GENERAL STUDIES III

LTCG Tax in India 2026: Why the 12.5% Equity Capital Gains Tax Is Back in Debate

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Long-Term Capital Gains tax on equity investments has returned to public debate after the Union Finance Minister indicated openness to stakeholder discussions. Eligible long-term equity gains exceeding ₹1.25 lakh in a financial year are taxed at 12.5%, while qualifying short-term equity gains attract 20%, subject to applicable conditions. This article explains the history of LTCG taxation, Budget 2024 reforms, the role of Securities Transaction Tax, investment incentives, fiscal implications and important UPSC Prelims and Mains concepts.

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UPSC CURRENT AFFAIRS | INDIAN ECONOMY

Quick Summary

Long-Term Capital Gains (LTCG) tax on equity investments has returned to policy discussion after the Union Finance Minister indicated that the government remains open to stakeholder debate and review.

Under the applicable equity capital gains framework, qualifying long-term gains above ?1.25 lakh in a financial year attract 12.5% tax.

Qualifying short-term equity gains generally attract 20% tax. Applicable surcharge and Health and Education Cess may increase the final liability.

For UPSC aspirants, the issue connects direct taxation, capital-market development, investment behaviour, fiscal policy and economic growth.

12.5%

Specified Equity LTCG Rate

?1.25 Lakh

Annual Equity LTCG Threshold

20%

Specified Equity STCG Rate

1. Why Is LTCG Tax in the News?

The Union Finance Minister has indicated that the government remains open to discussions and stakeholder feedback regarding the Long-Term Capital Gains tax on equities.

This has renewed debate about whether capital gains taxation appropriately balances government revenue, investor incentives and market development.

Importantly, a willingness to review a tax does not itself mean that the government has announced a rate reduction or abolition.

2. What Is Long-Term Capital Gains Tax?

A capital gain is the profit arising when a capital asset is transferred for more than its eligible cost and associated allowable expenses.

Such assets may include shares, mutual fund units, land, buildings and other capital assets.

Capital gains are generally classified as short-term or long-term according to the asset type and applicable holding period.

Simple Example:

Suppose an investor purchases eligible listed shares for ?2,00,000 and sells them for ?3,80,000 after more than 12 months.

Ignoring transaction expenses and other adjustments, the capital gain is ?1,80,000.

If the investor has no other eligible equity LTCG during the year, ?55,000 exceeds the ?1.25 lakh annual threshold.

3. Difference Between LTCG and STCG

Feature	LTCG	STCG
Full Form	Long-Term Capital Gains	Short-Term Capital Gains
Specified Listed Equity Holding Period	More than 12 months	12 months or less
Specified Equity Tax Rate	12.5%	20%
Annual ?1.25 Lakh Threshold	Applicable to eligible aggregate equity LTCG	Not applicable

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Feature	LTCG	STCG
Policy Significance	Taxation of longer-term investment gains	Taxation of shorter-term investment gains

These rates apply to specified qualifying equity transactions. Other capital assets may follow different holding-period, classification and tax rules.

4. Evolution of Equity LTCG Tax in India

India's approach to taxing long-term equity gains has changed over time.

Year	Major Development
2004	Specified long-term equity gains received exemption under the earlier framework, alongside the introduction of Securities Transaction Tax.
2018	Equity LTCG tax was reintroduced at 10% on qualifying annual gains exceeding ?1 lakh.
2024	The rate increased to 12.5%, while the annual threshold rose to ?1.25 lakh for qualifying gains.
2026	Public discussion renewed following the Finance Minister's openness to reviewing the equity LTCG framework.

5. What Changed in Union Budget 2024?

Union Budget 2024 introduced important changes to capital gains taxation.

- The tax rate on qualifying long-term equity gains increased from 10% to 12.5%.
- The annual tax-free threshold for qualifying equity LTCG increased from ?1 lakh to ?1.25 lakh.
- The tax rate on specified short-term equity gains increased from 15% to 20%.
- The changes formed part of a broader rationalisation of capital gains taxation.

These rate changes generally apply to relevant transfers on or after 23 July 2024.

6. How Is Equity LTCG Tax Calculated?

For a simplified example involving qualifying equity investments:

Taxable Equity LTCG = Eligible aggregate long-term gains minus ?1,25,000, subject to applicable set-off and other legal provisions.

Basic LTCG Tax = Taxable amount × 12.5%.

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Example: ?3 Lakh Long-Term Equity Gain

Particulars	Amount
Eligible LTCG	?3,00,000
Annual Threshold	?1,25,000
Taxable LTCG	?1,75,000
Tax at 12.5%	?21,875
Health and Education Cess at 4%	?875
Illustrative Total Tax	**?22,750**

This illustration assumes no applicable surcharge, loss adjustment, basic exemption adjustment or other relief. Actual tax depends on individual circumstances.

7. What Is Securities Transaction Tax?

Securities Transaction Tax (STT) is a tax levied on specified transactions in securities.

It is distinct from capital gains tax.

For the concessional equity capital gains framework, satisfaction of the relevant STT conditions is generally important, subject to statutory exceptions.

STT is not deductible while computing the specified capital gains discussed in this article.

8. What Is the Grandfathering Rule?

When equity LTCG tax was reintroduced in 2018, a grandfathering mechanism was provided for certain eligible investments.

The mechanism protects qualifying appreciation accrued before 31 January 2018, subject to the statutory cost-of-acquisition formula.

It does not mean that all shares purchased before 2018 are automatically exempt from capital gains tax.

> **UPSC Prelims Alert:**
>
> Grandfathering is a transitional tax provision designed to protect specified existing positions when a new tax rule takes effect.

9. What Is Indexation?

Indexation is a method of adjusting the cost of an asset for inflation when calculating capital gains, where the law permits it.

It aims to avoid taxing the inflationary portion of nominal gains in cases where the benefit is available.

The specified equity LTCG regime discussed here does not provide indexation.

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Some other asset categories have separate transitional or special provisions. Therefore, the absence of indexation for listed equity should not be treated as a complete statement of every capital asset's tax treatment.

10. Can Capital Losses Be Adjusted?

Capital losses may be set off against eligible capital gains according to applicable tax provisions.

- Long-term capital losses can generally be set off only against long-term capital gains.
- Short-term capital losses can generally be set off against eligible short-term or long-term capital gains.
- Eligible unabsorbed capital losses may generally be carried forward for up to eight assessment years, subject to statutory conditions, including timely return filing.

11. Why Does the Government Levy LTCG Tax?

A. Revenue Generation

Capital gains taxation contributes to government revenue that can support public expenditure.

B. Broadening the Tax Base

It brings qualifying gains from financial assets and appreciation within the direct-tax system.

C. Tax Fairness

Taxing capital income raises questions about fairness between different sources of income.

D. Market Behaviour

Differences in short-term and long-term rates can influence investment decisions and holding periods.

12. Arguments in the LTCG Tax Debate

Arguments for Retaining LTCG Tax	Concerns Raised About LTCG Tax
Generates direct-tax revenue.	Can reduce investors' after-tax returns.
Supports taxation of capital income.	May influence investment and portfolio decisions.
Broadens the tax base.	Can create additional compliance complexity.
Maintains a distinction between investment gains and exempt income.	May contribute to tax-induced holding or selling decisions.

The appropriate policy balance depends on fiscal needs, market conditions, distributional effects and the broader tax structure.

13. Does LTCG Tax Encourage Long-Term Investment?

A lower tax rate on qualifying long-term equity gains compared with specified short-term gains may create an incentive to hold investments for longer periods.

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However, investment decisions also depend on expected returns, risk, liquidity requirements and market conditions.

Therefore, the difference between 12.5% and 20% does not by itself prove that investors will necessarily hold assets longer.

14. LTCG Tax and India's Capital Markets

India's capital markets help channel savings towards companies and investment opportunities.

Capital gains taxation affects the after-tax returns that investors may receive from selling assets.

A predictable tax framework can help investors understand their obligations and make informed decisions.

At the same time, policymakers must consider revenue requirements and equity in the tax system.

15. LTCG Tax and the Income-tax Act, 2025

The Income-tax Act, 2025 came into effect from 1 April 2026, replacing the Income-tax Act, 1961 for the relevant new tax periods.

The familiar equity capital gains concepts remain important, but the new Act uses a reorganised statutory structure.

For transactions and returns, taxpayers must refer to the provisions applicable to the relevant tax year.

Older references to Sections 111A and 112A belong to the Income-tax Act, 1961 framework.

UPSC aspirants should understand the economic concepts and tax rates, while tax practitioners should verify the current statutory section mapping before preparing returns or advising clients.

16. Way Forward: Principles for Tax Policy

1. **Policy Predictability:** Provide clear rules and adequate transition arrangements.
2. **Simplicity:** Reduce avoidable complexity in capital gains computation.
3. **Revenue Stability:** Assess the fiscal implications of proposed changes.
4. **Investor Awareness:** Improve understanding of holding periods, loss adjustments and reporting.
5. **Evidence-Based Review:** Evaluate how tax provisions affect revenue, investment and market participation.
6. **Fairness:** Consider the treatment of different sources of income and taxpayer categories.

17. UPSC Prelims Quick Revision

- LTCG means Long-Term Capital Gains.
- Capital gains arise on transfer of capital assets.
- Specified listed equity investments generally qualify as long-term when held for more than 12 months.
- The applicable rate for qualifying equity LTCG is 12.5% above the annual ?1.25 lakh threshold.
- Specified equity STCG is generally taxed at 20%.

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- Health and Education Cess is generally 4% of the applicable income tax and surcharge.
- Equity LTCG was exempted under the earlier framework in 2004, subject to conditions.
- Equity LTCG tax was reintroduced in 2018.
- Budget 2024 revised the rates and annual threshold.
- STT stands for Securities Transaction Tax.
- Indexation is not available for the specified equity LTCG regime.
- Long-term capital losses are generally adjustable only against long-term capital gains.
- The October 2026 news concerns openness to policy review, not an enacted tax cut.

18. UPSC Prelims Practice MCQs

Question 1.

For qualifying listed equity investments, the holding period required for long-term classification is generally:

(A) More than 3 months
(B) More than 6 months
(C) More than 12 months
(D) More than 36 months

Correct Answer: The qualifying long-term holding period is more than 12 months.

Question 2.

Under the specified equity LTCG framework, the annual threshold is:

(A) ?50,000
(B) ?1,00,000
(C) ?1,25,000
(D) ?2,50,000

Correct Answer: C. The annual threshold for qualifying aggregate equity LTCG is ?1.25 lakh.

Question 3.

Consider the following statements:

1. STT is a tax on specified securities transactions.
2. All capital assets have an identical long-term holding period.
3. Specified equity LTCG is generally taxed at 12.5% above the applicable annual threshold.

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Which statements are correct?

(A) 1 only
(B) 1 and 3 only
(C) 2 and 3 only
(D) 1, 2 and 3

Correct Answer: B. Holding periods vary by asset category. Statements 1 and 3 are correct.

Question 4.

Which of the following best describes the grandfathering principle in taxation?

(A) Imposing a tax retrospectively on all earlier gains
(B) Protecting specified existing positions when tax rules change
(C) Exempting all capital gains permanently
(D) Replacing direct taxes with indirect taxes

Correct Answer: B. Grandfathering provides transitional protection to specified existing positions under a changed legal framework.

19. UPSC Mains Practice Questions

GS Paper III – Indian Economy

"Capital gains taxation must balance revenue mobilisation, investment incentives and fairness."

Discuss this statement with reference to India's equity LTCG tax framework.

Word Limit: 250 words

Suggested Answer Framework

1. Define LTCG tax and explain its role.
2. Describe the 2018 and 2024 policy changes.
3. Discuss revenue and equity considerations.
4. Analyse effects on investor behaviour and capital markets.
5. Identify concerns about compliance and predictability.
6. Conclude with the need for evidence-based tax policy.

GS Paper III – Economy

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Explain the difference between Short-Term Capital Gains and Long-Term Capital Gains in India. Why do holding periods matter in capital gains taxation?

Word Limit: 150 words

20. Frequently Asked Questions

What is LTCG tax in India?

LTCG tax is tax on qualifying gains from transferring capital assets held beyond the applicable long-term holding period.

What is the LTCG tax rate on eligible equity investments in 2026?

The specified equity LTCG rate is 12.5% on qualifying aggregate annual gains above ?1.25 lakh, subject to applicable conditions.

Is the ?1.25 lakh threshold available separately for each stock?

No. It is an aggregate annual threshold for eligible long-term equity gains covered by the relevant provision.

What is the STCG tax rate on qualifying listed equity shares?

The specified short-term equity capital gains rate is 20%, subject to the applicable legal conditions.

Has the government abolished LTCG tax in October 2026?

No abolition was announced in the 26 October 2026 current-affairs report. The news concerns openness to stakeholder debate and review.

Is indexation available for specified equity LTCG?

No. The specified equity LTCG framework does not provide an indexation benefit.

Why is LTCG taxation important for UPSC?

It connects direct taxation, fiscal policy, investment incentives, capital markets, tax fairness and economic development.

21. Conclusion

The renewed discussion around equity LTCG tax highlights an important economic policy question: how should a country tax investment gains while supporting efficient capital markets?

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India's current framework seeks to tax qualifying long-term equity gains while providing an annual threshold and a lower rate than the specified short-term equity rate.

Any future policy review would need to consider revenue, investor behaviour, tax fairness and administrative simplicity.

Final UPSC Takeaway: LTCG tax is not merely a stock-market issue. It is an example of the interaction between tax policy, financial markets and economic decision-making.

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Editorial Disclaimer: This article is original educational content prepared for UPSC examination preparation. Tax examples are simplified and are not personal tax advice. Actual capital gains taxation depends on the relevant tax year, asset category, transaction conditions and applicable law. The October 2026 discussion does not establish that a tax reduction has been enacted.

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