

# Press Clipping

Publication : The Times of India  
Date : Friday, March 07, 2008  
Edition : Mumbai  
Page : 19 (Times Business)

## Markets see STT devil in Finance Bill

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**Ahmedabad:** There is a devil in the detail when it comes to the securities transaction tax (STT) in the Finance Bill 2008-09. And it has created fears that the already shrinking trading volumes in stock markets will dip further if the proposal to treat STT as expenditure is implemented. In fact, market pundits fear that bourses could see a dip in volumes by anything in the region of 30-40%.

The Finance Bill has proposed that STT paid be treated as 'allowable expenditure' by those whose income from stock market activities is treated as 'business income'; but not taxed for short-term capital gains.

However, by treating STT as expenditure, individual brokerages (proprietary traders), arbitrageurs and traders will have to pay additional income

tax of 33%. The minimum burden will be 33% and it could go up to 60%, depending upon the levels of profit. To get a sense of how this works, consider this illustration.

Assume that a broker has made a profit of Rs 1,000 on his transactions. Also assume that in the previous regime he pays STT of Rs 300 on this income. That gives him a net income of Rs 700. At a peak rate of 30%, his tax liability would be Rs 210. However, as he has already paid Rs 300 in STT, the I-T department will refund him Rs 90 and his earnings after tax come to Rs 580.

In the current dispensation, as STT has been classified as expense, he can't ask for a rebate on his taxable income. Therefore his income goes down to Rs 490.

"This is a bombshell, which will squeeze liquidity. For ar-

### THE KILLER SUBTEXT

**WHAT IS IT?** Finance Bill proposes STT be treated as expenditure by those whose income from stock market is treated as 'business income'; but not taxed for short term capital gains.

**WHAT DOES IT MEAN?** Individual brokerages, arbitrageurs and traders pay additional 33% to 60% ST depending on profit levels.

**WHO IS AFFECTED?** Brokerages running large proprietary trading and arbitrage desks would be more severely hit.

**HOW WILL IT IMPACT MARKETS?** If implemented, pundits fear 30-40% volume dip.



bitrage, traders will have to gun for large margins to cover increased tax pay-outs. That will mean large spreads between 'buy' and 'sell' rates, which will

not be of interest to a large number of day-traders who look for narrow margins and high volumes," said V K Sharma of Anagram Securities.

All retail brokerage houses could get hit by these provisions as volumes could reduce. However, those brokerages that run large proprietary trading and arbitrage desks will be more severely hit. Over 50% of trading volumes on stock markets is generated by them.

"Arbitrageurs, day traders and proprietary traders bring maximum liquidity in markets. With implementation of the new provision, their trading activities will become uneconomical," Kotak Securities executive director D Kamman said.

Ever since the market witnessed a big-bang correction in January, trading volumes have halved from Rs 1,00,000 crore to Rs 50,000 crore a day. Volumes are still coming from short covering and not as a part of fresh buying. But now, it seems, even this segment will be hit.