



## *Major changes in capital gains*

July 23, 2024

### **Budget – What we like and don't like**

Our worst views of an increase in capital gains tax (see notes <https://www.valentisadvisors.com> and <https://www.valentisadvisors.com>) has materialized with the Finance Minister hiking capital gains on equities. However, the bigger impact will probably be felt by the real estate market.

#### **Capital gains tax change to impact real estate the most (see Table 5):**

- The capital gains on listed equity has increased from 10% to 12.5% (long term) and 20% from 15% (short term). This is negative for equities – our view is that the rates will be hiked even higher over the next few budgets. Secondly, as written in our earlier reports, it puts India at a disadvantageous position relative to other Emerging Market peers.
- However, the bigger hit is for the real estate sector where indexation benefit has been done away with. The indexation was making the cost for tax purposes 3.6x of the cost of 2001 and so taxation on sale of property will rise substantially in most cases.
- For unlisted bonds and debentures, gains will be treated as normal income and not capital gains.

#### **Buyback by companies will be a dead product?**

- The entire proceeds received from buyback will be treated as an income in the hands of the assessee. The cost of shares will be allowed as a capital loss (but we understand without the grandfathering cost). This will effectively kill buyback in our view.

#### **Some positive measures and promise of more simplification in taxation**

- The Government has announced a comprehensive review of the Direct Tax Code. We hope the Government moves to a stable and simple regime where tax rates as well as method of taxation does not change eg tax on buybacks, capital gains have kept changing over years.
- There were positive measures like abolition of angel tax.
- There were many other measures to resolve tax disputes including a Vivaad se Vishwas 2.0.

#### **Fiscal consolidation thrust adds to macro stability - no major spend on populism**

- The Government had extra resources (compared to the interim budget) and used this largely to reduce fiscal deficit estimate for Fy25 to 4.9% vs 5.1%. Though we were expecting the FM to opt for a slightly bigger thrust on growth (capex is same as the interim budget), fiscal consolidation is a good step.
- Contrary to worries of the market, there is no major thrust on populism.

#### **Thrust on jobs and skill development – step in the right direction**

- The Government has made a step in the right direction on employment and skill development. We expect more to be done over next few budgets.

#### **Valuations may lead to consolidation in the markets**

- With current valuations being above long term averages, we continue to expect a period of time and maybe price correction in the markets. The macro stability is good for long term higher valuations but the capital gains tax will be a dampener for post-tax returns for foreign investors.



**Table 1: Budget at a Glance (Rs Cr)**

Particulars	2023-24	2023-24	2023-24	2024-25	2024-25	BEFY25 vs	BEFY25 vs
	Budget Estimates	Revised Estimates	Provisional Actuals <sup>^</sup>	Interim Budget Estimates	Budget Estimates	Provisional Actuals FY24	Interim BEFY25
<b>1. Revenue Receipts</b>	26,32,281	26,99,713	27,28,412	30,01,275	31,29,200	14.7%	4.3%
2. Tax Revenue (Net to Centre)*	23,30,631	23,23,918	23,26,524	26,01,574	25,83,499	11.0%	-0.7%
3. Non Tax Revenue	3,01,650	3,75,795	4,01,888	3,99,701	5,45,701	35.8%	36.5%
<b>4. Capital Receipts</b>	18,70,816	17,90,773	17,14,130	17,64,494	16,91,312	-1.3%	-4.1%
5. Recovery of Loans	23,000	26,000	27,338	29,000	28,000	2.4%	-3.4%
6. Other Receipts	61,000	30,000	33,122	50,000	50,000	51.0%	0.0%
7. Borrowings and Other Liabilities #	17,86,816	17,34,773	16,53,670	16,85,494	16,13,312	-2.4%	-4.3%
<b>8. Total Receipts (1+4)</b>	45,03,097	44,90,486	44,42,542	47,65,768	48,20,512	8.5%	1.1%
<b>9. Total Expenditure (10+13)</b>	45,03,097	44,90,486	44,42,542	47,65,768	48,20,512	8.5%	1.1%
10. On Revenue Account of which	35,02,136	35,40,239	34,94,036	36,54,657	37,09,401	6.2%	1.5%
11. Interest Payments	10,79,971	10,55,427	10,63,871	11,90,440	11,62,940	9.3%	-2.3%
12. Grants in Aid for creation of capital assets	3,69,988	3,21,190	3,03,787	3,85,582	3,90,778	28.6%	1.3%
13. On Capital Account	10,00,961	9,50,246	9,48,506	11,11,111	11,11,111	17.1%	0.0%
<b>14. Effective Capital Expenditure (12+13)</b>	13,70,949	12,71,436	12,52,293	14,96,693	15,01,889	19.9%	0.3%
<b>15. Revenue Deficit (10-1)</b>	8,69,855	8,40,527	7,65,624	6,53,383	5,80,201	-24.2%	-11.2%
	-2.9	-2.8	-2.6	-2.0	-1.8		
<b>16. Effective Revenue Deficit (15-12)</b>	4,99,867	5,19,337	4,61,837	2,67,801	1,89,423	-59.0%	-29.3%
	-1.7	-1.8	-1.6	-0.8	-0.6		
<b>17. Fiscal Deficit [9-(1+5+6)]</b>	17,86,816	17,34,773	16,53,670	16,85,494	16,13,312	-2.4%	-4.3%
	-5.9	-5.8	-5.6	-5.1	-4.9		
<b>18. Primary Deficit (17-11)</b>	7,06,845	6,79,346	5,89,799	4,95,054	4,50,372	-23.6%	-9.0%
	-2.3	-2.3	-2.0	-1.5	-1.4		

<sup>^</sup> Provisional Actuals for FY 2023-24 are unaudited and subject to change

\* RE 2023-24 is reduced by Rs. 7,151 crore on account of net amount payable by Centre to the States for prior years.

# Includes drawdown of Cash Balance.

Notes –

i) The GDP for Budget FY 2024-25 (Regular) is estimated at Rs 3,26,36,912 crore which is 10.5% over the Provisional Estimates of FY 2023-24 at Rs 2,95,35,667 crore.

ii) Individual items in this document may not sum up to the totals due to rounding off.

iii) Figures in parentheses are as a percentage of GDP



**Table 2: Receipts (Rs Cr)**

Particulars	2023-24	2023-24	2023-24	2024-25	2024-25	BEFY25 vs	BEFY25 vs
	Budget Estimates	Revised Estimates	Provisional Actuals <sup>^</sup>	Interim Budget Estimates	Budget Estimates	Provisional Actuals FY24	Interim BEFY25
<b>REVENUE RECEIPTS</b>							
<b>1. Tax Revenue</b>							
<b>Gross Tax Revenue</b>	<b>33,60,858</b>	<b>34,37,211</b>	<b>34,64,792</b>	<b>38,30,796</b>	<b>38,40,170</b>	<b>10.8%</b>	<b>0.2%</b>
a. Corporation Tax	9,22,675	9,22,675	9,11,055	10,42,830	10,20,000	12.0%	-2.2%
b. Taxes on Income	9,00,575	10,22,325	10,44,726	11,56,000	11,87,000	13.6%	2.7%
c. Wealth Tax	-	-	-	-	-		
d. Customs	2,33,100	2,18,680	2,33,067	2,31,310	2,37,745	2.0%	2.8%
e. Union Excise Duties	3,39,000	3,03,600	3,05,330	3,18,780	3,19,000	4.5%	0.1%
f. Service Tax	500	500	424	100	100	-76.4%	0.0%
g. GST	9,56,600	9,56,600	9,57,032	10,67,650	10,61,899	11.0%	-0.5%
-CGST	8,11,600	8,11,600	8,20,622	9,17,650	9,10,890	11.0%	-0.7%
-IGST	-	-	-5,026	-	-	NA	NA
-GST Compensation Cess	1,45,000	1,45,000	1,41,436	1,50,000	1,51,009	6.8%	0.7%
h. Taxes of Union Territories	8,408	8,331	-	9,426	9,426	NA	0.0%
i. Other Taxes	-	4,500	13,158	4,700	5,000	-62.0%	6.4%
<b>Less - NCCD transferred to the NCCF / NDRF</b>	<b>8,780</b>	<b>8,800</b>	<b>8,774</b>	<b>9,440</b>	<b>9,460</b>	<b>7.8%</b>	<b>0.2%</b>
<b>Less - State's share</b>	<b>10,21,448</b>	<b>10,97,342</b>	<b>11,29,494</b>	<b>12,19,783</b>	<b>12,47,211</b>	<b>10.4%</b>	<b>2.2%</b>
<b>Less- States' Share Adjustment for prior years</b>		<b>7,151</b>					
<b>1a Centre's Net Tax Revenue</b>	<b>23,30,631</b>	<b>23,23,918</b>	<b>23,26,524</b>	<b>26,01,574</b>	<b>25,83,499</b>	<b>11.0%</b>	<b>-0.7%</b>
<b>2. Non-Tax Revenue</b>	<b>3,01,650</b>	<b>3,75,795</b>	<b>4,01,887</b>	<b>3,99,701</b>	<b>5,45,701</b>	<b>35.8%</b>	<b>36.5%</b>
Interest receipts	24,820	31,778	38,297	33,107	38,224	-0.2%	15.5%
Dividends and Profits	91,000	1,54,407	1,70,444	1,50,000	2,89,134	69.6%	92.8%
External Grants	2,135	1,442	1,013	1,044	1,044	3.1%	0.0%
Other Non Tax Revenue	1,81,382	1,85,642	1,92,134	2,12,640	2,14,389	11.6%	0.8%
Receipts of Union Territories	2,313	2,526	2,526	2,910	2,910	15.2%	0.0%
<b>Total- Revenue Receipts (1a + 2)</b>	<b>26,32,281</b>	<b>26,99,713</b>	<b>27,28,412</b>	<b>30,01,275</b>	<b>31,29,200</b>	<b>14.7%</b>	<b>4.3%</b>
<b>3. CAPITAL RECEIPTS</b>							
<b>A. Non-debt Receipts@</b>	<b>84,000</b>	<b>56,000</b>	<b>60,461</b>	<b>79,000</b>	<b>78,000</b>	<b>29.0%</b>	<b>-1.3%</b>
<b>B. Debt Receipts*</b>	<b>17,98,603</b>	<b>17,61,424</b>	<b>18,25,842</b>	<b>16,81,944</b>	<b>14,72,915</b>	<b>-19.3%</b>	<b>-12.4%</b>
<b>Total Capital Receipts (A+B)</b>	<b>18,82,603</b>	<b>18,17,424</b>	<b>18,86,303</b>	<b>17,60,944</b>	<b>15,50,915</b>	<b>-17.8%</b>	<b>-11.9%</b>
<b>4. Draw-Down of Cash Balance</b>	<b>-11,787</b>	<b>-26,652</b>	<b>-1,72,172</b>	<b>3,549</b>	<b>1,40,397</b>	<b>-181.5%</b>	<b>3856.0%</b>
<b>Total Receipts (1a+2+3)</b>	<b>45,14,884</b>	<b>45,17,137</b>	<b>46,14,714</b>	<b>47,62,219</b>	<b>46,80,115</b>	<b>1.4%</b>	<b>-1.7%</b>

<sup>^</sup> Provisional Actuals for FY 2023-24 are unaudited and subject to change

@ Excludes recoveries of short term loans and advances.

\* The receipts are net of payment.



**Table 3: Deficit Statistics (Rs Cr)**

Particulars	2023-24	2023-24	2023-24	2024-25	2024-25
	Budget Estimates	Revised Estimates	Provisional Actuals <sup>^</sup>	Interim Budget Estimates	Budget Estimates
<b>1. Fiscal Deficit</b>	<b>17,86,816</b>	<b>17,34,773</b>	<b>16,53,670</b>	<b>16,85,494</b>	<b>16,13,312</b>
	-5.9	-5.8	-5.6	-5.1	-4.9
<b>2. Revenue Deficit</b>	<b>8,69,855</b>	<b>8,40,527</b>	<b>7,65,624</b>	<b>6,53,383</b>	<b>5,80,201</b>
	-2.9	-2.8	-2.6	-2.0	-1.8
<b>3. Effective Revenue Deficit</b>	<b>4,99,867</b>	<b>5,19,337</b>	<b>4,61,837</b>	<b>2,67,801</b>	<b>1,89,423</b>
	-1.7	-1.8	-1.6	-0.8	-0.6
<b>4. Primary Deficit</b>	<b>7,06,845</b>	<b>6,79,346</b>	<b>5,89,799</b>	<b>4,95,054</b>	<b>4,50,372</b>
	-2.3	-2.3	-2.0	-1.5	-1.4

<sup>^</sup> Provisional Actuals for FY 2023-24 are unaudited and subject to change  
 Figures in parenthesis are as a percentage of GDP.

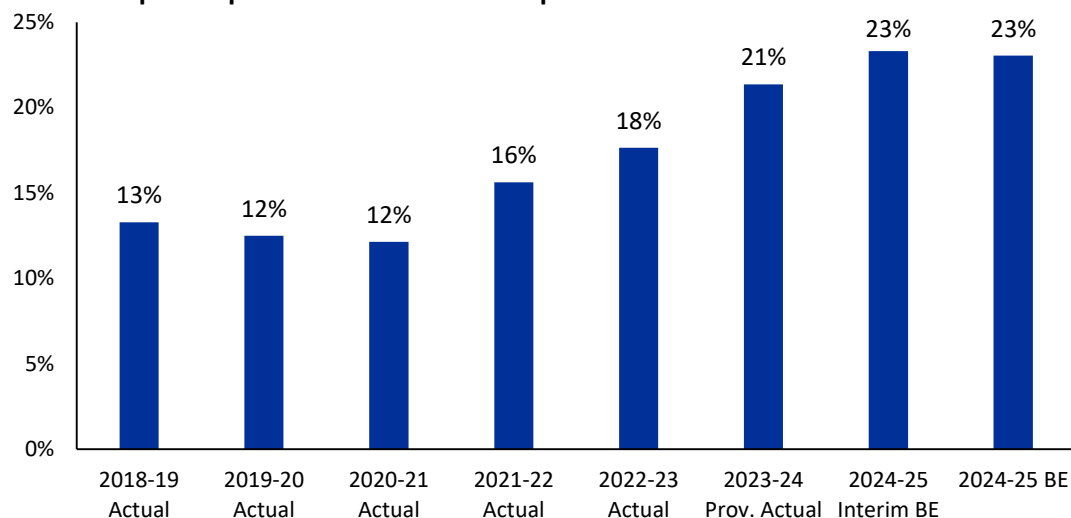
**Table 4: Sources of Financing Fiscal Deficit (Rs Cr)**

Particulars	2023-24	2023-24	2023-24	2024-25	2024-25
	Budget Estimates	Revised Estimates	Provisional Actuals <sup>^</sup>	Interim Budget Estimates	Budget Estimates
<b>1. Debt Receipts (Net)</b>	<b>17,98,604</b>	<b>17,61,424</b>	<b>18,25,842</b>	<b>16,81,944</b>	<b>14,72,915</b>
2. Market Borrowings (G-Sec)	11,80,911	11,80,456	11,77,754	11,75,182	11,63,182
3. Short term Borrowings (T bills etc.)	50,000	1,323	53,205	50,000	-50,000
4. Securities Against Small Savings	4,71,317	4,71,317	4,51,399	4,66,201	4,20,063
5. State Provident Funds	20,000	5,200	5,070	5,200	5,000
6. Other Receipts (Internal Debt & Public Account)	54,258	78,296	83,293	-30,591	-81,282
7. External Debt	22,118	24,832	55,121	15,952	15,952
<b>8. Draw Down of Cash Balance</b>	<b>-11,787</b>	<b>-26,652</b>	<b>-1,72,172</b>	<b>3,549</b>	<b>1,40,397</b>
<b>Grand Total</b>	<b>17,86,816</b>	<b>17,34,773</b>	<b>16,53,670</b>	<b>16,85,494</b>	<b>16,13,312</b>

<sup>^</sup> Provisional Actuals for FY 2023-24 are unaudited and subject to change



**Chart 1: Capital Expenditure as % of total expenditure**



**Table 5: Changes in Capital Gain Structure**

Asset Class	Holding Period for Long-Term (Months)		LTCG		STCG	
	Old	New	Old	New	Old	New
Listed Equities	12	12	10.0%	12.5%	15.0%	20.0%
Unlisted Equities	24	24	20.0%	12.5%	Slab-Rate	Slab-Rate
Debt-Funds	NA	NA	Slab-Rate	Slab-Rate	Slab-Rate	Slab-Rate
Listed Debentures/Bonds	12	12	10.0%	12.5%	Slab-Rate	20.0%
Unlisted Debentures/Bonds	36	NA	Slab-Rate	Slab-Rate	Slab-Rate	Slab-Rate
REITs/InvITs	36	12	10.0%	12.5%	15.0%	20.0%
Gold/Silver ETFs	12	NA	Slab-Rate	12.5%	Slab-Rate	20.0%
Physical Gold	36	24	20% w/ indexation	12.50%	Slab-Rate	Slab-Rate
Real Estate	24	24	20% w/ indexation	12.50%	Slab-Rate	Slab-Rate
Foreign Equity	24	24	20% w/ indexation	12.50%	Slab-Rate	Slab-Rate

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