

CONSULTATION ON PROPOSED TREATMENT OF INDIAN LONG TERM CAPITAL GAINS TAX IN THE MSCI EQUITY INDEXES

September 2019

This consultation may or may not lead to the implementation of the proposed changes in the MSCI Indexes. Consultation feedback will remain confidential. MSCI may publicly disclose feedback if specifically requested by specific market participants. In that case, the relevant feedback would be published together with the final results of the consultation.

BACKGROUND & OBJECTIVE

In India, capital gains are taxed for securities including the ones which are received as part of stock dividend.

- Long Term Capital gains are taxed at 10% (applicable on securities held for a period exceeding 12 months)**
- Short Term Capital gains are taxed at 15% (applicable on securities held for a period less than 12 months)

Currently, the methodology does not take into account tax on capital gains in the MSCI Indexes.

For market neutral events such as stock dividend, Capital gains tax creates issue in tracking and replicability of Indian securities in the MSCI Indexes.

*** Long Term Capital gains tax is being levied since April 01, 2018.*

STOCK DIVIDENDS POST LAW AMENDMENT (01-Apr-2018)

MSCI code	Name	Index Family	Ex date	Terms
92096.01	VARUN BEVERAGES	Small	25-Jul-19	S 1 : 2
23619.01	GAIL INDIA	Standard	9-Jul-19	S 1 : 1
32809.01	UPL	Standard	2-Jul-19	S 1 : 2
29933.01	BIOCON LTD	Standard	12-Jun-19	S 1 : 1
80359.01	SYNGENE INTERNATIONAL	Small	11-Jun-19	S 1 : 1
66472.01	TTK PRESTIGE	Small	15-May-19	S 1 : 5
30377.01	NTPC	Standard	19-Mar-19	S 1 : 5
22728.01	WIPRO	Standard	6-Mar-19	S 1 : 3
28126.01	CONTAINER CORP OF INDIA	Standard	4-Feb-19	S 1 : 4
33384.01	MOTHERSON SUMI SYSTEMS	Standard	30-Oct-18	S 1 : 2
33714.01	GODREJ CONSUMER PRDCTS	Standard	12-Sep-18	S 1 : 2
22734.01	INFOSYS	Standard	4-Sep-18	S 1 : 1
33371.01	KARUR VYSYA BANK	Small	14-Aug-18	S 1 : 10
67991.01	ASHOKA BUILDCON	Small	12-Jul-18	S 1 : 2
82000.01	MINDA INDUSTRIES	Small	11-Jul-18	S 2 : 1
60413.01	CITY UNION BANK	Small	10-Jul-18	S 1 : 10
60359.01	JYOTHY LABORATORIES	Small	28-Jun-18	S 1 : 1
63883.01	JUBILANT FOODWORKS	Small	21-Jun-18	S 1 : 1
22726.01	ESSEL PROPACK	Small	20-Jun-18	S 1 : 1
66495.01	GRUH FINANCE	Small	6-Jun-18	S 1 : 1
29344.01	TATA CONSULTANCY	Standard	31-May-18	S 1 : 1

POTENTIAL IMPACT

MSCI ACWI IMI

Name	Ex date	Index impact (10%)	Index impact (15%)	Index impact (10%)	Index impact (15%)
VARUN BEVERAGES	25-Jul-19	0.0000%	0.0000%	0.0000%	0.0000%
GAIL INDIA	9-Jul-19	0.0002%	0.0004%	-0.0001%	-0.0001%
UPL	2-Jul-19	0.0002%	0.0004%	0.0002%	0.0004%
BIOCON LTD	12-Jun-19	0.0001%	0.0001%	0.0000%	-0.0001%
SYNGENE INTERNATIONAL	11-Jun-19	0.0000%	0.0001%	0.0000%	0.0000%
TTK PRESTIGE	15-May-19	0.0000%	0.0000%	0.0000%	0.0000%
NTPC	19-Mar-19	0.0001%	0.0002%	0.0000%	0.0000%
WIPRO	6-Mar-19	0.0002%	0.0003%	0.0002%	0.0003%
CONTAINER CORP OF INDIA	4-Feb-19	0.0000%	0.0001%	-0.0003%	-0.0004%
MOTHERSON SUMI SYSTEMS	30-Oct-18	0.0001%	0.0002%	-0.0002%	-0.0003%
GODREJ CONSUMER PRDCTS	12-Sep-18	0.0002%	0.0003%	0.0002%	0.0003%
INFOSYS	4-Sep-18	0.0027%	0.0040%	0.0019%	0.0029%
KARUR VYSYA BANK	14-Aug-18	0.0000%	0.0000%	0.0000%	0.0000%
ASHOKA BUILDCON	12-Jul-18	0.0000%	0.0000%	0.0000%	0.0000%
MINDA INDUSTRIES	11-Jul-18	0.0000%	0.0001%	0.0000%	0.0000%
CITY UNION BANK	10-Jul-18	0.0000%	0.0000%	0.0000%	0.0000%
JYOTHY LABORATORIES	28-Jun-18	0.0000%	0.0000%	0.0000%	0.0000%
JUBILANT FOODWORKS	21-Jun-18	0.0001%	0.0001%	0.0001%	0.0001%
ESSEL PROPACK	20-Jun-18	0.0000%	0.0000%	0.0000%	0.0000%
GRUH FINANCE	6-Jun-18	0.0001%	0.0001%	0.0001%	0.0001%
TATA CONSULTANCY	31-May-18	0.0018%	0.0026%	0.0010%	0.0014%
Total Impact		0.0060%	0.0090%	0.0031%	0.0047%

MSCI INDIA

Name	Ex date	Index impact (10%)	Index impact (15%)	Index impact (10%)	Index impact (15%)
GAIL INDIA	9-Jul-19	0.0133%	0.0199%	-0.0042%	-0.0063%
UPL	2-Jul-19	0.0130%	0.0195%	0.0130%	0.0195%
BIOCON LTD	12-Jun-19	0.0041%	0.0062%	-0.0021%	-0.0032%
NTPC	19-Mar-19	0.0061%	0.0091%	-0.0003%	-0.0005%
WIPRO	6-Mar-19	0.0126%	0.0189%	0.0106%	0.0159%
CONTAINER CORP OF INDIA	4-Feb-19	0.0027%	0.0040%	-0.0152%	-0.0227%
MOTHERSON SUMI SYSTEMS	30-Oct-18	0.0068%	0.0102%	-0.0098%	-0.0147%
GODREJ CONSUMER PRDCTS	12-Sep-18	0.0123%	0.0185%	0.0105%	0.0157%
INFOSYS	4-Sep-18	0.1459%	0.2189%	0.1056%	0.1584%
TATA CONSULTANCY	31-May-18	0.0982%	0.1473%	0.0536%	0.0804%
Total Impact		0.3151%	0.4726%	0.1617%	0.2425%

Assumptions:

- ✓ Both original and bonus shares are sold on ex-date.
- ✓ 10% applied as per Long term capital gains tax rate
- ✓ 15% as per Short term capital gains tax rate

Scenario 1:

Impact calculated assuming tax is paid only on the bonus share.
Gain/Loss on original share is not considered.

Scenario 2:

Impact calculated based on net gain calculated if original and bonus shares are sold together.

PROPOSAL

- In order to account for capital gains tax, MSCI is proposing to apply a withholding tax of 10% on the ex-date of stock dividend for securities listed in India.
- This tax of 10% will be applied only in case of stock dividend of new shares in the same company.
- MSCI proposes to make an adjustment to the MSCI Net Daily Total Return (DTR) Indexes to reflect this withholding tax. This adjustment will be reflected simultaneously with the Price Adjustment Factor (PAF) on the ex-date of the stock dividend.

DISCUSSION POINTS

- Do you agree that MSCI should apply a withholding tax (WHT) for stock dividends of Indian securities?
- Is it a concern that this proposal would only impact stock dividend of shares of the same company and will not impact distribution of other type of asset (bonds, warrants etc.) or shares in other company (including spin-offs).
- In case of withholding tax to be applied, should MSCI apply a tax of 10% or 15% for stock dividends?

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