Union Budget 2018-19 Long Term Capital Gains taxes on Stocks

We now have **Long Term Capital Gains taxes on Stocks**. This is perhaps something the market was expecting, and it's come. As expected, gains till now are not taxed, only gains from now onwards will be. At 10%.

And "Securities Transaction Tax will still apply". It may sound unfair but that's how it is.

You will now pay 10% capital gains tax when you sell a share 1 year or more after buying it. Note: Only if your capital gains are more than Rs. 100,000 per year. Per year for you. Not per scrip. For you as a whole.

This is grandfathered till 31 Jan 2018. Meaning, whatever gains you had till 31 Jan 2018 are tax free. Only FURTHER gains will be taxed at 10%.

Let's say you held a stock since 10 April 2015 till now with a purchase price of Rs. 100.

Let's say it was at Rs. 500 yesterday (Jan 31, 2018).

You sell it on April 1, 2018 at Rs. 600.

It's long term held, since you have owned it for over 3 years.

Your capital gain is Rs. 100. Why

The purchase price is the **HIGHER** of

a) Your purchase price, or

b) The price on Jan 31, 2018.

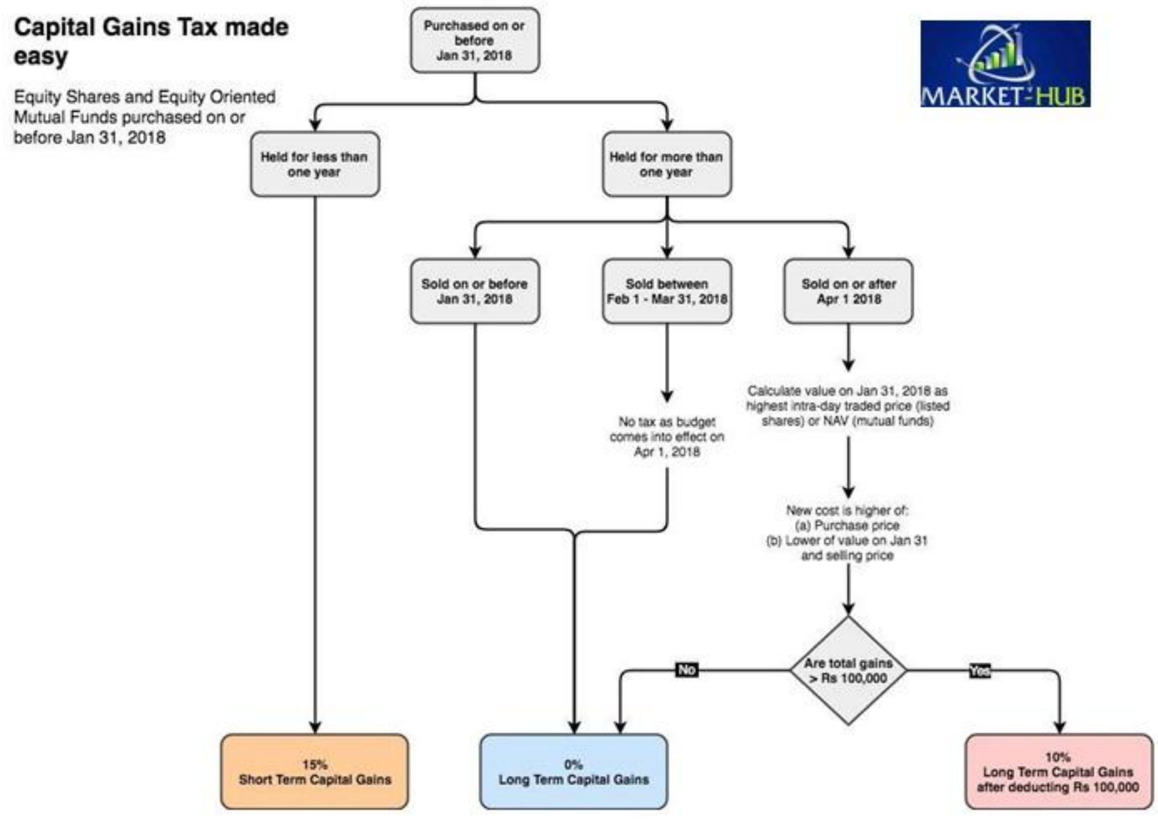
In this case, it's the higher of 100 and 500, which is 500. So the gain is sale minus purchase = 600 minus 500 which is 100.

There's a caveat. Let's say you sold it at Rs. 400 because the market fell. Now you can't take 500 as the purchase price and claim a Rs. 100 loss. It's a complex thing that says if your sell price is lower than the Jan 31 price but higher than your purchase price, then boom, you have to take the sell price as the purchase price. Effectively, you pay no capital gains tax because sell price=purchase price and no gains.

Equity Share	Scene 1	Scene 2	Scene 3	Scene 4
Bought long ago at	100	100	100	100
Price on Jan 31, 2018	500	120	80	80
Price on sale	600	110	90	60
Presumed purchase price	500	110	100	100
Capital gain	100	0	-10	-40

One point is that if a stock zooms up 50% **from now till March 31**, and you've already held it long-term, you can sell it for no additional tax. This is an edge case and because it is so, very few stocks will zoom up that fast, as there will be these tax-aware sellers.

There's also a 4% cess, so 10.4%. On the excess gains after Jan 31.



There's the Dividend Tax now, on Equity mutual funds.

When you buy an equity mutual fund, you can take the dividend option. Many "balanced" fund types were selling their funds with the dividend option, so people could get gains as tax-free dividends.

Now, equity funds will pay 10% to the government on any distributed dividend, and only then pay you the rest.

So if a fund wants to distribute Rs. 3 per unit, then it has to pay Rs. 0.3 as DDT to the government and give you Rs. 2.7.

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