Indian Economy · GS - III

Discuss the economic implications of abolishing Long-Term Capital Gains (LTCG) tax in India. What alternative measures could help balance investment promotion with fiscal stability?

EXAM YEAR	PAPER	SUBJECT
DAILY PRACTICE 03/11/2026	GS - III	Indian Economy

MARKS	WORD LIMIT
10	~150 words

Answer Hint

Capital gains taxation; equity market participation; investment incentives; revenue implications; fiscal headroom; Securities Transaction Tax; tax exemptions; equity culture

Model Answer

Introduction

Long-Term Capital Gains (LTCG) tax is an important component of India's capital gains taxation framework. SBI Research has suggested that the Centre could consider abolishing it, estimating a potential revenue loss of approximately ₹50,000 crore.

Potential Benefits

Removing LTCG tax could simplify taxation, encourage greater participation in equity markets and improve the attractiveness of long-term investments. It may also support the development of an investment-oriented savings culture.

Fiscal and Economic Concerns

Abolition could reduce government revenue and create uncertainty about the fiscal impact. Increased market participation would not automatically compensate for the immediate revenue loss. The benefits would also depend

on investor behaviour, market conditions and the distribution of tax advantages.

Possible Alternatives

The government could examine changes in Securities Transaction Tax (STT), rationalisation of tax exemptions and broader tax-policy reforms. Any changes should be assessed for their effects on market liquidity, transaction costs, revenue stability and fairness.

Conclusion

LTCG tax reform requires balancing investment incentives with fiscal responsibility. Evidence-based assessment of revenue effects, market behaviour and distributional outcomes should guide any policy decision.

BECOME IAS
AI POWERED UPSC PREP