extract penalties from fraudulent promoters and operators for the tax evasion.
- The LTCG Tax is thus going to be applicable to the left out genuine investors, institutions.
- Morally the Tax is justifiable but a lack of revenues for the government does not make a case to continue with LTCG Tax.
- Post the Budget 2018 about 80% of the companies are below the grandfathered value and this will make it all the more difficult to get any tax revenues in next few years.
- Even in the best case of 15% year on year linear growth a revenue of 3000-5000 cr is possible.
- The Market Cap Loss of 5-15 lakh crores in lieu of best case revenue of 5000 crores which will hardly be a few 100 cr this year reminds us of this saying – Khaya Piya Kuch Nahi Glass Toda Bara Anna.
- LTCG goes beyond the damage in near term but stops fresh flows also at a time when India needs a steady stream of Foreign Inflows through FDI and FPI to balance the fiscal pressures.
- There needs to be a re-think and abolish LTCG Tax, Dividend Distribution Tax and Buyback Tax. Rather need to give more incentives to create Domestic Capital.
- The Genuine Investors/Institutional Investors are being taxed instead of catching and penalizing Tax Evaders/Money Launderers.



AUTHOR

Nooresh Merani –

www.analyseindia.com

www.nooreshtech.co.in

Disclosure – We have been very liberal in assumptions to curve fit the data and still found it difficult. All the data used is public information from <https://www.incometaxindia.gov.in> , www.nseindia.com , www.bseindia.com . This is just a scenario analysis and we haven't done a longer statistical testing of the hypothesis.

