IF LTCG TAX WAS INTRODUCED IN BUDGET 2017-18

Had the tax on long-term capital gains (LTCG) been introduced in last year's Union Budget, the government would have made a windfall. A sharp rally in equity markets and record mobilisation through IPOs during 2017-18, could have resulted in gains of over ₹400 billion by certain assumptions. India's market capitalisation in the past one year has increased by ₹40,646 billion between January 31, 2017, and January 31, 2018. Assuming the LTCG tax implementation would have been the same, the potential gains for the government would have translated to ₹4,064 billion. Given the exuberance of the global markets, it is not out of place to assume that Indian equities, too, would have gained even if the tax had been introduced a year ago. If one assumes around 10 per cent increase in market value that gets booked as long-term gains, it translates to tax outgo of ₹406 billion. The new tax will also be levied on secondary share sales through IPOs, block deals or those tendered in buybacks. So far in FY18, there have been 38 large secondary share sales in India worth ₹551 billion and 40 buybacks where shares worth ₹489 billion have been acquired. Some of the big block deals this FY include share sale of Bharti Airtel worth ₹96 billion by Qatar Foundation. Assuming all shares sold or tendered were held for more than 12 months, the Centre would have collected ₹104 billion on these in the form of LTCG tax. To be sure, some portions of these shares were sold by the government and hence, the net impact on those cases would be zero.

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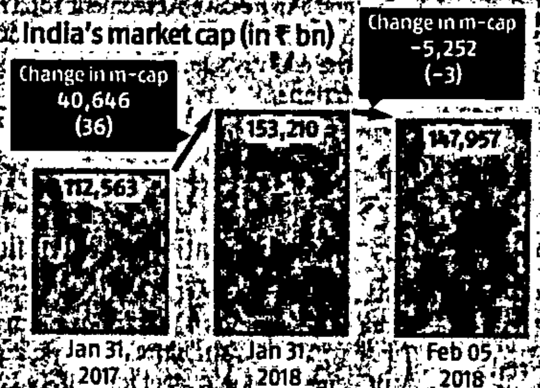
India's market cap (in ₹ bn)



LTCG tax collection*	4,065	-525

Figures in brackets are change in %

Secondary share sales through IPOs in FY18

No. of issues	Amt raised (₹bn)	LTCG tax collection**
38	551	₹55 bn

Buybacks in FY18

No. of issues	Amt acquired (₹bn)	LTCG tax collection**
40	489	₹49 bn

*Potential gains; **Assuming holding period for all shares was over 12 months

Source: Prime Database