Indian Economy · GS - III

Comment on the important changes introduced in respect of the Long term Capital Gains Tax (LCGT) and Dividend Distribution Tax (DDT) in the Union Budget for 2018-2019.

EXAM YEAR	PAPER	SUBJECT
2018	GS - III	Indian Economy

MARKS	WORD LIMIT
10	~150 words

Answer Hint

Budget 2018–19; long-term capital gains tax; listed equity and equity-oriented funds; dividend distribution tax; revenue mobilisation; investment implications

Model Answer

Introduction

The Union Budget 2018–19 introduced changes in the taxation of capital-market returns to improve revenue mobilisation and address perceived inequities in the taxation of investment income.

Long-Term Capital Gains Tax (LTCG)

1. **Tax reintroduction:** Long-term capital gains exceeding ₹1 lakh from specified listed equity shares and equity-oriented mutual funds became taxable at 10%, subject to conditions.
2. **Holding period:** The long-term classification generally continued to require a holding period exceeding one year for listed equity.
3. **Grandfathering:** Gains accrued up to 31 January 2018 received protection through a prescribed cost-of-acquisition formula.
4. **Impact:** The measure broadened the tax base but raised concerns about market sentiment and investment returns.

Dividend Distribution Tax (DDT)

1. The Budget introduced a 10% DDT on dividends distributed by equity-oriented mutual funds, subject to applicable provisions.
2. The tax was deducted at the fund level, reducing the net dividend received by investors.
3. It aimed to improve parity between dividend and growth-oriented investment options.

Overall Assessment

The LTCG tax sought to restore taxation of substantial equity gains, while DDT changed the post-tax returns from mutual-fund dividends. Both measures generated revenue but also raised concerns about tax complexity and investment behaviour.

Conclusion

The reforms reflected a balance between fiscal needs and capital-market development. Their effectiveness depended on stable tax rules, transparent implementation and a broader, equitable tax base.

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