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# CRITICAL ANALYSIS OF INCREASE IN LONG TERM CAPITAL GAINS (LTCG) TAX AND SHORT-TERM CAPITAL GAINS (STCG) TAX RELATED TO SHARE: AN ANALYSIS OF BUDGET 2024-2025

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**ABSTRACT**

The writer discusses "A Critical Analysis of Increase in Long Term Capital Gains (LTCG) Tax and Short Term Capital Gains (STCG) Tax Related to Share: An Analysis of Budget 2024-2025" in order to analyze the changes to capital gains taxation proposed in Indian Union Budget for the fiscal year 2024-2025. This analysis is especially pertinent with respect to and in light of the significant alterations to the most important tax structure of the economy, which shall determine the way for investment decisions, stability of the market, and economic growth for the nation.The things set out in Budget 2024-25 stipulate a flat rate of 12.5% uniform tax payable on long-term capital gain on all asset classes, quite an upward revision all the way from 10% applicable to listed shares and 20% across other assets endowed with the benefit of indexation. In other words, short-term capital gains per se on the sale of certain financial assets, such as shares and equity-related mutual funds, will now attract a higher rate of tax: from 15% now to 20%. This investigation will consider both quantitative analysis of market trends before and after Budget intervention with qualitative interviews conducted with financial experts and investors. This dual approach will afford a well-rounded understanding of the implications of these tax changes.A further examination of how the taxation of short-term gains at higher rates might minimize speculative trading while simultaneously pushing investors towards long-term investment strategies. Insights arising out of uniform taxation that makes compliance easier for investors, which may provide bread and butter for increased players in equity markets. An assessment checks if higher exemption limit alone (from ₹1 lakh to ₹1.25 lakh) is adequate to nullify the effect of higher tax rates leveling up from middle-class to those in semi-middle-class investors.The increase in LTCG and STCG taxes is part of a wider set of economic reforms aiming to stabilize financial

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markets and promote sustainable investment practices. The government may be attempting to reduce volatility on the equity markets, thereby creating a more mature investment environment, as reflected in its decision of imposing higher taxes on short-term gains. Further, the scrapping of indexation may do away with complications in tax calculations, even though it raises questions about inflation-adjusted returns for investors.In short, this research aims to provide a full, critical analysis of the recently implemented changes in capital gains taxation as enunciated in Budget 2024-25. The study shall also analyze investors' immediate and long-term implications for market stability, according to the moves towards capital gains taxation. The results will be useful for policymakers and investors operating in this new fiscal landscape whose aim ultimately is to provide a better understanding of how taxation impacts decision-making on investments in equity markets.

**WHAT IS SHARE?**

A share is a unit of ownership in a company, also commonly known as stocks or equities, and consideredby some companies as financial assets. When you purchase shares, you buy a part of the company and become a shareholder. The total number of shares issued by a company is called its "capital stock" or "equity. The terms "shares" and "stocks" are often used interchangeably, but "stock" is the financial instrument a company issues, and a "share" is a single instance of that financial instrument. Companies issue shares to raise capital, which is then sold to investors, often investment banks or brokers, who then sell the shares to other investors. Shareholder ownership refers to the individuals or organizations that hold partial ownership in a company through the stock they hold. These stocks act as certificates representing a proportional claim to the company's assets, profits, and voting rights. Thus, with every unit of stock, one becomes a part owner of the company; hence, the more stock one owns, the larger the percentage of ownership one has. So, how much control does the majority of the shares give one? It gives them control over the company, molding strategic decisions and intentions regarding board members' appointments.The term 'stocks' and 'shares' are often used synonymously; however, the truth is that they denote different things. Stock is a representation of partial ownership in one or more corporations, while share denotes the portion of ownership in a single company. A share represents the smallest unit of issuance of a company’s stock; each unit of stock is itself a share, and shares out of stock are equivalent to pieces of ownership of the company.So, now let's see what different types of share are found in the stock market. Generally speaking, ownership interest in a company shares are representatives.However, there are different varieties of shares available whereby each is a bit different in nature covering certain aspects for an investor.The types of share are common share,preferenceshare,treasurystock,employee stock and options,restricted stock unit,ADR AND GDR.Common equity is the most prominent kind of equity that most companies issue. Common stockholders are essentially the rightful owners of the company and have voting rights in significant company matters, such as electing a board of directors or approving major decisions affecting the company. They hold a residual claim on the company's assets and earnings, meaning they will be entitled to dividends if declared, and to share in whatever money is left over once all other obligations have been gathered up, those obligations including paying any debts. Comparatively, common stock is riskier than other securities but can, potentially, return even more.Preferred stock is a hybrid security, possessing characteristics of equity and debt. Preferred share owners receive preferential treatment over common stockholders with respect to dividends, which are usually predetermined. However, they usually lack the ability to pass or block corporate decisions. Preferred stockholders, in the event of liquidation, possess a superior claim over the assets of the company as compared to common shareholders. Generally, preferred stock is considered less risky than common stock due to its dividend preference and liquidation priority.Treasury stock refers to shares that were previously issued by the company but have been repurchased in the open market.

**CHANGES IN LTCG IN BUDGET 2024-2025**

The Union Budget 2024-2025 introduced reforms to the Long-Term Capital Gains tax regime in India, which can be considered a watershed in the nation's fiscal policy. The objective of the reforms, had been to offer a transparent structure to LTCG taxation, enhance the revenue collection of the government, and balance the rates of capital gains across all classes of assets. Tax on Long-Term Capital Gains is levied on gains or profits made by selling assets held for a long time: usually one year for listed securities and two years for other kinds of property. Major changes included: a common tax rate of 12.5% for LTCG, the scrapping of indexation benefits for most of the assets, increasing the limit for exemptions from ₹1 lakh to ₹1.25 lakh yearly, and uniform holding periods for listed securities and other assets set at 12 months and 24 months respectively. Until now, LTCG rates differ by classes of assets: listed shares at 10% with no indexation and other assets at 20% with indexation benefits. Applicability of new smoothed-out uniform tax at 12.5% is with effect from now on, except for land and buildings acquired pre-July 23, 2024, where the taxpayer can opt for either old or new regimes. The removal of indexation benefits would increase the tax liability for many investors not being able to adjust their acquisition costs for inflation except for few exceptions with respect to some real estate assets. The increased exemption limit reliefs small investors, while the simpler holding periods ease tax compliance. These adaptations are meaningful. Investors face higher tax implications with the removal of indexation, but simplified compliance with a uniform rate. Standardization of holding periods and rates will encourage long-term investing. Economically, the reforms are expected to improve tax revenues, stabilize the markets, and enhance India's allure for foreign direct investments. However, concerns persist in increased tax burdens arising from the scrapping of indexation, especially in times of inflation. While the industry welcomes tax simplification, the stakeholders continue to press for further reforms that would be in tune with global standards and inclusive of inflation concerns. Henceforth, a balancing act between revenue generation and investor-friendly policies will be key to ensuring sustainable economic growth and market stability. The changes in LTCG taxation introduced in the Budget 2024-2025 have gone through a huge change; it becomes India's great policy shift in wanting to simplify taxation, increase revenue collection, and encourage long-term investments. While the reforms that have been introduced are being positively received in terms of their clarity and uniformity, there will understandably be concerns regarding the loss of indexation benefits and the role of adjusting further to global standards. There will be a careful watch on the impact of these reforms on India as decisions are made for the long haul, relating to their impact on the investors and the economy in general. It is important to see that our tax regime should be competitive and boost economic growth. The LTCG tax hike will reduce returns for investors, especially retail participants who bank on equities for their wealth creation. Lowering the annual exemption limit on LTCG from ₹1 lakh to ₹1.25 lakh gives an element of relief to the investor, though marginal. However, it could do little to make up for the additional burden of taxes on larger portfolios. Inflation continues to rise further and the taxes may put FPIs used to this backdrop at a terrible disadvantage, because this brings the capital gains tax rates on domestic/foreign markets into alignment. If that were to be the case, India may be made less competitive against other emerging markets that are instituted with more favorable rules and regulations surrounding capital gains taxes. The announcement of the increase in LTCG tax on 23 July 2024 led to a massive sell-off in the Indian stock market. The Sensex lost over 813 points (1.01%), while the Nifty was down by 350 points (1.43%), showing the apprehensions of traders regarding reduced returns for equity investments.

**CHANGES IN STCG IN BUDGET 2024-2025**

With Union Budget 2024-2025 came another major hike in the Long-Term Capital Gains tax on equity investments, from 10% to 12.5%. Coupled with the higher STCG tax rates and amendments to STT, it resulted in much disappointment among stock market players. And the immediate reaction was a massive selloff, with the Sensex and Nifty diving significantly at the market open post-announcement. This essay explains how the increased LTCG tax tempered market sentiment and also briefly reviews the general impact.The announcement of the LTCG tax hike on July 23, 2024, sent shockwaves through the Indian stock market, leading to a significant sell-off. The Sensex plummeted by over 813 points (1.01%), and the Nifty fell by 350 points (1.43%), as investors grew increasingly worried about the potential for lower returns on their equity investments. The unexpected rise in LTCG tax from 10% to 12.5% caught many analysts off guard, as they had predicted no significant changes in capital gains taxation for this budget cycle. To make matters worse, there were also increases in STCG tax from 15% to 20% and higher STT rates on derivatives trading. These new measures were seen as discouraging for both long-term and short-term equity investors, which only added to the already negative sentiment in the market.The Short-Term Capital Gains (STCG) tax is all about the profits you make from assets that you hold for a brief period. Before the 2024-2025 Budget, if you sold equity shares or equity-oriented mutual funds after holding them for 12 months, you’d pay a 15% tax on those gains. But the recent budget brought some big changes. Starting July 23, 2024, the STCG tax rate has jumped from 15% to 20%. Plus, the holding period for what counts as short-term has been standardized: it’s now 12 months for listed securities and 24 months for non-equity assets. Another noteworthy change is that Foreign Institutional Investors (FIIs) will now face the same STCG rates as domestic investors. One of the biggest shifts is the removal of indexation benefits across all asset classes, meaning no more adjustments for inflation. On top of that, the Securities Transaction Tax (STT) on derivatives has gone up, with futures now taxed at 0.02% (up from 0.01%) and options at 0.1% (up from 0.062%), effective October 1, 2024. These reforms are part of the government’s effort to simplify tax laws, discourage speculative trading, and boost fiscal revenue.One of the biggest changes we’re seeing is the hike in the STCG tax rate to 20%. Before, if you sold equity shares or mutual funds within 12 months, you were taxed at 15%. Now, all equity-oriented assets—like listed shares, equity mutual funds, and business trust units—are hit with that higher 20% rate. This is a real blow for retail investors, especially those who trade frequently, as their returns are taking a hit. For example, a gain of ₹1 lakh now means a tax of ₹20,000 instead of ₹15,000. Foreign investors are also feeling the pinch with increased tax liabilities, which could make India a less appealing option compared to other emerging markets. On top of that, derivatives traders are facing challenges due to the STT hike, which further squeezes profitability, particularly for those who trade at high frequencies. The 2024-2025 Budget has introduced some changes aimed at simplifying taxation by standardizing holding periods across different asset classes. For instance, while listed equity shares continue to have a 12-month holding period, debt mutual funds have seen their long-term threshold cut down from 36 months to just 24 months, which unfortunately raises their tax burden. Real estate holdings have stayed at 24 months, keeping their previous classification intact. While this move does help reduce complexity, it also makes debt instruments less tax-efficient. Another significant change is the removal of indexation benefits. Previously, these benefits allowed investors to adjust the purchase price of their assets for inflation, which helped lower taxable gains. Now, this benefit has been eliminated for all asset classes, except for land and buildings acquired before July 2024. For example, if someone bought a property for ₹50 lakh in 2020 (with a Cost Inflation Index of 301) and sold it in 2024 (with a CII of 348), the indexed cost would have been ₹57.8 lakh, which would have reduced their taxable gains.

**COMPARITIVE ANALYIS:PRE-TAXATION AND POST-TAXATION ON INCREASE CAPITAL GAINS TAX**

Capital gains tax (CGT) is a key player in influencing how people invest, the behavior of the stock market, and the revenue that governments collect. When we compare situations with lower CGT before taxation to those with higher CGT after taxation, we see some pretty significant differences in how confident investors feel, how liquid the market is, how much capital is retained, and the overall growth of the economy. Before CGT goes up, investors enjoy a tax-friendly environment that encourages them to participate more in the market, leading to greater liquidity, more venture capital funding, and ongoing economic growth. A lower CGT is particularly appealing to foreign portfolio investors (FPIs) and institutional investors, who are more likely to dive into the stock markets, enhancing overall market efficiency. Plus, entrepreneurs and startups find it easier to secure funding, as investors are more inclined to back high-risk ventures that promise good returns. This dynamic fosters innovation, creates jobs, and boosts GDP growth, all while ensuring a steady, moderate collection of tax revenue through corporate taxes and indirect levies. On the flip side, when CGT increases, investment activity often takes a hit. The higher tax burden can dampen investor enthusiasm, leading to lower liquidity and a drop in trading volume. Institutional investors and high-net-worth individuals (HNWIs) might even move their funds to tax-friendly places like Switzerland, the Cayman Islands, and Singapore to lessen their tax exposure. This shift can weaken domestic capital markets and slow down economic progress. While governments might see a temporary spike in revenue from the increased taxes, the long-term effects can include a decline in venture capital activity, slower economic growth, and potential job losses. Startups and small businesses, in particular, find it tough to attract funding as investors look for safer, tax-efficient options. Moreover, the complexity of capital gains tax can lead to more tax avoidance strategies, which can further undermine the expected revenue gains. To address these challenges, governments can consider. Raising capital gains tax (CGT) can really shake things up in the stock market, affecting how investors behave, the liquidity of the market, corporate growth, and even the overall stability of the economy. When CGT goes up, it tends to put a damper on investment activity, which means fewer institutional investors, foreign portfolio investors (FPIs), and retail traders are likely to jump into the market. This drop in participation can lead to lower market liquidity, making it trickier for investors to buy and sell stocks smoothly. With less trading going on, we often see higher price volatility, as the smaller number of market players can cause prices to swing more dramatically.Institutional investors and high-net-worth individuals (HNWIs) often react to increased CGT by moving their investments to more tax-friendly places like Singapore, Switzerland, and the Cayman Islands. This outflow of capital can weaken domestic stock markets, leaving businesses with fewer options to raise funds through public offerings or secondary share sales. Startups and small businesses, which depend heavily on equity funding, might struggle to attract investors, which can slow down innovation and job creation.Another downside of a higher CGT is that it tends to make investors more risk-averse. When capital gains are taxed heavily, many investors shy away from high-risk, high-reward opportunities in growth stocks and emerging markets, opting instead for safer, tax-efficient options like bonds or dividend-paying stocks. This shift can limit the flow of capital into innovative sectors like technology and renewable energy, potentially hindering long-term economic growth.

## SUMMARY

Capital gains tax (CGT) is a key player in influencing how people invest, the movements in the stock market, and the revenue that governments collect. When CGT rates change, it can have a big impact on financial markets, investor confidence, and overall economic growth. This writer dives into the effects of the increased CGT in India following the Union Budget for 2024-2025. It looks back at how CGT has evolved over time, compares what things were like before and after taxation, and examines international tax models. The paper highlights how taxation affects capital markets, the decision-making of investors, and government income. In India, capital gains are divided into Short-Term Capital Gains (STCG) and Long-Term Capital Gains (LTCG). The 2024 budget has raised STCG from 15% to 20% and LTCG from 10% to 12.5%, while also eliminating indexation benefits for real estate purchased before July 2024. This tax hike has sparked various economic and behavioral changes, such as lower market liquidity, capital flight, shifts in investment strategies, and possible fluctuations in revenue. Historically, India's CGT policies have seen significant changes since the Income Tax Act of 1947, when capital gains were first taxed as regular income, then abolished in 1949, and later brought back in 1956. Over the years, reforms like the 1986 LTCG tax, 1991 indexation benefits, the 1999 dual-taxation option, and the 2004 removal of LTCG tax on listed shares have influenced how investors behave. The reintroduction of the LTCG tax at 10% on gains over ₹1 lakh in 2018 marked a significant turning point. The recent CGT increase in 2024 has caused notable market reactions, with the Sensex dropping by 1,000 points (-1.35%) and Nifty falling by 337 points (-1.38%), as investors adjust their strategies in light of the new tax landscape.Thewriter sheds light on pre-taxation scenarios, where a lower capital gains tax (CGT) boosts investor confidence, enhances liquidity, encourages more venture capital investments, and helps maintain government revenue through transaction volumes instead of direct taxes. Before the tax increase, investors were actively trading, which facilitated efficient price discovery, while foreign portfolio investors (FPIs) played a key role in adding liquidity and stabilizing the stock market. This environment was beneficial for entrepreneurs and startups, allowing them to secure equity funding and keeping capital within domestic markets rather than shifting it to tax havens. However, the situation changes dramatically post-taxation. A higher CGT tends to deter investment, diminish liquidity, slow down venture capital funding, and drive capital away to more tax-friendly places like Singapore, the UAE, and the Cayman Islands. Institutional investors and high-net-worth individuals (HNWIs) start looking for alternative investments that offer better post-tax returns, which weakens India's capital markets. Additionally, the rise in CGT extends the holding periods for investments, as investors hold off on selling assets to dodge higher taxes, resulting in lower transaction volumes and less activity in the stock market. This is particularly troubling for startups and venture capital, as increased taxation discourages long-term investments in early-stage companies, ultimately stifling innovation and job creation. The hike in the Securities Transaction Tax (STT) on derivatives trading, from 0.062% to 0.1%, has led to a 20% drop in options trading volumes in Q3 2024, further worsening market inefficiencies.Thewriter also utilizes the Laffer Curve theory, illustrating that excessive taxation can lead to a decrease in long-term revenues due to changes in behavior and tax avoidance tactics. While the initial revenue surge from a higher CGT may seem advantageous for government finances, the long-term effects include reduced participation in the stock market, increased capital flight, and declining tax compliance. Countries like France, Germany, and Sweden have faced similar challenges in the past.To wrap things up, this writer highlights that raising capital gains tax (CGT) comes with a mix of effects on market dynamics, how investors behave, and government revenue. Sure, the government might see a boost in tax income at first, but over time, issues like reduced liquidity, capital flight, tax evasion, and sluggish economic growth could diminish those gains. Crafting the right CGT policy is all about finding that sweet spot between fair taxation and a welcoming investment climate. By implementing progressive tax systems, encouraging reinvestment, coordinating internationally on tax matters, and exploring alternative revenue sources, governments can build a sustainable economic environment that fosters long-term growth. This comparative analysis makes it clear that when making tax policy choices, it's crucial to look beyond just revenue targets and consider the overall stability of financial markets and economic growth, ensuring that investment incentives stay strong while keeping tax fairness in check.

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