

## BUDGET - Tax seen denting commodity futures trade

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MUMBAI (Reuters) - India on Friday proposed introducing a commodity transaction tax and making exchanges liable to service tax, moves that analysts say would impede growth in the futures trade.

In his budget for the next financial year from April 1, Finance Minister Palaniappan Chidambaram also sought to bring clearing houses under the service tax net.

"Transactions in commodity futures have come of age," Chidambaram said. "Hence, I propose to introduce commodities transaction tax (CTT) on same lines as (the securities transaction tax) on options and futures."

India allowed trading in commodity futures in 2003 and permitted options last month.

Three exchanges -- the National Commodity and Derivatives Exchange (NCDEX), Multi Commodity Exchange (MCX) and the National Multi Commodity Exchange (NMCE) -- were set up in 2003.

According to the commodities market regulator, the Forward Markets Commission (FMC), commodities worth \$900 billion were traded in 2007 and that is expected to touch \$1 trillion this year.

The regulator, exchange officials, and analysts said Chidambaram's proposals would slow growth.

"The commodity futures markets are just taking off," FMC Chairman B.C. Khatua told Reuters. "The tax on commodity transactions will have a negative impact."

Commodity exchanges have been trying to diversify participation in futures but the budget proposals might dissuade hedgers from taking part in commodities derivatives, said NCDEX Managing Director P.H. Ravikumar.

"Unlike stock markets, commodities trade is dominated by hedgers who may find it difficult to pay taxes now. The steps announced by the government may affect turnover," he said.

Recent government decisions to strengthen the FMC and allow the introduction of options trading in commodities were seen as important steps in encouraging trading.

Ravi Bhushan, an analyst with brokerage ICICI Direct, said the introduction of a commercial transaction tax would create a more mature futures market and possibly prompt the government to allow the involvement of financial institutions and banks.

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