GOVERNMENT OF INDIA
MINISTRY OF FINANCE
DEPARTMENT OF REVENUE
LOK SABHA

WITHDRAWAL OF LTCG AND DDT

TO BE ANSWERED ON MONDAY 10TH FEBRUARY, 2020 MAGHA 21, 1941 (SAKA)

TAX BENEFITS TO PHARMACEUTICAL COMPANIES

1273. SHRI GURJEET SINGH AUJLA:

Will the Minister of FINANCE be pleased to state:

(a) whether the Government is considering to withdraw Long-Term Capital Gains (LTCG) tax and Dividend Distribution Tax (DDT) on dividend payments;
(b) if so, the details of the proposal;
(c) whether it is a fact that after the imposition of LTCG, the investments by Foreign Portfolio Investors have declined; and
(d) if so, the details thereof?

ANSWER

THE MINISTER OF STATE IN MINISTRY OF FINANCE
(SHRI ANURAG SINGH THAKUR)

(a) and (b): There is no such proposal to withdraw Long Term Capital Gains (LTCG) tax.

2. With regards to Dividend Distribution Tax (DDT) it may be noted that the Finance Bill, 2020, *inter-alia*, has proposed to amend the Income tax Act, 1961(the Act) so as to provide that DDT shall not apply on any amount declared, distributed or paid after 31st March, 2020 by way of dividends by domestic companies or income distributed by specified company or mutual funds to the shareholders or unit holders respectively. The dividend income or income from units will now be taxable in the hands of shareholders or unit holders at the applicable rate.

3. In order to achieve the above, it has been proposed to, -
(i) amend section 115-O and clause (34) of section 10 to provide that DDT will be applicable only on dividend declared, distributed or paid after 1st April, 2003, but on or before 31st March, 2020 and dividend received on or after 1st April, 2020 will be taxed in the hands of the shareholder respectively.
(ii) amend section 115R and clause (35) of section 10 to provide that tax on income distributed by specified companies or mutual funds to its unit holder shall be applicable only on the income distributed on or before 31st March, 2020 and income, in respect of units, received on or after 1st April, 2020 will be taxed in the hands of the unit holders of mutual funds or specified companies respectively.
(iii) insert new section 80M in order to remove the cascading effect of imposition of tax on dividend on same profits by providing that where a domestic company declares dividend, out of dividend received from another domestic company, it shall be eligible to claim a deduction.

3. In addition to the above, consequential amendments to other related provisions of the Act have also been proposed.

(c) and (d): The month-wise details of Foreign Portfolio Investment (FPI) Net Investment since February, 2018 to January, 2020 are as below:

Net FPI Investment from all countries (INR Cr.)				
Month	**Equity**	**Debt**	**Hybrid**	**Total**
Feb-18	-11,423	-253	3	-11,674
Mar-18	11,654	-9,044	51	2,661
Apr-18	-5,552	-10,036	27	-15,561
May-18	-10,060	-19,654	-61	-29,775
Jun-18	-4,831	-10,970	7	-15,795
Jul-18	2,264	43	-43	2,264
Aug-18	1,775	3,414	-44	5,146
Sep-18	-10,825	-10,198	-11	-21,035
Oct-18	-28,921	-9,978	-6	-38,906
Nov-18	5,981	5,610	4	11,595
Dec-18	3,143	4,749	-3	7,889
Jan-19	-4,262	-1,301	7	-5,556
Feb-19	17,220	-6,037	871	12,053
Mar-19	33,981	12,002	2,769	48,751
Apr-19	21,193	-5,099	634	16,728
May-19	7,920	1,187	2,264	11,370
Jun-19	2,596	8,319	2,196	13,111
Jul-19	-12,419	9,433	-17	-3,003
Aug-19	-17,592	11,672	49	-5,873
Sep-19	7,548	-990	25	6,582
Oct-19	12,368	3,670	31	16,069
Nov-19	25,231	-2,358	126	22,999
Dec-19	7,338	-4,616	40	2,762
Jan-20	12,123	-11648	-46	428
Net	66,450	-42,083	8,873	33,230

2. It is apparent from the above, that there has been a net FPI investment to the tune of INR 33,230 cr. during the period from February, 2018 to January, 2020. Moreover, there has been net positive FPI investment in 15 out of the last 24 months after the introduction of LTCG.

3. Further, FPI investment depends on many factors which may include but not limited to the following:

i. Prevailing liquidity and volatility conditions across the globe;
ii. Global macroeconomic and geopolitical factors;
iii. Global outlook of the investors with respect to the concerned jurisdiction vis-à-vis other emerging/developed markets;
iv. Anticipated future returns out of the proposed investment;
v. Taxation structure as prevailing in the concerned jurisdiction;
vi. Country rating of the concerned jurisdiction;
vii. Risk taking ability of the concerned FPIs;
viii. Market infrastructure in the concerned jurisdiction;
ix. Regulatory regime prevailing in the concerned jurisdiction;
x. Investment objective and mandate of the concerned FPIs;

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