LTCG relief: Govt extends indexation benefit to investors of unlisted firms

The finance ministry had received various representations demanding removal of LTCG tax

Giving some relief to investors, the government on Wednesday extended indexation benefit for computing tax liability on sale of shares listed after January 31, though capital gains arising from such transactions will continue to be taxed at 20 per cent.

The indexation benefit- which takes into account the impact of inflation on acquisition cost- will not be available on gains made from sale of listed securities, as per the amendments to the Finance Bill, which was passed by Lok Sabha on Wednesday.

The 2018-19 Budget had after a gap of 14 years reintroduced 10 per cent tax on long-term capital gains(LTCG) exceeding Rs 1 lakh from sale of shares.

Currently, 15 per cent tax is levied on capital gains made on sale of shares within a year of purchase. However, LTCG tax is nil for shares sold after a year of purchase.

LTCG on sale of unlisted shares is taxed at 20 per cent, while in case of short term capital gains it is 30 per cent.

The finance ministry had received various representations demanding removal of LTCG tax.

Nangia & Co Managing Partner Rakesh Nangia said the amendment addresses the concerns of the community in respect of capital gains arising on transfer of unlisted shares that get listed after February 1, 2018.

"The Finance Bill provides that the indexed cost of acquisition of such shares shall be considered for the purpose of computing capital gains. This amendment has partly addressed the concern, since the Cost Inflation Index may not completely account for the rise in the fair market value of such share," Nangia said.

The amendment seeks to provide that the fair market value of shares which are unlisted on January 31, 2018 but listed on date of transfer shall be indexed as per cost of acquisition.

"This will also apply for unlisted shares which are substituted in tax neutral transfers (like amalgamation, demerger, gift, succession, etc) for shares which are listed on date of transfer," EY India Tax Partner Raju Kumar said.

Besides, the government has introduced an amendment to ensure that the Public Provident Fund (PPF) accounts are not attached in case of loan default.

The amendment has been made in the Government savings Banks Act, 1873, through the Finance Bill, 2018.

Nangia & Co Director Direct Taxation Shailesh Kumar said the amendment intends to protect the retirement benefits/ social security of such person, who may have defaulted in repayment of debt for any circumstantial reasons.

The Finance Bill, which will now be taken up by Rajya Sabha, will become an Act once signed by the President.

Observing that Sensex and Nifty have lost more than 7 per cent since February 1, 2018, Taxmann.com DGM Naveen Wadhwa said investors were expecting some relief from the government like deferment of new capital gains tax or increase in the threshold limit from Rs 1 lakh to Rs 2 lakh.

"The only noteworthy change is that of allowing the indexation benefit to shares which were unlisted as on January 31, 2018 but are listed on the date of transfer which happens to be on or after April 1, 2018," Wadhwa said.

(Business Standard)