Capital Gains on Shares and Mutual Funds: STCG, LTCG, STT Conditions and Special Rules (Tax Year 2026-27)

Description

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Quick summary

- Listed equity shares and equity-oriented mutual fund units sold on an exchange with STT paid: short-term gain at 20% (section 196), long-term gain (over 12 months) at 12.5% on the amount above ?1,25,000 a year (section 198).
- Debt mutual fund units bought on or after 1 April 2023 and market linked debentures always give short-term gains taxed at slab rates (section 76).
- Gains on demat shares use first-in-first-out for cost and holding period (section 67(7)); shares bought before 1 February 2018 get a grandfathered cost (section 90(7)).
- A loss on shares bought just before a dividend record date and sold soon after can be ignored (section 175), and buyback proceeds are now taxed as capital gains in the shareholder's hands (section 69).

For most investors, shares and mutual funds are the biggest source of capital gains. The tax rate depends on three things: the holding period, whether securities transaction tax (STT) was paid, and what the fund invests in. This post explains each for tax year 2026-27 under the Income-tax Act, 2025.

Holding period (section 2(101))

Asset	Short-term if held for
Listed shares, UTI units, units of an equity-oriented fund, zero coupon bonds	12 months or less
Unlisted shares, foreign shares, units of debt funds and other assets	24 months or less

Listed equity shares and equity-oriented funds

Short-term (section 196): if the asset is an equity share, a unit of an equity-oriented fund or a unit of a business trust, and the sale is chargeable to **STT**, the short-term gain is taxed at **20%**.

Long-term (section 198): if the gain is on an equity share, a unit of an equity-oriented fund or a unit of a business trust, and STT has been paid:

- **on acquisition and on transfer**, for an equity share; and
- **on transfer**, for a fund or business trust unit,

the tax is **12.5% on the long-term gain above ?1,25,000** in the tax year. The Central Government may notify types of acquisition for which the STT-on-acquisition condition does not apply (section 198(5)).

For a resident individual or HUF, any shortfall in the basic exemption limit is first set against the gain (sections 196(2) and 198(3)). Deductions under section 123 and other Chapter VIII deductions are allowed only from income other than these gains. Surcharge on this tax is capped at 15%.

What is an equity-oriented fund (section 198(8))

A fund set up under a mutual fund scheme (or an insurance unit-linked scheme that does not enjoy the exemption in Schedule II, serial 2) that invests a minimum of **65%** of its total proceeds in equity shares of domestic companies listed on a recognised stock exchange (the percentage is averaged over the year); or, for a fund of funds investing in another listed fund, at least 90% of proceeds in that fund, which itself invests at least 90% in listed domestic equity.

When STT is not paid

If the conditions for section 196 or 198 are not met (for example an off-market sale of shares, or an unlisted share), the **long-term gain is taxed at 12.5% without the ?1,25,000 exemption** (section 197) and the **short-term gain at slab rates**.

Debt mutual funds, bonds and market linked debentures (section 76)

The gain on transfer, redemption or maturity of the following is always a **short-term capital gain**, whatever the holding period, taxed at slab rates:

- a unit of a **Specified Mutual Fund** acquired **on or after 1 April 2023**, being a mutual fund that invests **more than 65%** of its proceeds in debt and money market instruments (or a fund that invests 65% or more in units of such a fund);
- a **market linked debenture**; and
- an **unlisted bond or debenture** transferred, redeemed or maturing on or after 23 July 2024.

STT is not deducted in computing these gains. Debt fund units bought **before 1 April 2023** are ordinary capital assets: short-term if held for 24 months or less, and long-term gains taxed at 12.5% without indexation.

How cost and holding period are fixed

- **First-in-first-out (section 67(7)(c)):** for securities held in demat form, if you buy the same security at different times and sell part of the holding, the earliest purchases are treated as sold first, for both the

cost of acquisition and the period of holding.

- **Grandfathering (section 90(7)):** for long-term equity shares and units covered by section 198 that you bought **before 1 February 2018**, the cost is the higher of the actual cost and the lower of the value on 31 January 2018 and the sale price.
- **Bonus shares** have a nil cost and their holding period runs from the allotment; **rights shares** cost what you paid (section 90(5) and (6)).
- **STT paid** is not deductible (section 72(3)). Brokerage and other expenses incurred wholly and exclusively on the transfer are deducted (section 72(1)(a)).

Special rules

Buyback (section 69): when a company buys back its own shares, the consideration you receive is taxed **in your hands as capital gains**: the difference between the cost and the amount received. Before the Finance Act, 2026 the buyback consideration was treated as a dividend and was taken as nil for capital gains; from 1 April 2026 it is capital gains. If the shareholder is a **promoter**, an additional tax applies: 2% (short-term gain) or 9.5% (long-term gain) for a domestic company promoter, and 10% or 17.5% for other promoters (section 69(2)).

Dividend stripping (section 175(8)): if you buy securities within three months before a record date and sell them within three months after it (for units, within nine months), and the dividend or income is exempt, the loss on that purchase and sale is ignored to the extent of the dividend or income. Under section 175(9), a loss on securities bought within three months before the record date and sold within nine months after, while you continue to hold bonus securities allotted on that holding, is ignored and added to the cost of the bonus securities.

Intraday and F&O: a sale without delivery is a speculative transaction (section 66(31)), and a derivative transaction in the exchange is a business transaction. Both give business income and not capital gains. Delivery-based trades by an investor are capital gains.

Dividends: dividend is taxed at slab rates as income from other sources (section 92(2)(a)).

Example

A resident individual during tax year 2026-27, all on a stock exchange with STT paid:

- Sold shares bought two years ago: long-term gain ?1,90,000.
- Sold units of an equity fund bought four months ago: short-term gain ?60,000.
- Sold shares bought in November 2016 for ?1,00,000, worth ?2,50,000 on 31 January 2018, sold for ?4,00,000: cost = higher of 1,00,000 and the lower of 2,50,000 and 4,00,000 = ?2,50,000; long-term gain ?1,50,000.
- Long-term gains total ?3,40,000. Less ?1,25,000 = ?2,15,000 at 12.5% = ?26,875.
- Short-term gain ?60,000 at 20% = ?12,000.
- Total ?38,875, plus 4% cess = ?40,430.

Before you file

1. Download the **capital gains statement** from your broker or mutual fund registrar and check it against your own contract notes.
2. Report each sale with the correct buy date and cost, in the capital gains schedule of ITR-2 or ITR-3. ITR-1 can be used only if the long-term gains under section 198 are no more than ?1,25,000 and there is no other capital gain (see our post on which ITR form to file).
3. Pay advance tax on gains as they arise.

4. Set off losses as explained in our post on capital loss.

Frequently asked questions

What are the tax rates on shares and equity mutual funds?

Short-term gain (held for 12 months or less) on a sale on a stock exchange with STT paid: 20%. Long-term gain (more than 12 months): 12.5% on the gain above ?1,25,000 in the tax year (sections 196 and 198).

When does the 12.5% rate with the ?1.25 lakh exemption apply?

When the long-term gain is on an equity share or a unit of an equity-oriented fund or a business trust, and STT was paid on the transfer (and, for an equity share, also on acquisition, unless the Central Government has notified the type of acquisition). Otherwise long-term gains are at 12.5% without the exemption (section 197).

How are debt mutual funds taxed?

If the fund invests more than 65% in debt and money market instruments (a specified mutual fund) and the units were bought on or after 1 April 2023, the gain is a short-term gain taxed at slab rates, however long you hold them (section 76).

How is the cost worked out when I buy the same share at different times?

By first-in-first-out for securities held in demat form: the earliest bought shares are treated as sold first, for both cost and holding period (section 67(7)(c)).

Is intraday trading a capital gain?

No. A transaction settled without delivery is a speculative transaction (section 66(31)) and the profit is business income, not a capital gain, unless it is an exempt derivative transaction.

What is dividend stripping?

Buying shares or units shortly before a dividend record date and selling soon after, to book a loss against exempt dividend. The loss is ignored up to the dividend received if you buy within three months before the record date and sell within three months after (nine months for units) (section 175).

Official sources

- Income Tax Department: Income-tax Act, 2025 (sections 66, 67, 69, 76, 90, 175, 196 to 198)

Related reading

- Capital Loss: Set-Off and Carry Forward Rules (Tax Year 2026-27)
- Cost of Acquisition for Capital Gains: Gifted, Inherited and Pre-2001 Assets (Tax Year 2026-27)
- Section 85 (Earlier 54EC) Capital Gain Bonds, and Sections 83 and 84 (Earlier 54B and 54D) (Tax Year 2026-27)

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