

## Budget 2023 - High Time For Bringing Parity Amongst Debt and Equity From Direct Tax Treatment Perspective

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The forthcoming Budget 2023 has put the finance minister on a tight rope to manage the economy amidst macro political and economic turmoil such as ongoing Ukraine Russia conflict, impact of crude oil prices, inflation, rising interest rates etc. As in any other country, the Financial Services Sector plays a pivotal role in India as well. While not being impacted as much like other countries, it is crucial that positive signals are given by announcing measures, removing anomalies in interpretation on tax laws, bringing in parity on tax treatments etc. which can further boost the investor's sentiments and help India continue the momentum of growth.

One such issue which has been time and again raised and requires quick redressal is the disparity in tax treatment for one of the categories of Capital Asset i.e., 'Financial Asset'. The taxability of such assets is based on whether they qualify as long term or short term which in turn is based on the period of holding.

The tax rate is different for short term and long-term asset, depending on the type of capital asset and payment of applicable securities transaction tax.

- In order to qualify as long term capital asset in the case of a share listed on a recognised stock exchange in India, the holding period is 12 months, while it is 24 months in the case of an unlisted share.
- The holding period in case of a debenture listed on a recognised stock exchange in India is 12 months, while it is 36 months for unlisted debentures.
- In the case of an equity-oriented mutual fund unit, the holding period is 12 months, while it is 36 months for a debt-oriented mutual fund unit.
- The tax rates on long term and short term capital gains are accordingly determined from the range of 10%-30% depending upon the nature of financial asset and period of holding.

To explain this by way of an example, say if one invests in a listed debenture, the holding period to qualify as long term is 12 months whereas in the case of a debt oriented mutual fund unit it is 36 months in order to be taxed as long term capital gains.

In order to reduce the complexity and create a level playing field amongst equity and debt segment, the proposal for considering uniform period of holding for all class of financial assets is worth reviewing. Similarly, the rationalisation of tax rates on such gains will give impetus for investments in debt segment.

It is thus a logical and a fair request to amend the law for considering all the types of financial assets as long term capital assets after 12 months of holding. Similarly for financial asset class, a single tax rate for long term and for short term capital gain should be introduced, irrespective of the nature of investments, whether equity or debt; listed or not.

In the light of growing volume and interest of the investors in the financial assets space, especially the debt segment, this is the right time to undertake course correction and make this sector more lucrative by bringing in the aforesaid amendments in the tax laws. A simple capital gains tax regime will also ( ? ) harmonize the differential tax treatment between equity and debt but also make the investor's life easy while adhering to the compliances.

*\* Views expressed are personal and may not reflect that of the organization.*