Indian Economy · GS - III

Examine the role of capital gains taxation and Securities Transaction Tax in India's financial market. How can tax policy balance revenue mobilisation, investor protection and the development of capital markets?

EXAM YEAR	PAPER	SUBJECT
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MARKS	WORD LIMIT
10	~150 words

Answer Hint

Capital gains taxation, STT, direct taxation, retail investors, market liquidity, tax certainty, revenue mobilisation, investment incentives, equity markets, speculative trading, tax compliance, financial inclusion.

Model Answer

Introduction

Capital gains taxation and Securities Transaction Tax (STT) are important components of India's securities market taxation framework. Their design influences investment decisions, market participation and government revenue.

Role in the Financial Market

1. **Revenue mobilisation:** Capital gains tax and STT contribute to government revenues.
2. **Investment behaviour:** LTCG taxation influences investors' holding-period decisions and long-term investment strategies.
3. **Market regulation:** STT provides a transaction-based tax mechanism and facilitates tax collection through recognised exchanges.

4. **Market participation:** Tax rates influence retail investors' participation, portfolio allocation and investment returns.

Balancing Taxation and Market Development

- **Predictability:** Stable and transparent tax policies improve investor confidence.
- **Rational tax structure:** Avoiding excessive tax complexity can encourage broader participation.
- **Investor protection:** Financial literacy and safeguards against speculative risks are essential.
- **Competitive markets:** Tax policy should consider market liquidity, capital formation and India's attractiveness as an investment destination.
- **Revenue considerations:** Reforms should preserve a sustainable tax base while evaluating their impact on public finances.

Conclusion

An effective securities taxation framework must balance fiscal requirements with investment incentives. Policy stability, transparency and a predictable tax regime are essential for developing deep and inclusive capital markets.

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