Indian Economy · GS - III

Capital gains taxation varies significantly across countries, reflecting differences in investment policy and revenue priorities. Explain the economic rationale for capital gains taxation and discuss the implications of tax exemptions for investment and fiscal policy.

EXAM YEAR	PAPER	SUBJECT
DAILY PRACTICE 09/11/2026	GS - III	Indian Economy

MARKS	WORD LIMIT
10	~150 words

Answer Hint

Capital gains, investment incentives, tax revenue, wealth accumulation, tax neutrality, capital mobility, tax avoidance, professional trading, property taxation and fiscal equity.

Model Answer

Introduction

Capital gains tax is levied on profits arising from the transfer of capital assets. Countries adopt different taxation approaches depending on their investment priorities, revenue requirements and economic conditions.

Economic Rationale

Capital gains taxation contributes to government revenue and promotes horizontal equity by taxing realised investment profits. It can reduce opportunities for preferential treatment of income derived from wealth compared with labour income. However, high rates may discourage investment, delay asset sales and encourage tax avoidance.

Implications of Exemptions

Jurisdictions offering exemptions for personal investment gains may attract investors and support financial market development. Singapore and Hong Kong generally distinguish personal investment gains from taxable business trading profits. However, exemptions can create classification disputes and opportunities for tax avoidance. Property and corporate gains may remain taxable even where personal investment gains are exempt.

Way Forward

Tax policy should balance investment incentives with fiscal sustainability. Clear definitions of capital gains, consistent enforcement, transparent exemptions and international cooperation can improve compliance.

Conclusion

A balanced capital gains framework can support investment while maintaining revenue generation and equitable taxation.

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