<u>Uniform tax rate for taxation of all securities</u>

- Investors investing unlisted securities provide necessary risk capital to such companies. This is more relevant for start-ups in their initial stages who require higher risk capital, which is provided by way of such investments in unlisted securities. The Indian start-up ecosystem currently has over 57,000 start-ups from across the country, registered with the Department for Promotion of Industry and Internal Trade (DPIIT) and it is expanding even further.

- India is the country which in 2021 is amongst the top 3 creators of unicorns in the world. Amidst the extreme challenges posed by the global pandemic, 35 new unicorns came into existence in India, taking the total number of unicorns to 72 representing their innovative capabilities across sectors such as lifestyle, mobility, agriculture, healthcare, IT Solutions, education, app-based solutions, sustainability, and many more. It is important to continue to foster this spirit of innovation through appropriate policy support, including taxation policy.

- Presently, the taxation system discriminates in favour of investments in public markets rather than private investments. Long term capital gains (LTCG) in public markets (for securities held > 1 years) are taxed as 10% without indexation (without higher surcharge of 37%[1]) as compared to LTCG on unlisted shares with indexation (for shares held > 2 years) or unlisted securities without indexation (for securities held >3 years) which are taxed at 20% (with higher surcharge of 37%) in the context of resident investors. While indexation is available for sale of unlisted shares, it does not sufficiently compensate for the rate discrepancy that exists for listed and unlisted shares.

- It is relevant to note that in 2004, an exemption was introduced for listed shares in order to incentivise stock market participation. Further, the same was reversed in 2018 and a lower tax rate of 10% was introduced for gains on transfer of listed shares. The time has now come to take this reform one step further.

- In the present day, the investments in unlisted shares and securities should be encouraged since such investments foster entrepreneurship, lead to capital formation and reduce dependence on leverage, lead to more innovation and create more employment, and help the entire Indian ecosystem, aligning with the ambition of making India “Atmanirbhar”.

- Accordingly, from domestic risk capital providers’ perspective, it is suggested to take further steps in the reform of the tax framework by introducing uniformity in taxation of unlisted securities with public market securities. This would bring all financial instruments at par from a tax perspective and ensure that investment allocations are made on the basis of the perception of risk and return rather than being driven by tax outcomes.

- Further, while not comparable to the present ask due to taxation regime overseas, it is also noteworthy that presently foreign investors pay LTCG tax even on unlisted securities at 10% as compared to domestic investors.

- Accordingly, **we recommend that one uniform average rate of LTCG tax to be applied for all securities / financial instruments based on the actual average rate of LTCG collected by the Government.** This could be discerned from the statistics that should be available with the Government based on tax returns furnished by domestic taxpayers for the most recent FYs (post LTCG on public equities being made taxable). Further, the holding period to qualify as long-term capital asset, basis of quantification or determination as well as the surcharge should be aligned on a uniform basis. Similarly, a uniform average rate for short-term capital gains tax should be introduced.

- This proposal will not lead to a revenue loss and in fact could lead to increase in collection and provide parity for investments in different asset classes by various domestic investors.

[1] Applicable to Individuals, association of persons and body of individuals