Exchanges want commodities transaction tax scrapped

Exchanges have lost 60% of their volume to unofficial trading following the tax imposition

Traders and exchanges have urged Union Finance Minister Arun Jaitley to scrap the commodities transaction tax and allow eligible participants and instruments to deepen the futures markets.

Since the commodities transaction tax was implemented on July 1, 2013, exchanges have lost 60 per cent of their volume to unofficial trading. Multi Commodity Exchange (MCX), National Commodity and Derivatives Exchange (NCDEX) and National Multi Commodity Exchange (NMCE), had a cumulative turnover of Rs 68,14,460 crore in 2016.

A seller of any commodity has to pay Rs 1,000 as commodities transaction tax for every Rs 1 crore of turnover generated on an exchange. The tax works out to Rs 500 each side.

"The tax is the single largest component in the cost of transactions and should be removed in the interest of all stakeholders. We also request the government to waive the tax when all positions in futures contracts on expiry result in physical delivery of goods," said an MCX spokesperson.

The futures market in compulsory delivery contracts is tightly integrated with the physical market. As a result, the process of price discovery is affected by the tax.

The levy has shifted a large chunk of trade off exchanges (dabba trading). "Eligible participants and instruments should be introduced to deepen the commodity futures market," said Jayant Manglik, president, Religare Securities.

Sources said the Securities and Exchange Board of India (Sebi) might allow options in select commodities soon. Commodities traders want banks and financial institutions to trade in commodity futures.

NCDEX has urged Jaitley to restore forward contracts to connect farmers to buyers. The exchange had introduced forward contracts in September 2014, which was suspended by the regulator in January 2016.

"When a farmer sells his produce in a mandi, he is exempted from taxes. But farmer producer organisations are subjected to mandi taxes. Though a farmer producer organisation is merely a group of farmers who sell their produce collectively, these taxes makes them uncompetitive. Also, exempt commodities traded in futures from stock limits," an NCDEX spokesperson said.

Improving the efficiency of the underlying spot markets is also required. "Some states have taken a leaf out of the Karnataka model and embarked on modernisation of primary markets. A multi-agency approach at the state level with a clear roadmap of integration of state markets with the national market will be an effective solution," the NCDEX spokesperson added.

(Business Standard)