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Capital gain tax

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Why in news?

‘Capital gains is the fastest growing income class, can be taxed higher’ says the union finance secretary.

About capital gain tax:

Any profit earned from the **sale of a capital asset** is considered a capital gain. The profit earned falls under the category of income. As a result, a **tax must be paid on the income earned**. The tax is known as capital gains tax, and it can be **either long or short term**.

Long-term capital gain tax: Long-term capital gain tax is a tax on earnings made from the sale of an asset held for longer than a year. Long-term capital gains are normally taxed at a lower rate than short-term capital gains.

The rationale behind the lower tax rate for long-term capital gains is to encourage individuals to store assets for longer periods of time, which can stimulate long-term investment and economic growth. Individuals may be more eager to hang onto their assets instead of selling them fast for a profit if the tax rate on long-term profits is reduced.

Short-term capital gain tax: Short-term capital gain tax is a tax on earnings made from the sale of an asset **held for one year or less**. Short-term capital gains are often taxed at a higher rate than long-term capital gains.

The rationale behind a higher tax rate on short-term capital gains is to deter people from indulging in short-term speculation and instead encourage long-term investment

in response to calls for simplification, the structure has been simplified. The taxes are **12.5% for all long-term capital gains** and the duration for qualifying for long-term is one year for listed securities and two for unlisted and **short-term 20%.**

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