Current Affairs of the Day

Retail inflation climbs to 6.07%

1. India's retail inflation inched up to an eight-month high of 6.07% in February from 6.01% in January, with rural India experiencing a sharper price rise at 6.38%. For urban consumers, the inflation rate, in fact, fell from 5.91% in January to 5.75% in February.
2. Food prices saw an upward trajectory, with inflation measured by the Consumer Food Price Index rising to 5.85% in February from 5.43% in January.
3. This trend was divergent for rural and urban India, with the latter seeing a slight moderation in food inflation, while rural food inflation shot up by 0.7 percentage points to 5.87%.
4. Food and beverages inflation hit a 15-month high, and the rising prices of edible oils are likely to pose a challenge in the coming months.
5. Inflation appears to have become generalised and experts believe it will be 5.5% to 6% through 2022-23, so the Reserve Bank of India [RBI] may consider a change in its forecast too.

RBI may reconsider its accommodative growth-focused policy stance?

1. The RBI has projected average retail inflation of 4.5% for the coming year.
2. Most economists don't expect the RBI to shift from its accommodative growth-focused policy stance yet, despite the retail inflation crossing its tolerance threshold of 6% for the second month.

Components of CPI

The major component in CPI (C) are as follows (along with their weights)

- Food and Beverages – 45.86
- Housing – 10.07
- Fuel and Light – 6.84

- Clothing and Footwear – 6.53
- Pan, tobacco and intoxicants – 2.38
- Miscellaneous – 28.32

February wholesale price inflation quickens to 13.11%

Basis For Comparison	Wholesale Price Index (WPI)	Consumer Price Index (CPI)
Meaning	WPI, amounts to the average change in prices of commodities at the wholesale level	CPI, indicates the average change in the prices of commodities, at the retail level.
Published by	Office of Economic Advisor (Ministry of Commerce & Industry)	Central Statistics Office (Ministry of Statistics and Programme Implementation)
Measures prices of	Goods only	Goods and Services both
Measurement of Inflation	The first stage of the transaction	The final stage of the transaction
Prices paid by	Manufacturers and wholesalers	Consumers
How many items covered	697 (Primary, fuel & power and manufactured products)	448(Rural Basket) 460 (Urban Basket)
What type of items covered	Manufacturing inputs and intermediate goods like minerals, machinery basic metals etc.	Education, communication, transportation, recreation, apparel, foods and beverages, housing and medical care
Base year	2011-12	2012
Used by	Only a few countries including India	157 countries
Data released on	Primary articles, fuel, and power (Weekly basis) & overall (monthly basis since 2012)	Monthly basis

1. Inflation in wholesale prices resurged to 13.11% in February after two months of mild cooling off, staying above the 10% mark for the eleventh month in a row, as per official data released.
2. Inflation measured by the Wholesale Price Index (WPI) was at 12.96% in January after hitting a record high of 14.9% in November 2021.
3. Fuel and power inflation touched 31.5% this February, the lowest in five months and only slightly lower than January's 32.3%. Manufactured products inflation picked up from 9.42% to 9.84%, signalling that producers have begun passing part of their rising input costs to end-users even as the pace of price rise in basic metals shot up to almost 20%, from 16.3% in January.
4. Primary articles continued to record elevated inflation at 13.39%, the fourth successive month above 10%. The Food Index, however, moderated from a 24-month high of 9.55% in January to 8.47% in February and helped limit the overall rise in inflation.

Major components of WPI

Manufactured Goods (64%)	Primary articles (23%)	Fuel & Power (13%)
Textiles, Apparels, Paper, Chemicals, Plastic, Cement, Metals, and more also includes manufactured food products such as Sugar, Tobacco Products, Vegetable and Animal Oils, and Fats	Food Articles include items such as Cereals, Paddy, Wheat, Pulses, Vegetables, Fruits, Milk, Eggs, Meat & Fish, etc. Non-Food Articles include Oil Seeds, Minerals and Crude Petroleum	Petrol Diesel and LPG

1. Primary articles is a major component of WPI, further subdivided into Food Articles and Non-Food Articles.
   - Food Articles include items such as Cereals, Paddy, Wheat, Pulses, Vegetables, Fruits, Milk, Eggs, Meat & Fish, etc.
   - Non-Food Articles include Oil Seeds, Minerals and Crude Petroleum
2. The next major basket in WPI is Fuel & Power, which tracks price movements in Petrol, Diesel and LPG
3. The biggest basket is Manufactured Goods. It spans a variety of manufactured products such as Textiles, Apparels, Paper, Chemicals, Plastic, Cement, Metals, and more.
4. Manufactured Goods basket also includes manufactured food products such as Sugar, Tobacco Products, Vegetable and Animal Oils, and Fats.

Unemployment at 12.7% for Q1FY22

1. The second wave of Covid-19 in India, which peaked in May 2021 and was led by the Delta variant, resulted in a sharp rise in the urban unemployment rate, according to the latest quarterly bulletin of the Periodic Labour Force Survey (PLFS).
2. While the headline urban unemployment rate of 12.7% in April-June 2021 was lower than in the same quarter of 2020 (20.9%), the period of a near-total lockdown, it is comparable to the unemployment rate seen when the first wave peaked in September 2020 and the third-highest for any quarter since April-June 2020. The urban unemployment rate in the September 2020 quarter was 13.3%.
3. The rise in urban unemployment in the June 2021 quarter is in line with the fact that the second wave also led to mobility restrictions.
4. There is an important point of difference in this unemployment rate. While the 68-day lockdown led to both sequential and year-on-year contraction in labour force participation rate (LFPR or the share of population that is working or looking for a job), the LFPR in April-June 2021 only contracted sequentially. LFPR during the second wave was also higher than in April-June 2019.
5. The lower unemployment rate despite higher LFPR is however not completely a cause for cheer. In fact, it might suggest stress in the labour market of a different kind.
6. The quarterly bulletins give LFPR for three age groups: all ages, 15-29 years, and 15 years and above. After the quarter ending June 2020, LFPR for the latter two age groups has been lower than pre-pandemic levels throughout, but all-age LFPR has been marginally higher than pre-pandemic levels.

PLFS is the largest official household survey for employment statistics in India. The quarterly bulletins of PLFS, however, only give summary statistics for urban areas.

Govt likely to reform capital gains tax to increase revenue

Long-term capital gains on equities held for more than a year is taxed at 10%. The government estimates that long-term capital gains are taxed in many countries at the 25-30% range, or the applicable income tax rates.

Need to change the Capital gains tax structure

1. The Narendra Modi administration is likely to revamp the capital gains tax structure in the next budget to augment revenue collections and boost spending on welfare schemes.
2. At the heart of the proposal being studied in the finance ministry is the government's philosophy that passive income earned from the capital market should not be taxed at a lower rate than income earned from doing business, which involves taking entrepreneurial risks and job creation.
3. The plan is also rooted in the government's idea of welfarism for which revenue needs to be boosted.
4. Making the capital gains tax structure more efficient needs legislative amendments.

Current capital gains regime:

1. In India, long-term capital gains on equities held for more than a year is taxed at 10% on the portion of such gain above a threshold of ₹1 lakh. This provision was introduced with effect from April 1, 2019.
2. The capital gains tax regime prescribes the holding period for determining whether the gain made when selling the asset is short term or long term.
3. Short-term capital gain on equities held for less than a year is taxed at 15% in the case of listed shares and the applicable income tax slab if it is unlisted.
4. Taxation and benefit transfers were two levellers as far as tackling income inequality is concerned. In India, we do not have the data, but experience from countries such as the US, where data is available, suggests the picture of post-tax, post-transfer income inequality is quite different from the one painted by data on pre-tax, pre-transfer income inequality.

5. The capital gains tax structure has become too complicated and needs a relook. 80% of the long-term capital gains from equities in FY20 was made by people earning ₹50 lakh and more.
6. The government estimates that long-term capital gains are taxed in many countries at the 25-30% range, or the applicable income tax rates.

KNOW ALL ABOUT CAPITAL GAINS

Tax implication...	...of income	...of sale	
		LONG-TERM CAPITAL GAINS	SHORT-TERM CAPITAL GAINS
EQUITY SHARES	Dividends are taxable at slab rates	Gains up to ₹1 lakh are exempt. Balance taxable at 10% without indexation*	15%**
EQUITY MUTUAL FUNDS	Dividends are taxable at slab rates		15%***
DEBT MUTUAL FUNDS	Dividends are taxable at slab rates	20% with indexation	Tax at slab rate
LISTED TAX-FREE BONDS	Interest from notified tax-free bonds is exempt from tax	10% without indexation	Tax at slab rate
LISTED DEBENTURES	Taxable, unless notified		Tax at slab rate

*Exemption available if securities transaction tax paid on sale and STT also paid on purchase, in case of equity shares acquired on or after Oct 1, 2004 (subject to certain exceptions notified)

**If STT of 0.1% each is paid by seller and buyer in both cases

*** If STT of 0.001% is paid by seller

STT rates mentioned above are for delivery-based transactions only

Challenges:

1. Higher capital gains tax in India when compared with other emerging market economies could reduce the country's relative attractiveness as an investment destination and encourage Indians to invest in assets such as real estate. Lower investments in productive assets can also slow down economic growth.
2. Tax experts said that raising long-term capital gain tax on equities also faces other practical problems.
3. The buoyancy in the capital markets that we have seen in recent times is because of the tax regime. One needs to see if any such change also derails the government's plan to pursue large disinvestments.

Capital gains tax applicable on many asset classes:

paisabazaar

Selling Your Assets?
Know How You'll Be Taxed

Capital Asset	Short-Term Holding Period	Long-Term Holding Period	Short Term Capital Gains Tax	Long Term Capital Gains Tax
Stocks/ Equity Mutual Fund	<1 year	>1 year	15%	10% (for gains over ₹1 lakh)
Unlisted Shares	<2 years	>2 years	As per Tax Slab of Investor	20% post Indexation
Debt/ Debt Mutual Fund	<3 years	>3 years	As per Tax Slab of Investor	20% post Indexation
House Property	<2 years	>2 years	As per Tax Slab of Investor	20% post Indexation
Physical Gold, Gold Fund and ETFs	<3 years	>3 years	As per Tax Slab of Investor	20% post Indexation

How to avoid tax on LTCG

There are provisions under the Income-tax Act to save tax on long-term capital gains (LTCG) arising from transfer of capital assets like real estate, stocks, gold, bonds and so on.

Particulars	Section 54	Section 54 EC	Section 54 F
Capital gains arising from	Residential property	Residential property	Assets other than residential property
Exemption	LTCG tax can be saved by reinvesting the gains in maximum of two residential properties*	LTCG tax can be saved by investing in specified bonds	LTCG tax can be saved by buying a residential property
Time limit for reinvestment of LTCG	Can be adjusted against the house purchased in last one year or two years from the date of sale; three years in case the seller wishes to construct a house with the LTCG amount	LTCG amount should be invested in bonds within six months from the sale date	Can be adjusted against the house purchased in last one year or two years from the date of transfer of the old house; three years in case seller wishes to construct a house with the LTCG amount
CGAS applicability	Yes	No	Yes

CGAS: If you want to use the sale proceeds after a while, you should deposit the amount in a CGAS, with the intention to use the funds to buy a new house within two years or to construct one within three years from the date of sale. Make sure you deposit the LTCG amount before the due date for filing the ITR for the year in which LTCGs occurred. *The capital gains on the sale of house property must not exceed ₹2 crore in order to claim exemption for reinvesting in two properties. This benefit can be claimed only once in the lifetime

Source: Mint research

MAINS DAWP	Q1. Taxing capital gains can reduce inequality but may hurt growth in the long term by discouraging investment. Discuss possible impacts of increasing capital gains tax in this regard.
ESSAY	1. Right, as the world goes, is only in question between equals in power — while the strong do what they can and the weak suffer what they must 2. There is no finer teacher of war than war

MCQs	Q1. Consider the following statements 1. In India, long-term capital gains on equities held for more than a year is taxed at 10% 2. The long-term capital gains are taxed in many countries at the 25-30% range, or the applicable income tax rates Which of the above statements is/are correct? a. 1 only b. 2 only c. Both 1 and 2 d. Neither 1 nor 2 Q2. Which of the following assets when transferred are taxable under Capital gains tax? 1. House Property 2. Gold Fund 3. Unlisted shares 4. Equity Mutual Fund Select the correct answer from the codes given below a. 1 and 4 only b. 2, 3 and 4 only c. 1, 2 and 3 only d. 1, 2, 3 and 4