

Securities Transaction Tax: Notes for UPSC Economy

Securities Transaction Tax (STT) is a type of turnover tax where the investor is obliged to pay a tax on the total sum received or paid in a transaction done through an exchange.

Security Transaction Tax is an important concept in the Economics segment of the IAS Exam.

Definition of Securities Transaction Tax

Securities Transaction Tax (STT) is a type of turnover tax where the investor is obliged to pay a tax on the total sum received or paid in a transaction done through an exchange. STT is not applicable for commodities and currency transactions and on transactions outside of the exchange. It is applicable to securities like shares, debentures, bonds, mutual funds, government equity securities, derivatives, etc. The STT rates are different for delivery-based equity transactions and intra-day transactions. The rates are also different when buying security and when selling one. It was announced in 2004 by the then finance minister P Chidambaram with a view to decrease evasion of capital gains tax.

What is the Scope of the STT?

According to the Securities Contracts (Regulation) Act, 1956, STT would be applicable to the following securities:

- Shares, bonds, debentures, debenture stock or other marketable securities of a like nature in or of any incorporated company or other body corporates
- Derivatives
- Units or any other instrument issued by any collective investment scheme to the investors in such schemes
- Security receipt as defined in section 2 of the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002
- Government securities of equity nature
- Rights or interest in securities
- Equity-oriented mutual funds

STT is not applicable for any off-market transaction.

As per the Finance Act 2004, and modified by Finance Act 2008 (18 of 2008) STT on the transactions executed on the Exchange shall be as under:

Computation of Securities Transaction Tax			
Sr.No	Taxable securities transaction	New rate as of March, 2020	Payable by
1	Sale of an option in securities	0.017 per cent	Seller
2	Sale of an option in securities, where option is exercised	0.125 per cent	Purchaser
3	Sale of a futures in securities	0.01 per cent	Seller

Relevant Questions regarding STT

Is Security Transaction Tax deductible?

STT paid in respect of taxable securities transactions entered into in the course of business shall be allowed as a deduction under section 36 of the Income-tax Act.

How is STT calculated?

STT is always computed on the Average price. Let's say you've done a lot of buy & sell transactions, then the Exchange sums up the Buy Value and the Sell Value and divides it by the total traded quantity (buy+sell qty) and determines the average rate.

Who has to pay STT?

The broker, in turn, collects it from its clients and deposits it with the government. An investor or trader **has to pay** the tax no matter whether she makes a profit or not. STT is currently imposed on equity and derivative transactions. Futures and options transactions come under the purview of STT on the sell-side.