

Increase in STT in F&O Segment

BUDGET PROPOSAL

Securities Transaction Tax (STT) on transactions in specified securities was introduced through the Finance (No. 2) Act, 2004, with recognized stock exchanges, insurance companies, SEBI registered intermediaries such as mutual funds or merchant bankers leading the initial public offerings, responsible for collecting and remitting the tax to the Central Government. Since its inception, STT rates have been periodically revised to reflect market developments and revenue considerations, including a significant hike in 2024 that raised STT on equity derivatives i.e. futures and options (F&O Segment). The change comes under the “Capital markets (STT)” head as part of a broader package of capital-market and tax-administration measures.

As part of Union Budget 2026–27, the Finance Minister has now proposed a further increase in STT on equity futures contracts, announcing that the STT rate on sale of futures in securities will be raised to 0.05% of the traded value. This represents a more than doubling of the current 0.02% rate that has applied since October 1, 2024. Further, the STT on options premium and exercise of options are also proposed to be raised to 0.15% from the present rate of 0.1% and 0.125% respectively. The objective to increase the STT rates is to curtail speculative trading in F&O Segment and reduce excessive volatility in the market.

IMPACT

An increase in STT on futures will directly raise transaction costs for derivatives market participants and could reduce trading volumes, particularly in high-frequency and low-margin strategies.

This may compress turnover-linked revenues for stock exchanges and brokers and moderate the growth in STT collections if trading activity falls in response to higher costs, as some post-2024 data have already suggested.

For hedgers and institutional investors who use futures for risk management, the higher levy of STT increases all-in cost of maintaining hedges and may encourage partial migration to alternative instruments such as index options or offshore products, depending on relative tax and margin treatment. Retail participation in index and stock futures already under regulatory and supervisory scrutiny could see a further dampening, which is broadly consistent with the policy direction since 2024 of discouraging excessive speculative use of leveraged derivatives.

ELP’s Insights

The immediate impact of the STT hike will be higher transaction costs for traders and an additional compliance and cost burden on brokers, leading to reduced profitability for active F&O participants and pressure on brokerage and exchange revenues due to lower volumes. In the short term, this could also affect liquidity in the derivatives market, and it is worth noting that a similar increase was introduced in the 2024 Budget as well. From a policy perspective, the measure appears aimed at curbing excessive speculative activity and fostering a more stable and disciplined market structure over the long run.