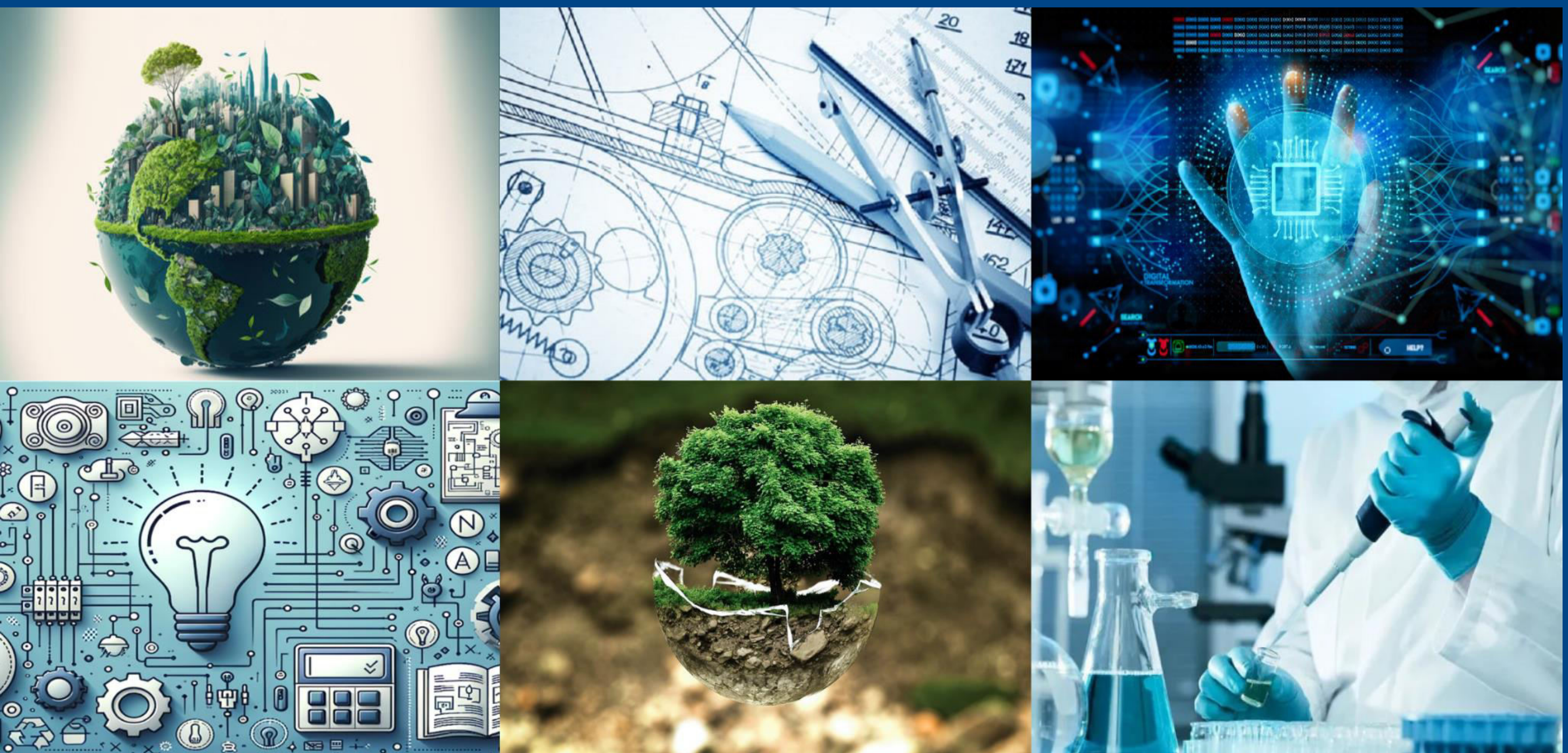
ISSN: 2582-7219

International Journal of Multidisciplinary Research in Science, Engineering and Technology

(A Monthly, Peer Reviewed, Refereed, Scholarly Indexed, Open Access Journal)



Impact Factor: 8.206

Volume 8, Issue 3, March 2025

www.ijmrset.com ijmrset@gmail.com +91 6381 907 438 +91 63819 07438

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ISSN: 2582-7219 | www.ijmrset.com | Impact Factor: 8.206| ESTD Year: 2018|

International Journal of Multidisciplinary Research in Science, Engineering and Technology (IJMRSET)

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Capital Gains Tax Amendments in India: A Societal Perspective on the Recent Changes

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ABSTRACT: Amendments to the capital gains tax in India, more particularly the ones done in the 2024 and 2025 Union Budgets, have brought sweeping changes, dramatically impacting investors across all kinds of asset classes. This research paper delves into these reforms, focusing on key provisions such as the introduction of a uniform long-term capital gains tax rate of 12.5% for all asset classes, the imposition of a 20% short-term capital gains tax rate, and the removal of the previously available indexation benefit that allowed taxpayers to adjust capital gains for inflation. While the exemption limit for LTCG has been increased from INR 1 lakh to INR 1.25 lakh, these changes are likely to result in higher tax liabilities for a large number of investors. Moreover, the 2025 Budget has also brought about clarifications on ULIPs by bringing them at par with the taxation norms applicable to equity mutual funds for an annual premium over INR 2.5 lakh. FIIs also saw a change in the tax structure as the LTCG tax rate for them was brought at par to 12.5% and hence there is consistency among domestic and foreign investors.

This paper will critically analyze the implications of these amendments on investment strategies, market behavior, and government revenue in Urban Bengaluru. This research evaluates how these changes might reshape the decision-making process for individual and institutional investors, including the broader effects on market volatility, wealth distribution, and overall investor sentiment. The paper tries to work out the long-term impact of such tax reforms on the financial landscape of India, taking into consideration the socio-economic implications for various income groups and sectors in Urban Bengaluru. This study uses qualitative analysis and empirical data to provide an in-depth understanding of the societal and economic implications of changes in the capital gains tax framework of India and how it can nurture a more inclusive and sustainable environment for investments.

KEY WORDS: Capital Gains Tax, Indexation Benefit, Unit Linked Insurance Plans (ULIPs), Investment Strategies, Investor Sentiment, Tax Policy Changes

I. INTRODUCTION

Taxation policies are of utmost importance in the structure of a country's economic landscape, affecting investment decisions, wealth creation, and market dynamics. In India, recent amendments in 2024 and 2025 Union Budgets have brought a sea change to the existing framework. The current debates on reforms, involving the uniform long-term capital gains tax rate of 12.5% across all classes of assets, a 20% short-term capital gains tax rate. The increase in the LTCG exemption limit from INR 1 lakh to INR 1.25 lakh and alignment of taxation norms for Unit Linked Insurance Plans and Foreign Institutional Investors. These changes will bring about far-reaching implications, especially in cities such as Bengaluru, which being an investment destination for both domestic and foreign investors is likely to see more activity. The changes in tax laws would affect them directly since, for instance, removal of indexation benefit could lead to an increased tax liability for long-term investors and hence change their investment strategy and risk appetite. Similarly, the single rate of tax across the classes of assets may influence the market behavior for sectors such as equities, real estate, and mutual funds.

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This research paper attempts to examine the social and economic implications of these capital gains tax amendments, with a focus on Urban Bengaluru. The study tries to capture the overall transformation that these reforms may bring in the financial landscape of India through their impact on investment strategies, market behavior, and government revenue. Additionally, this paper analyzes the socio-economic implication for different classes of income group and sectors through which such changes may create an inclusive and sustainable environment for investments. This study will contribute to the current debate on tax policy reforms and their implications for investor behavior and economic growth through qualitative analysis and empirical data.

PROBLEM STATEMENT:
To study and analyze public perception of recent capital gains tax amendments in Urban Bengaluru, Karnataka

II. LITERATURE REVIEW

Sharma, V., & Mehta, T. (2022), in their research, are working on the role of capital gains tax in revenue generation and economic growth. Their study provides evidence of the contribution of this source to government revenues and evaluates its wider impact on economic growth. The authors hold that although capital gain taxes are a strong source of income for a government, their influence on economic growth depends upon how the tax influences investment behavior and market dynamics.

Gupta, R. (2021) looks at the issue of capital gain tax policies and their impact on investment behavior in India. It analyzes how tax changes influence the investment decisions with a focus on equity and real estate markets. The results from this research indicate that the reforms in the taxation regime do affect investors' strategies: long-term investment is more susceptible to tax rate changes.

Verma, A., & Reddy, K. (2018) distinguish between short-term and long-term capital gains taxation and evaluate their economic implications for Indian investors. The study has found that the short-term capital gains tax tends to discourage speculative trading, while the long-term capital gains tax encourages more stable, long-term investments.
Agarwal, R. (2021). "Recent Reforms in Capital Gains Tax and Its Impact on Equity Market Participation Especially Retail Investors." The results of this study depict that changes in tax rates significantly impact the market participation of retail investors, with lower taxes encouraging more to enter the market.

Banerjee, S. (2019) compares the capital gains tax structure in India with international practices, analyzing how tax policies in India relate to leading international practices. It moots that India needs to move toward more progressive tax policies to encourage foreign investments for better economic competitiveness.

Chakraborty, S., & Ghosh, P. (2023). This paper has been published on the latest amendments to the Capital Gains Tax regime in India through the Budget 2024 amendments. Authors explain the moves toward simplification of the taxation structure and its economic rationale while discussing the impact on investors and stock markets and the real estate sector.

Mehta, P., & Jain, S. (2024) consolidates the research work relating to the behavioral impact of recent amendments in capital gains tax in India. The authors analyze the change in tax rates, holding period, and exemptions, relating how these reforms have influenced investment strategies by individual and institutional investors in the stock market, real estate, and foreign inflows.

Singla, A. & Mehta, P., 2023. The present paper critically analyzes the role played by taxation policies in influencing the investment pattern under capital gains tax in India; the recent amendment is considered for examining its long-run impact on market behavior with assertion that taxation policy has been seen as one which influences investors.

III. RESEARCH METHODS

Target Population: Individuals residing in Bengaluru, India, with an interest or involvement in investments (stocks, mutual funds, real estate, etc.), and those affected or impacted by the recent changes in capital gains tax regulations in India.

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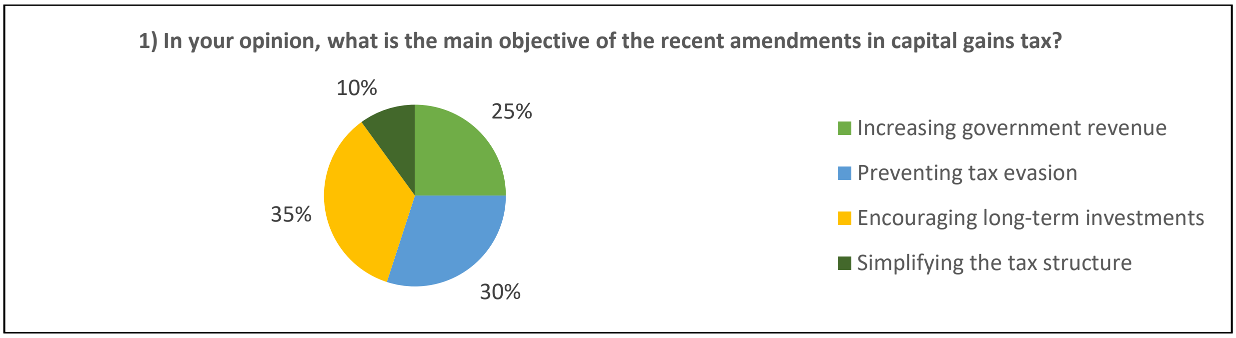
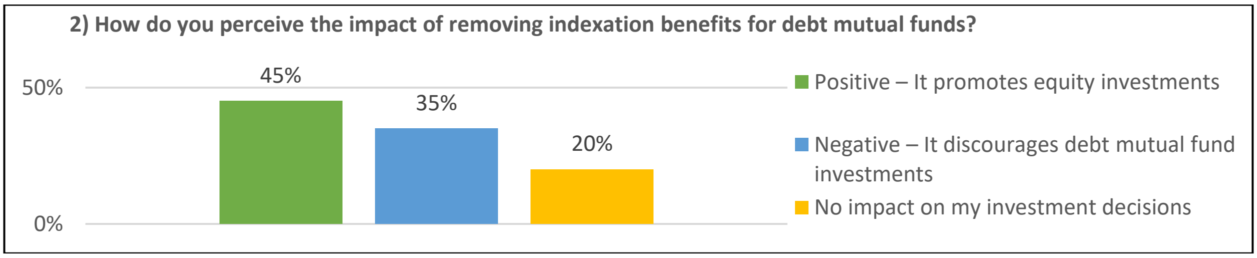
Research Method: Sampling Method (Convenience Sampling)
Sample Size: 200
Convenience Sampling: The survey was distributed online through social media platforms, which allowed for the collection of data from individuals actively engaged with or knowledgeable about financial matters, particularly capital gains tax.
Google Forms for the survey: By using this for surveys, we were able to collect data in an effective manner, reach a large audience, and compile results in an orderly and systematic way.

- Questionnaire: Conventional questionnaires offered a systematic approach to data collection, enabling the methodical collection of participant replies. We could measure and examine responses using questionnaires.

IV. FINDINGS AND INTERPRETATION



• **Encouraging long-term investments (35%):** This would suggest that the majority of respondents believe the amendments will serve mainly to encourage long-term investment.
• **Prevention of tax evasion (30%):** A large share of the respondents believes that the primary purpose is to curb tax evasion. This may be through measures to increase reporting compliance and close loopholes.
• **Increasing government revenue (25%):** A big chunk thinks the main goal is to increase revenue for the government. This could be through higher tax rates or by expanding the tax base.
• **Simplifying the tax structure (10%):** This is the least popular view, indicating only a small fraction of the respondents sees simplification as the prime goal.
The chart illustrates various public views regarding the ultimate goal of the recent amendments in the capital gains tax.



• **Positive—Encourages Equity Investments (45%):** This is the most common opinion. A large number of respondents believe that taking away the indexation benefit from debt mutual funds will encourage investments in equity markets.
• **Negative: Discourages Debt Mutual Fund Investments (35%):** A sizeable minority disagrees. They think this modification will hurt the attractiveness of debt mutual funds by making them less attractive to investors.
• **No Impact on Investment Decision (20%):** It could be due to a long-term investment horizon, negligible investment in debt mutual fund, or other factors driving their investment decisions.
The chart reflects varied opinions on the impact of removing indexation benefits for debt mutual funds. The data underlines the need for proper consideration of policy implications and effective investor education.

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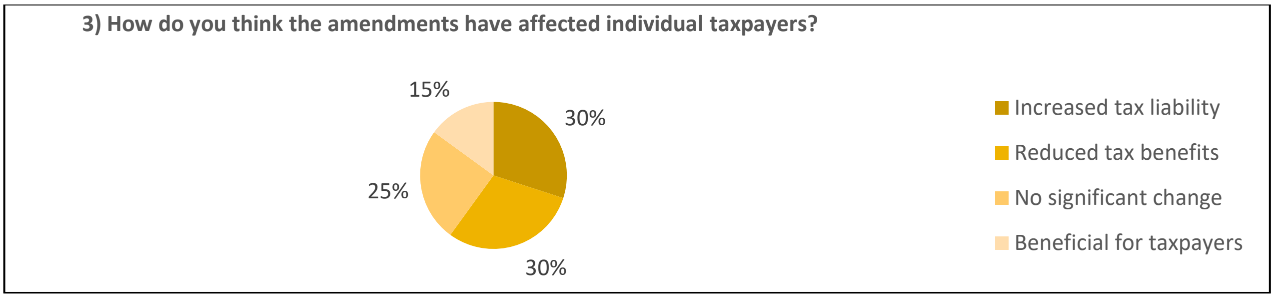
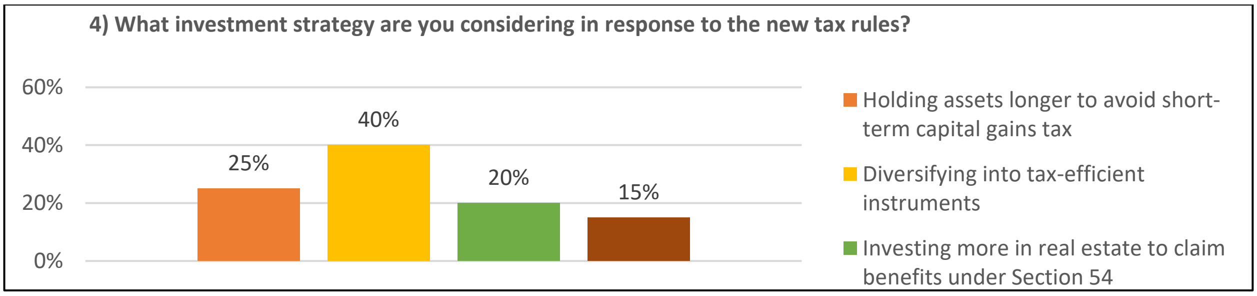
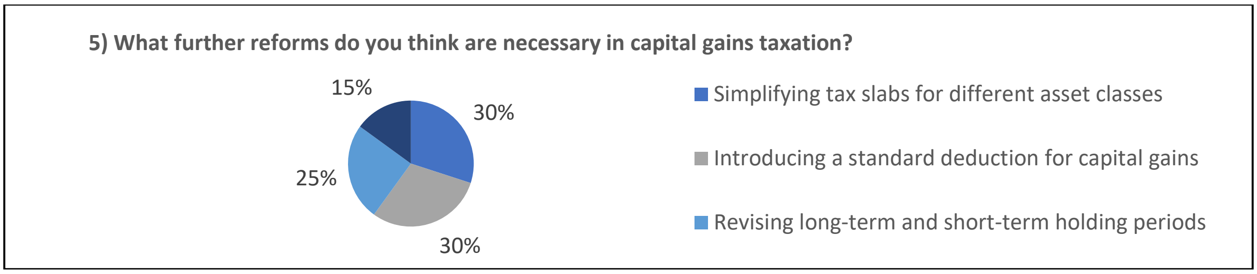


• **Reduced Tax Benefits (30%):** This is the most popular view. A sizeable portion of the respondents believes that the amendments have reduced tax benefits for individual taxpayers.
• **Increased Tax Liability (30%):** An equal proportion (30%) believes that amendments have increased the tax liability for individuals.
• **No Significant Change (25%):** A fair share (25%) feels the amendments have not made any significant change for individual taxpayers.
• **Beneficial for Taxpayers (15%):** This represents the least common view. Only a small fraction of respondents believes the amendments have been beneficial for individual taxpayers.
This shows through the chart that a majority of respondents believe the amendments either reduced tax benefits or increased tax liability for individual taxpayers



• **Diversification into Tax-Efficient Instruments (40%):** This is the most popular strategy. A significant proportion of respondents are looking at diversification into tax-efficient instruments.
• **Holding Assets Longer (25%):** A quarter of the respondents are considering holding their assets longer to possibly take advantage of lower long-term capital gains tax rates.
• **Increasing Investment in Real Estate (20%):** A large proportion (20%) are willing to invest more in real estate for maximum benefit under Section 54.
• **No Change in Strategy (15%):** This may be because of, having a long-term horizon, not being materially affected by the changes, or confidence in the current strategy.
The chart shows that, under the new tax rules, there is a trend toward proactive tax management and adjustment of investment strategies.



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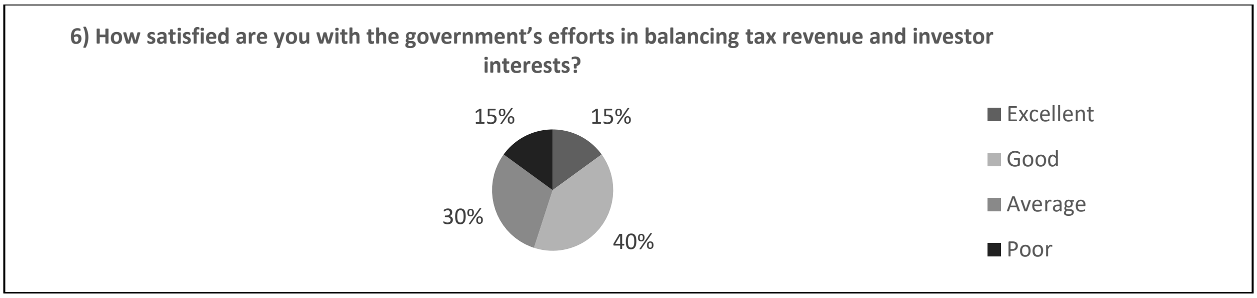
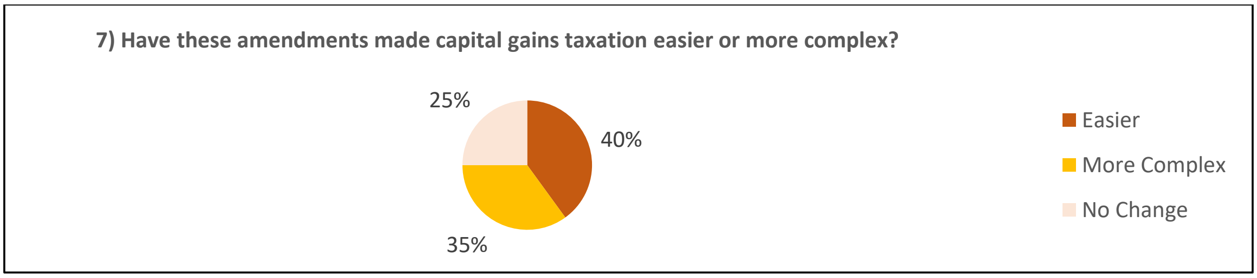
• **Simplifying tax slabs for different asset classes (30%):** A large proportion of respondents feel that this is an essential reform for simplifying tax slabs across different asset classes. This clearly indicates the need for a simplified tax structure.
• **Introducing a standard deduction for capital gains (30%):** This indicates that people are seeking simplification in calculation and an effective reduction in tax payable for at least some taxpayers.
• **Revising long-term and short-term holding periods (25%):** A quarter of the shares think that the revision of holding periods defining long-term and short-term capital gains is a required reform.
• **Removal or increase in the cap on exemptions under Sections 54 & 54F:** only 15% of the respondents believe that reform in exemptions under Sections 54 & 54F.
These results point to a need for simplicity and possible revisiting of the holding periods under the capital gains tax policy.



• **Poor (40%):** This is the most common response. A sizeable plurality of respondents rates the government's efforts as "poor".
• **Average (30%):** this may imply a moderate level of satisfaction or perhaps indifference.
• **Good (15%):** A small fraction of the respondents said the efforts put in by the government are "good."
• **Excellent (15%):** A similarly small proportion rate the government's performance as "excellent."
This graph reflects a need for review of policy, better communication, and probably more efforts to address concerns of both taxpayers and investors.



The graph depicts mixed perception, with a plurality believing the amendments have made capital gains taxation more complex:
• **More Complex (40%):** This is the most frequent response. By a wide margin, the largest single share of respondents (40%) believes the amendments have made capital gains taxation more complex.
• **No Change (35%):** A significant proportion (35%) feel the amendments have not made any significant change to the complexity of capital gains taxation.
•**Simpler (25%):** A quarter of respondents feel that the amendments have made capital gains taxation easier.

V. RECOMMENDATIONS

1. Improve Policy Transparency & Communication-
   - ✓ Clearly communicate the purpose and estimated impact of amendments to taxes.
   - ✓ Use practical illustrations and case studies to present, in an easily understood way, the tax change.

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2. Simplify Taxation Structures-
   - ✓ Consider harmonizing tax slabs across different asset classes to reduce complexity.
   - ✓ Introduce a standard deduction for capital gains to ease the calculation of tax.
3. Promoting Professional Consultation-
   - ✓ Subsidize advisory sessions by professionals to encourage taxpayers to avail their services and popularize the role of CAs and tax professionals in financial planning.
4. Revenue Generation & Investor Confidence-
   - ✓ Ensure that tax amendments do not discourage investments in key financial instruments such as mutual funds and real estate and periodic reviewing of tax policies to ensure a proper balance is maintained between government revenue needs and investor interests.
5. Public Perception & Feedback-
   - ✓ Periodic surveys on taxpayer sentiments and calibration of policies accordingly.
   - ✓ Addressing concerns about fairness and economic impact in order to build public trust.

VI. CONCLUSION

The amendments of the capital gains tax introduced in India through the 2024 and 2025 Union Budgets are a significant move in the taxation landscape of the country. The present research tries to analyze the societal and economic implications of the reforms, with special focus on Urban Bengaluru. The findings indicate that, though the uniform long-term capital gains tax rate of 12.5% and the revised short-term capital gains tax rate of 20% have, to an extent, eased the taxation structure, they have in turn caused enhanced tax liabilities for a lot of investors. Removal of indexation benefits from specific asset classes has affected the investing behavior—more into tax-efficient instruments and in favor of a long-term holding strategy. Public opinion on these amendments is divided: while a large number of respondents acknowledge the need for such amendments to ensure economic stability, concerns about a heavier tax burden and less incentive for investment remain strong. Moreover, the study identified the need for clearer communication and transparency in policies to bridge the gap between government objectives and investor expectations. Policymakers will, in the coming time, need to balance revenue generation with investor confidence—measures that can include standardized deductions for capital gains, simplification of tax slabs, and improvement in taxpayer education. Ultimately, these reforms will be successful if they can make sure that investments take place within an equitable and foreseeable environment conducive to the long-term growth of the Indian economy.

ACKNOWLEDGEMENT

We would like to express our special thanks of gratitude to CMS Business School for providing us with such a great project. We would like to extend our gratitude to our mentor for his able guidance and support. His support and suggestions proved valuable in enabling the successful completion of this project.

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