# Fin Min move to slim duty on stock trade

Aiming to provide relief to stock market investors facing negative cues of late, the finance ministry is planning to reduce duties on transactions in equities and currency derivatives. It is considering a cut in the securities transaction tax (STT) as well as a reduction in stamp duty on 'futures and options' and currency derivatives.

However, any possible cut in STT may take time as it would come only in the next Budget. Also, stamp duty is a state subject.
Against the current practice of different stamp duty rates in states on stock market transactions, the finance ministry is planning to propose a uniform rate of 0.003 per cent of values of shares transacted on 'futures and options' trading as part of the Indian Stamp (Amendment Bill), 2011. For currency derivatives, it is considering a rate of 0.0001 per cent. Earlier, the revenue department had suggested a uniform rate of 0.005 per cent, but the economic affairs department suggested to bring it further down.

Though stamp duty on stock market transactions is a state subject, many states have adopted the Indian Stamps Act. The states will have to agree to the proposals to give an effect to a uniform rate. STT, on the other, is a direct tax levied by the Centre. STT ranges from 0.010 per cent to 0.015 per cent depending on whether they trade in derivative or spot segment.

The finance ministry may, however, take a final call on lowering STT during the Budget in February by making amendments to the Finance Act.

While the proposed measures had a temporary impact on the stock market, but it may not encourage markets on a sustainable basis in the short run. In the long run, investors may benefit from lower taxes on transactions — and the government and companies may benefit from higher volumes. N C Maheshwari of the Association of NSE Members of India says statutory rates in Indian securities market are the highest, which is why the country's markets are shallow. "A uniform and lower stamp duty and STT will be one of the finest positive steps by government for Indian markets," he notes.

The government has set a target of raising Rs 40,000 crore through disinvestment proceeds this year. However, it has raised only about Rs 1,144 crore so far through a follow-on public issue of Power Finance Corporation. A weak market sentiment may hurt government's upcoming issues. ONGC, SAIL, OIL India, GAIL, IOC, MMTC, RITES, and BHEL are likely targets this year. Once an agreement on stamp duty is reached, the Centre will amend the Indian Stamps Act, 1899, and block power of the states' to fix rates in case of securities. Of the total stamp duty collections of Rs 40,000 crore in the country, about Rs 100-150 crore comes from securities.

Prior to 2008, STT was allowed as a rebate against tax liability under Section 88E of the

Income Tax Act, if the income from securities on which the tax was levied was included under the head 'profits and gains of business and profession'. This allowed brokers to pay less tax and generate more volumes. The changes to the income tax rule on STT were announced in 2008 by then finance minister P Chidambaram. This put arbitrageurs and jobbers, who generated nearly 30 per cent of volumes, out of business. Trading sentiment is at a nadir due to low liquidity. The NSE pays a little over Rs 5,000 crore as annual STT and the BSE pays Rs 2,000 crore.

Arbitrage trades have shifted to the commodity segment as no transaction tax is levied. The absence of a transaction charge in commodities has aided volumes in this segment.
Average daily trades worth more than Rs 50,000 crore are generated daily.

While the cost of trading equity, including brokerage, in the US and Europe is around Rs 500 on trades worth Rs 1 crore, it is as high as Rs 1,300 in India. This includes Rs 850 as STT. While Rs 200 goes to the exchange, Rs 200 is paid as stamp duty, Rs 21 as service tax, and Rs 10 is collected by Sebi. In addition, there is a brokerage. If trades are delivery-based, they attract depository and demat charges as well.

While it may seem minuscule in percentage terms, it is a major burden, as traders can make profit in India only after 28 ticks, while in the US and the UK, just one favourable tick on index futures can generate a profit. In the US, the spread on the S&P contract, or one tick, is 25 cents. So, if a trader gets just one tick right, he can take home 20 cents, as the trading cost there is just five cents. This is the reason why the US markets are more liquid.

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