



## **“THE STUDY OF INDIAN CAPITAL MARKET AND TAXATION SYSTEM IN CONTEXT OF SECURITIES MARKET”**

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### **ABSTRACT**

*The capital market in India is crucial to the country's economic growth because it allows people to pool their resources and invest them wisely. Both the primary market, for newly issued securities, and the secondary market, for the trading of already issued securities, make up the market. The regulatory landscape, technology, investor engagement, and integration of the Indian capital market have all changed dramatically within the last few decades. In India, the Securities and Exchange Board of India (SEBI) has played a crucial role in improving market efficiency, transparency, investor protection, and the regulatory environment. With a special emphasis on the securities market, this research examines the structure and operation of India's capital market in relation to its taxation system. A number of factors, including the Securities Transaction Tax (STT), the Capital Gains Tax (CGT), and the Dividend Distribution Tax (DDT), influence the behaviours of investors, the amount of trades that take place, and the overall investment trends. The capital market's trading and broking services have been indirectly affected by the Goods and Services Tax (GST) since its inception.*

*Keyword: - Indian Capital Market, Taxation System, Securities Market, Investment, Regulation, Financial Growth*

### **INTRODUCTION**

The Capital market and taxation in the context of securities market is an extremely fascinating subject. An efficient capital market is an indispensable prerequisite to economics' development. The Indian capital market has been one of the oldest across the globe and is definitely the fastest growing and best among other financial markets of the emerging economies. The history of Indian capital markets is more than 200 years old, around the end of the 18th century.

The capital market of India Initially developed around Mumbai, with around 200 to 250 securities brokers participating in active trade during the second half of the 19th century. Indian financial market is one of

the well-developed markets in the world. Capital market is a vital part of any financial market & financial system and Indian capital market is one of the oldest across the Globe the Indian Capital market has undergone structured transformation since liberalisation. Among all the reforms tax structure is also seen reforms for these transactions and earnings of these transactions. The consistent reforms in Indian capital market resulting in Modern technology and online Trading have revolutionized the stock exchange, in the similar way the taxation system also changed a lot but needed to make some revolutionary changes to boost these transactions which will be result in drastic change in Income of Indian govt. through the capital market transactions and investment activities.

In the above study I have tried to give all the important information about the Indian Capital market, its instruments and investment & trading activities of these instruments including taxation of these transactions and further improvements to make tax system clearer and more connected to the growth of capital market.

The capital market is an internal part of financial market along with money market. Initially financial market to be understood. A financial market enables efficient trade of securities and transfers of funds between lenders and borrowers and also creates securities for investment.

Financial Market is divided mainly into: -

Money Market –Money Market is a segment of the Financial Market where borrowing and lending of short-term funds takes place In India this Market is regulated by both RBI and SEBI THE Market consists of negotiable instruments having characteristics of liquidity, minimum transaction costs and no loss in value such as treasury bills, commercial Study, certificate of deposit etc.

It performs the crucial role of providing an equilibrating mechanism to even out the short-term liquidity, surpluses deficits therefore facilities the conduct of monetary policy of an Economy.

Capital Market – capital market is that part of the financial system that is concerned with the industrial security market government security Markets and long-term loan market. The Indian Capital has made substantial progress during the post-independence period, particularly during the earth eighties. Specially in 1983 with the “ Swaraj Paul episode”.

## **OBJECTIVES**

1. To Study the various changing scenarios in Capital Market and its Influence on Investment preference
2. To Analyse the enhanced awareness of the investors with regard to the latest developments in the capital market and to assess and predict the extent of return on investment.

## **RESEARCH METHODOLOGY**

In view of the voluminous of data collected and presented in this research report, "descriptive Research" is considered to be the most appropriate for the present study. Hence, the study has been found to be descriptive and analytical. The research problem and Interview Schedule has been formulated and framed

accordingly. The suggestions of the study emerge from the inferences drawn from the study of universe (Rajasthan Circle) and sample survey of Investors are registered members of ICAI, ICSI, ICWAI who have taken up practice as their profession. The study is based on both primary and secondary data.

### **Primary Data**

The present study is an empirical one based on sample survey. First hand data have been collected from the field through a separate interview schedule. The interview schedule was administered to the investors are members of the Institute of Chartered Accountants of India, The Institute of Company Secretaries of India, Cost and Works Accountants of India, and Chartered Financial Analyst of India. The study recorded expert opinions of sample respondents on investors protection, insider trading practices, problems of capital market, investors preferences for corporate securities.

### **Secondary Data**

The study also depended on the secondary data. The data were collected from standard text books, financial dailies, like Financial Express, Business Line and reputed journals like SEBI and Corporate Laws, Chartered Secretary.

## **RESEARCH DESIGN**

One definition of research design that encompasses all aspects of the study would be the plan for the investigation. Beginning with the identification of the problem that needs to be investigated and ending with the interpretation of the findings of the investigation are the two stages of the process. The study design takes into consideration the following aspects: the kind of data that will be analysed, the means by which the data will be obtained, the instruments that will be used for analysis, and the methods by which the findings will be interpreted.

## **SAMPLE**

### **Sample Design**

As a method of sampling, the study used a technique known as judgement sampling. This approach has been used by a number of researchers in the process of choosing a sample of organisations for the purpose of conducting financial data analysis. This method of sampling was chosen since the study calls for a sample that is statistically valid and that accurately represents the population in terms of the distribution of different themes and sectors.

### **Sampling Unit**

The sample unit is comprised of businesses that come from a wide variety of backgrounds and occupy every sector of the economy.

### **Sampling Population**

Companies listed on the National Stock Exchange of India (NSE), with a total of 1,694 as of December 27, 2016, make up the sample population.

## Sample Size

There are at least 390 different companies that make up the sample.

Due to the fact that indices are produced using a variety of factors, including sector, themes, and tactics, it is possible for shares of the same firms to be included in many indices. By way of illustration, consider the NIFTY Smallcap 250 Index; it is comprised of shares from each and every company that is included in that index. In the end, the result is that several indices include the shares of the same company, which results in an artificially inflated total number of businesses whose shares are included in all of the indices. Due to the fact that the firms whose shares are included in the indices should only appear in the sample once, it is necessary to eliminate duplicate entries of the same stock that are included in several indexes and to maintain just one entry inside the sample. Following the removal of such a large number of stock inclusions and the retention of only one item, the number of companies whose shares are included in indexes dropped to 505.

The availability of data for these businesses over a period of at least ten years, from 2007 to 2016, was the determining factor in the selection of the final sample. Following further filtering based on data that was accessible for a period of ten years, the list of 505 firms was reduced to 390 businesses, which was the final number of businesses.

## Calculation of Sample Size

In order to ascertain the size of the sample, it is necessary to take into consideration three essential aspects. The most important factor to take into account is the degree of confidence required to make forecasts at the population level. The second point is that the power of the sample is directly proportional to the expected prevalence of the characteristic that is being investigated in the population. In the third component, the required level of precision or margin of error for the population prediction is taken into consideration.

When it comes to the bulk of the study, the standard deviation is five percent, and the degree of confidence is ninety-five percent. As a result of this, we get a confidence interval of 10%. It is possible to determine the proportion of the population that is believed to possess the characteristic that is being investigated by referring to past study or other data that is accessible. In situations when there is a lack of historical data, it is usual practice for researchers to keep the number at fifty percent. Because of this, the maximum permitted sample size is determined for each and every degree of confidence and margin of error that is provided.

Here is the formula that is used in the process of determining the size of the sample:

$$\text{Sample Size} = \frac{[Z^2 \times p \times (1-p)]}{e^2}$$

where

$Z$  =  $Z$  value corresponding to the confidence level  
 $p$  = Proportion of sample having necessary characteristics  
 $e$  = Margin of error

Taking a confidence level of 95% (Z value = 1.96), margin of error at 5% and assuming the proportion of the population that will exhibit long-term effects of short-termism at 50%,

$$\text{Sample size} = [(1.96)^2 \times 0.5 \times 0.05] / (0.05)^2 = 384$$

The actual sample size considered is 390 against the required 384 above.

## RESULT AND DISCUSSION

**Table 1 List of Variables**

| Dependent Variables                                                                                                                                                               | Independent Variables                                                                                                                                                                                                                                                                                                                                                                                     | Control Variables                                                                                                                                                                                                                                                                                                                                                                          |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none"> <li>Sales Value</li> <li>Profit Before</li> <li>Tax (PBT)</li> <li>Earnings Per Share (EPS)</li> <li>Market</li> <li>Capitalisation</li> </ul> | <p><b>Discretionary Expenses</b></p> <ul style="list-style-type: none"> <li>Employee Related Expenses</li> <li>Publicity Expense</li> <li>Expenditure on R &amp; D</li> </ul> <p><b>Policy Related Expenses</b></p> <ul style="list-style-type: none"> <li>Interest expense (proxy for use of debt)</li> <li>Depreciation expense (proxy for incremental asset value)</li> <li>Dividend payout</li> </ul> | <ul style="list-style-type: none"> <li>Age of the firm</li> <li>Size of the firm</li> <li>Industry to which the firm belongs</li> <li>Proportion of Promoters'</li> <li>Shareholding to Total</li> <li>Shareholding Proportion of Nonpromoted Institutional</li> <li>Shareholding to Total</li> <li>Shareholding</li> <li>Ratio of Book Value to</li> <li>Market Value of Share</li> </ul> |

According to what was said in an earlier chapter, the variables have been expressed as a percentage of a common base for the sake of comparison. On the other hand, a different strategy has been used for a limited number of variables. The treatment that the variables were given is shown down below for your perusal:

**Table 2 Computation method for variables**

| Variable | Nature of the | Computation Method for Value of |
|----------|---------------|---------------------------------|
|          |               |                                 |

|                       |                        |                                                       |
|-----------------------|------------------------|-------------------------------------------------------|
|                       | Variable               | Variable                                              |
| Sales Value           | Dependent Variable     | Sales Value as a proportion of Total Income           |
| Profit Before Tax     | Dependent Variable     | PBT as a proportion of Total Income                   |
| Earnings per Share    | Dependent Variable     | Basic EPS as disclosed by the firm                    |
| Market Capitalisation | Dependent Variable     | Absolute Value of Market Capitalisation in NSE        |
| Employee Expense      | Independent Variable   | Employee Expense as a proportion of Total Expense     |
| Publicity Expense     | Independent Variable   | Publicity Expense as a proportion of Total Expense    |
| Expenditure on R& D   | Independent Variable   | Expenditure on R & D as a proportion of Total Expense |
| Interest expense      | Independent Variable   | Interest Expense as a proportion of Total Expense     |
| Depreciation expense  | Independent Variable   | Depreciation Expense as a proportion of Total Expense |
| Dividend payout       | Independent Variable   | Dividend payout as a percentage of PBT                |
| Variable              | Nature of the Variable | Computation Method for Value of Variable              |

|                                         |                  |                                                                                |
|-----------------------------------------|------------------|--------------------------------------------------------------------------------|
| Age of the firm                         | Control Variable | Natural log of age of the firm in years                                        |
| Size of the firm                        | Control Variable | Natural log of value of total assets of the firm                               |
| Industry to which the firm belongs      | Control Variable | The first 2 digits of the NIC Code                                             |
| Promoters' Shareholding                 | Control Variable | Proportion of Promoters' Shareholding to Total Shareholding                    |
| Non-promoter Institutional Shareholding | Control Variable | Proportion of Non-Promoter Institutional Shareholding to Total Shareholding    |
| Book Value to Market Value              | Control Variable | Ratio of Book Value of the Equity Share of the firm to its Market Value in NSE |

## DESCRIPTIVE STATISTICS

Descriptive statistics for the data are shown below:

**Table 3 Descriptive Statistics of Dependent Variables**

| Variable Description        | No. of Observations | Mean     | Median | Std. Deviation |
|-----------------------------|---------------------|----------|--------|----------------|
| Dependent Variables         |                     |          |        |                |
| Sales Value (%)             | 4,575               | 90       | 92     | 11             |
| PBT (%)                     | 4,575               | 14       | 12     | 21             |
| EPS (Rs.)                   | 4,575               | 34.33    | 13.4   | 229            |
| Market Capitalisation (Rs.) | 4,575               | 1,21,704 | 25,958 | 3,31,346       |

## Inference from Table 3

It is common for the majority of firms, as seen in the figure that was just presented, for the value of sales to constitute close to 90 percent of total revenue. The remaining percentage would be comprised of additional income. Profit before taxes accounts for around fourteen percent of a company's total revenue. This figure would be subject to vary depending on the particulars of the industry in which the organisation works (business sector). 34.33 rupees is the average amount of profits accrued per share. A market capitalisation of 1,21,704 crores rupees is recorded on average.

**Table 4 Descriptive Statistics of Independent Variables**

| Variable Description     | No. of Observations | Mean | Median | Std. Deviation |
|--------------------------|---------------------|------|--------|----------------|
| Independent Variables    |                     |      |        |                |
| Employee Expense (%)     | 4,575               | 12   | 8      | 14             |
| Publicity<br>Expense (%) | 4,575               | 4    | 2      | 5              |
| Expenditure on R & D (%) | 4,575               | 1    | 0      | 2              |
| Interest<br>Expense (%)  | 4,575               | 9    | 1      | 21             |
| Depreciation Expense (%) | 4,575               | 4    | 3      | 5              |
| Dividend Payout (%)      | 4,575               | 19   | 17     | 75             |

#### Inference from Table 4

The table presents the proportion of each expenditure to the overall cost, as well as the percentage of dividend distribution to Profit Before Tax. Additionally, the table offers information about dividend distribution. Payroll is responsible for an average of twelve percent of total expenditures across all businesses, as seen by the figures presented above. Research and development expenses make for around one percent of total expenditures, whereas public relations costs account for approximately four percent of total expenditures. Depreciation expenses make for around 4% of overall expenditures, whereas interest charges account for approximately 9% of total costs. The expenditures that fall within these two categories are tied to policy. The typical dividend, expressed as a proportion of profits before taxes, is 19%.

**Table 5 Descriptive Statistics of Control Variables**

| Variable Description | No. of Observations | Mean | Median | Std. Deviation |
|----------------------|---------------------|------|--------|----------------|
|----------------------|---------------------|------|--------|----------------|

| Control Variables              |       |       |       |       |
|--------------------------------|-------|-------|-------|-------|
| Age of firm (years)            | 4,575 | 41.38 | 31    | 26.83 |
| Natural log of age of firm     | 4,575 | 3.515 | 3.434 | 0.661 |
| Natural log of size of firm    | 4,575 | 10.45 | 10.25 | 1.851 |
| Promoters' Shareholding (%)    | 4,575 | 53.01 | 54.03 | 19.37 |
| Institutional Shareholding (%) | 4,575 | 21.91 | 20.08 | 14.84 |
| Book to Market Value (Ratio)   | 4,575 | 64.78 | 43.57 | 68.9  |

### Inference from Table 5

In the table that is located above, you will find the descriptive statistics for the control variables described. For the purpose of this analysis, the enterprises are evaluated with a median age of 31 years and an average age of 41.38 years. According to all accounts, the promoters control a disproportionately high number of shares, which amounts to 53.11 percent on average, in comparison to the 21.91 percent that is owned by entities that are not promoters. It is common practice to use a ratio of 64.78 between book value and market value. For the purpose of this data analysis, the industry code is not included, despite the fact that it has been included as a control variable (as was previously mentioned in Chapter 3 within the context of the demeaning variables approach in the FE model). This is because the industry code is time invariant. Because of this, the control variable is not included in the analytical process.

### CONCLUSION

The primary and secondary markets that comprise India's capital market play an important part in the expansion of the country's economy. These markets play a role in facilitating the mobilisation of savings and the efficient allocation of resources. Throughout the years, the Securities and Exchange Board of India (SEBI) has been a driving force behind the regulatory reforms, enhanced transparency, and digitalisation that have resulted in a transformation of the capital market. As a consequence of these advancements, investors now have a higher level of confidence, and also, the market has become more efficient and liquid. Taxation and the manner in which individuals behave while investing in the securities market are highly correlated with one another. The dynamics of the market are impacted by the Indian tax system, which includes the Goods and Services Tax (GST) on financial services, the dividend distribution tax (which is now known as the investors' tax), and the securities transaction tax (STT). Tax policies that apply to long-term and short-term capital gains make an effort to achieve a balance between the collection of revenue and the incentives provided to investors. However, these policies also have an impact on how investors perceive the risk-return trade-offs.

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