

News Article : The Consumer Affairs Ministry is not in favour of levy of any transaction tax on commodity derivatives.

This was conveyed to the Union Finance Minister, Mr Pranab Mukherjee, by the Minister of State for Consumer Affairs, Prof K.V.Thomas, at a recent pre-budget meeting between the two Ministers, sources said. Any levy of transaction tax on commodity derivatives could impact the development of the commodity derivatives market, it was submitted to the Finance Minister. This is even as pressure is mounting on the Finance Ministry to provide a level-playing field between equity derivatives and commodity derivatives in the upcoming Budget on the aspect of levy of transaction tax.

Currently, currency and commodity derivatives do not attract any transaction tax, while equity futures are subjected to securities transaction tax (STT). The recent fall in volumes in cash as well as equity futures has prompted the equity exchanges to lobby hard for removal of STT or reduction of this tax in the upcoming budget. Alternatively, some of the equity exchanges want the Finance Ministry to impose transaction tax on non-agri commodities, as they contend that volumes are shifting from equity derivatives to non-agri commodity derivatives.

This is, however, countered by those in the commodities derivative space. They claim that one cannot compare and give the similar tax treatment to equity and commodity derivative transactions. Their contention is that commodity derivatives are basically hedging instruments and any additional cost in form of transaction tax will make hedging expensive here and lead to flow of volumes to commodities markets abroad. Indications are that the issue of securities transaction tax (STT) will come up for discussion at the meeting convened by the Finance Ministry on February 7.

The capital market division may make another attempt to get the STT rationalised. It's previous attempt met with some resistance from the revenue department as any rationalisation or abolition of STT could lead to loss of revenues for the exchequer.