

GOVERNMENT OF INDIA
MINISTRY OF FINANCE
DEPARTMENT OF REVENUE
RAJYA SABHA
UNSTARRED QUESTION NO. 2472

ANSWERED ON 17.12.2024

REMOVAL OF INDEXATION ON LONG TERM CAPITAL GAINS TAX

2472. SHRI TIRUCHI SIVA:

Will the Minister of **FINANCE** be pleased to state:

- (a) whether the removal of the indexation benefit on long-term Capital Gains tax will discourage domestic investments, particularly in real estate and long-term assets due to increased tax burden;
- (b) whether any steps are being considered to mitigate the negative impact on domestic investors, especially in light of substantial Foreign Institutional Investors (FIIs) outflow from the country; and
- (c) if so, the details thereof, if not, the reasons therefor?

ANSWER

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE

(SHRI PANKAJ CHAUDHARY)

(a) Vide Finance (No.2) Act, 2024, the taxation of capital gains has been rationalized and simplified. The Holding period has been simplified for all assets. There are two holding period now, 1 year for listed assets and two years for others. Rates have been rationalized and made uniform for majority of assets. The general rate of 20 percent for taxation of long-term capital gains has been reduced to 12.5 percent. Roll over benefits have been retained.

These initiatives have ensured a simplified capital gains regime and ease of computing capital gains for assesseees, and more rationalized, market-driven choice of instruments for investment.

The above initiatives have resulted in benefit to majority of taxpayers particularly because the rate has been substantially reduced to 12.5% under section 112 of the Income-tax Act, 1961. Therefore, the rationalization exercise is expected to reduce the tax burden and thereby encourage investment in real estate sector.

In cases where the property is land or building or both, which is acquired before the 23rd day of July, 2024, substantial relief has also been provided by way of option to a resident individual/HUF taxpayer. In respect of such properties, where the income-tax computed at the new rate, i.e. at 12.5% without indexation, exceeds the income-tax computed in accordance with the provisions of the Act as they stood immediately prior to such amendment, such excess shall be ignored. This has the effect of allowing an resident Individual/Hindu Undivided Family (HUF) an option to pay tax on long-term capital gains on land or building or both, at such rate which is more beneficial to the taxpayer in respect of earlier capital gains regime and the new capital gains regime.

Thus, it would not be correct to state that the simplified capital gains tax regime would increase the tax burden on the tax-payer, or have any negative impact on domestic investors.

(b) & (c) Does not arise in view of reply in respect of (a).
