

LTCG tax roils Dalal Street; but expects grandfathering clause to help contain long-term damage

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The capital markets have expressed disappointment over the proposal to tax on long-term capital gains (LTCG) on equities, saying it will dampen investor sentiment but expect the move not to have long-term impacts on the street.

Presenting the Budget 2019, Finance Minister Arun Jaitley on Thursday announced a LTCG tax of 10 per cent on stock markets gains exceeding ₹1 lakh, sending the markets into a frenzy for sometime.

Welcoming the budget, BSE chief Ashish Kumar Chauhan said the impetus to IFSC, gold exchanges, disinvestment, ETFs for debt financing and measures to revive corporate bond markets augers well for the capital markets. But he didn't comment on the LTCG tax proposal.

Criticising the move, Reliance Securities chief executive B Gopkumar said taxing LTCG without removing the securities transaction tax "makes us probably the only nation to have both taxes at the same time."

However, he ruled out any major hit on the market sentiment saying "the grandfathering of cost prices for

LTCG tax will prevent any knee-jerk reaction in stock prices but this tax is a clear negative for equity markets as far as sentiment goes".

Echoing similar views, Metropolitan Stock Exchange chief operating officer Abhijit Chakraborty said the market is disappointed over the LTCG tax proposal. "but if corporate earnings grow at a healthier pace, this will result in higher capital gains then a marginal tax should not hurt investors".

"I believe the immediate negative reaction will be more than nullified in the medium-term due to the improvement in overall corporate earnings outlook," he added.

But brokers association ANMI national president K Suresh said the move to tax LTCG and to retain the securities transaction tax "will dampen the investor sentiments".

"While tax will adversely affect serious investors, who are funding the growth story, it won't have any impact on short-term traders," he added.

Echoing the view, Reliance Securities chief executive B Gopkumar said levying the tax without tinkering with STT "makes India a probably the only nation to have both taxes at the same time".