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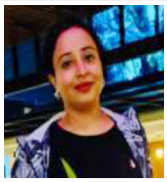

The Impact of Recent Capital Gain Tax Reforms on Investors' Behaviour in India

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1- Introduction-

Capital gains tax is a type of taxes that are imposed on the sale of capital asset like stock, bonds, real estate and investment. The capital gains are realized when there is an increase in selling price and purchase price of the asset leading to tax. Capital gains are typically divided into two groups, namely short-term capital gains (STCG) and long-term capital gains (LTCG).

The rate of taxation on capital gains varies between different countries and the nature of asset. In most of the nations, short-term capital gains are taxed higher and usually at the same rate as ordinary income tax, with long-term capital gains being taxed preferentially to encourage long-term investment at reduced rates. Certain jurisdictions offer discounts, deductions or index benefits to compensate inflation and cut taxable benefits. Also, the capital gain tax policies can have clauses of tax-deferred or rollover relief where reinstatement in a particular asset can delay tax payments.

(Niels V et. al., 2007) found that the elasticity of revenues with respect to the tax rate over 10 years is –0.5 to –0.3, indicating that capital gains tax cuts do not pay for themselves and that a 5-percentage point rate increase would yield $18 to $30 billion in annual federal tax revenue. OCapital profit tax policies are commonly used by governments to control the behavior of investment and economic activity. An increase in capital gains rates can keep short-term speculation off and encourage long-term money accruals whereas a reduction in capital gains rates will encourage an increase in involvement in the financial market. Tax laws are regularly changed according to the interests of the economy and this demands that investors should be aware of the changes to align their tax strategies and remain conscious of the changes.

The capital gains in India are divided into two, namely short -term capital gains (STCG) and long -term capital gains (LTCG) in accordance with the holding period of the asset. The holding period will differ according to the type of property; Equity and equity mutual funds will be long-term when they are held longer than 1 year, whereas real estate and debt mutual funds will need more than two years and three years respectively. Is, long -term to qualify. The capital gains tax policies are usually policies employed by governments to manipulate financial markets and investor behaviour. Policymakers can use the tax rates on capital gains to either promote or deter some form of investment activities.

The capital gains tax policy changes also have an effect on the asset allocation, as well as liquidity in financial markets. Increase in the tax on long term gains will force investors to invest in other forms of investments like bonds, gold and real estates to avoid paying the tax and this will slow down the liquidity in the stock market. On the same

note, a reduced tax on long run performances may boost long run investment causing the growth and stability of the market.

Besides, the investor sentiment is closely associated with changes in taxation. The market sell-offs can occur due to sudden rises in the amount of capital gains tax since investors will scramble to ensure that they secure profit before the new tax rate is applied. Conversely, the tax cuts can be used to stimulate economic growth by expanding the post-tax returns, which are used to stimulate the trading and investment volumes.

The Finance Minister announced major tax reforms related to capital gain tax in the 2024-2025 that stressed both tax simplification and promoted long-term financial investments. A major change in the taxation structure concerns the STCG tax rate increase from 15% to 20% which applies to both listed equity shares along with equity-oriented mutual funds. The Indian government implemented this policy to limit speculative trading activities and extend the investment duration. LTCG taxation applies at a 12.5% flat rate for all assets following the elimination of previous heterogenous taxation. All listed financial assets which satisfy more than one-year holding period will now qualify for long-term capital gain tax treatment.

2-Literature Review-

(Saxton (1997) highlighted in their work that there is bias in the current tax system against saving, investment, emphasizing the various taxation of capital gains under the existing income tax regulation.

(L. Olivier, 2007) contributed to discussions on tax reform, emphasizing the need for clearer regulations and simplification of tax laws to enhance compliance and reduce uncertainty in South Africa's tax system. (George M. 1984) highlighted that tax laws incentivize investors to defer capital gains while realising losses promptly, particularly favouring short-term loss realization due to lower tax rates on long-term gains. (C. West and J. Roeleveld ,2003), highlighted interpretational challenges in their study and suggested legislative amendments, their research contributed to broader discussions on tax clarity and compliance, advocating for a more structured approach to legislative intent and practical tax application. (James R. and D. Schaffa, 2023) observed effects of capital gains taxes likely reflect investor anticipations of future tax rate changes, rather than the time value of money.

(Peter H et al, 2009) evaluated how taxes and stochastic interest rates influence both the timing option value and equilibrium price of corporate bonds through analysis of discount and premium amortisation and multiple trading dates, as well as transaction costs and changes in interest rates' level and volatility. (Ole A and Zidar, 2020) revealed that capital gains tax revenue shows a negative relationship with tax rates encompassing -0.5 to -0.3 elasticity throughout ten years which proves tax reduction fails to entirely fund its own cost. The research analysis concluded that increasing capital gains tax rates by five percentage points would generate an extra $18 to $30 billion in yearly federal tax collections.

(Jennifer L. et., all., 2003), their research found out that personal capital gains taxes affect equity trading, adding to a growing literature that challenges longstanding assumptions that firm value is independent of shareholders and their taxes. (Holt and Shelton, 1992) investigated the behavioural reactions from individual investors compared to institutional investors since individual investors actively respond to tax incentives and established that tax policy modifies market behavior and investment choices, particularly during crucial tax periods, according to their study.

3- Research Methodology- This research examines the recent capital gains tax reforms on investor conduct in India. The research objectives for this study are:

1. To examine the impact of changes in tax rules on Indian investor behavior.

2. To examine the impact of changes in tax policy on the holding period of the Indian investor
3. To investigate whether investors shift to other asset classes due to tax hikes.
4. To assess the overall behavioral change in investors behavior due to chnages in capital gains tax regulations.

This investigation will exclude both corporate investors and high-net-worth individuals because professional tax planning allows them unrestricted access and their investment behaviors differ from retail investors.

The research depends on survey data collection through a questionnaire which aims to capture reactions from retail investors regarding modifications in tax policies. The target sample size is 200-300 respondents.

4- Data Analysis- Descriptive Details

Table 4.1 – Independent Variable – Change in Tax

			Statistic	Std. Error
iv1	Mean		3.71	.068
	95% Confidence Interval for Mean	Lower Bound	3.57	
		Upper Bound	3.84	
	5% Trimmed Mean		3.74	
	Median		4.00	
	Variance		.763	
	Std. Deviation		.873	
	Minimum		1	
	Maximum		5	
	Range		4	
	Interquartile Range		1	
	Skewness		-.543	.188
	Kurtosis		-.041	.374
iv2	Mean		3.84	.067
	95% Confidence Interval for Mean	Lower Bound	3.71	
		Upper Bound	3.98	
	5% Trimmed Mean		3.89	
	Median		4.00	
	Variance		.759	
	Std. Deviation		.871	

	Minimum		1	
	Maximum		5	
	Range		4	
	Interquartile Range		0	
	Skewness		-.798	.188
	Kurtosis		.435	.374
iv3	Mean		3.80	.069
	95% Confidence Interval for Mean	Lower Bound	3.66	
		Upper Bound	3.93	
	5% Trimmed Mean		3.85	
	Median		4.00	
	Variance		.790	
	Std. Deviation		.889	
	Minimum		1	
	Maximum		5	
	Range		4	
	Interquartile Range		1	
	Skewness		-.787	.188
	Kurtosis		.745	.374
iv4	Mean		3.75	.068
	95% Confidence Interval for Mean	Lower Bound	3.62	
		Upper Bound	3.89	
	5% Trimmed Mean		3.78	
	Median		4.00	
	Variance		.765	
	Std. Deviation		.874	
	Minimum		2	
	Maximum		5	
	Range		3	

	Interquartile Range			
	Skewness		-.593	.188
	Kurtosis		-.207	.374
iv5	Mean		3.54	.085
	95% Confidence Interval for Mean	Lower Bound	3.37	
		Upper Bound	3.71	
	5% Trimmed Mean		3.56	
	Median		4.00	
	Variance		1.202	
	Std. Deviation		1.096	
	Minimum		1	
	Maximum		5	
	Range		4	
	Interquartile Range		1	
	Skewness		-.364	.188
	Kurtosis		-.945	.374

Source- Author's own compilation

As per the criteria, since the value of skewness and kurtosis values are between designated parameters, independent variable is norma

Dependent Variable

Participation in stock market (dv11, dv12, dv13, dv14, dv15)

Investment Holding period (dv21, dv22, dv23, dv24, dv25)

Shift in Asset Preference (dv31, dv32, dv33, dv34, dv35)

Table 4.2 – Dependent Variables – Descriptive Table

			Statistic	Std. Error
dv11	Mean		3.50	.072
	95% Confidence Interval for Mean	Lower Bound	3.36	
		Upper Bound	3.64	
	5% Trimmed Mean		3.52	

	Median		4.00	
	Variance		.854	
	Std. Deviation		.924	
	Minimum		1	
	Maximum		5	
	Range		4	
	Interquartile Range		1	
	Skewness		-.687	.188
	Kurtosis		-.011	.374
dv12	Mean		3.33	.062
	95% Confidence Interval for Mean	Lower Bound	3.21	
		Upper Bound	3.45	
	5% Trimmed Mean		3.39	
	Median		4.00	
	Variance		.644	
	Std. Deviation		.802	
	Minimum		1	
	Maximum		4	
	Range		3	
	Interquartile Range		1	
	Skewness		-.951	.188
	Kurtosis		.073	.374
dv13	Mean		3.17	.086
	95% Confidence Interval for Mean	Lower Bound	3.00	
		Upper Bound	3.34	
	5% Trimmed Mean		3.19	
	Median		3.00	
	Variance		1.237	
	Std. Deviation		1.112	

	Minimum		1	
	Maximum		5	
	Range		4	
	Interquartile Range		2	
	Skewness		-.364	.188
	Kurtosis		-.596	.374
dv14	Mean		3.41	.072
	95% Confidence Interval for Mean	Lower Bound	3.27	
		Upper Bound	3.56	
	5% Trimmed Mean		3.43	
	Median		4.00	
	Variance		.870	
	Std. Deviation		.933	
	Minimum		1	
	Maximum		5	
	Range		4	
	Interquartile Range		1	
	Skewness		-.374	.188
	Kurtosis		-.231	.374
dv15	Mean		3.04	.077
	95% Confidence Interval for Mean	Lower Bound	2.89	
		Upper Bound	3.19	
	5% Trimmed Mean		3.05	
	Median		3.00	
	Variance		.992	
	Std. Deviation		.996	
	Minimum		1	
	Maximum		5	
	Range		4	

	Interquartile Range		2	
	Skewness		-.122	.188
	Kurtosis		-.704	.374
dv21	Mean		3.49	.078
	95% Confidence Interval for Mean	Lower Bound	3.33	
		Upper Bound	3.64	
	5% Trimmed Mean		3.54	
	Median		4.00	
	Variance		1.010	
	Std. Deviation		1.005	
	Minimum		1	
	Maximum		5	
	Range		4	
	Interquartile Range		1	
	Skewness		-.769	.188
	Kurtosis		.063	.374
dv22	Mean		3.22	.077
	95% Confidence Interval for Mean	Lower Bound	3.06	
		Upper Bound	3.37	
	5% Trimmed Mean		3.23	
	Median		4.00	
	Variance		.977	
	Std. Deviation		.989	
	Minimum		1	
	Maximum		5	
	Range		4	
	Interquartile Range		2	
	Skewness		-.370	.188
	Kurtosis		-1.127	.374

dv23	Mean		3.47	.069
	95% Confidence Interval for Mean	Lower Bound	3.33	
		Upper Bound	3.60	
	5% Trimmed Mean		3.46	
	Median		4.00	
	Variance		.793	
	Std. Deviation		.890	
	Minimum		2	
	Maximum		5	
	Range		3	
	Interquartile Range		1	
	Skewness		-.599	.188
	Kurtosis		-.814	.374
dv24	Mean		3.43	.083
	95% Confidence Interval for Mean	Lower Bound	3.27	
		Upper Bound	3.60	
	5% Trimmed Mean		3.48	
	Median		4.00	
	Variance		1.162	
	Std. Deviation		1.078	
	Minimum		1	
	Maximum		5	
	Range		4	
	Interquartile Range		2	
	Skewness		-.725	.188
	Kurtosis		-.467	.374
dv25	Mean		3.80	.062
	95% Confidence Interval for Mean	Lower Bound	3.68	
		Upper Bound	3.92	

	5% Trimmed Mean		3.84	
	Median		4.00	
	Variance		.641	
	Std. Deviation		.801	
	Minimum		1	
	Maximum		5	
	Range		4	
	Interquartile Range		1	
	Skewness		-.695	.188
	Kurtosis		.672	.374
dv31	Mean		3.28	.078
	95% Confidence Interval for Mean	Lower Bound	3.13	
		Upper Bound	3.44	
	5% Trimmed Mean		3.27	
	Median		3.00	
	Variance		1.011	
	Std. Deviation		1.005	
	Minimum		1	
	Maximum		5	
	Range		4	
	Interquartile Range		2	
	Skewness		-.050	.188
	Kurtosis		-.990	.374
dv32	Mean		3.33	.082
	95% Confidence Interval for Mean	Lower Bound	3.17	
		Upper Bound	3.49	
	5% Trimmed Mean		3.35	
	Median		4.00	
	Variance		1.126	

	Std. Deviation		1.061	
	Minimum		1	
	Maximum		5	
	Range		4	
	Interquartile Range		2	
	Skewness		-.294	.188
	Kurtosis		-.801	.374
dv33	Mean		3.26	.083
	95% Confidence Interval for Mean	Lower Bound	3.10	
		Upper Bound	3.43	
	5% Trimmed Mean		3.26	
	Median		4.00	
	Variance		1.147	
	Std. Deviation		1.071	
	Minimum		1	
	Maximum		5	
	Range		4	
	Interquartile Range		2	
	Skewness		-.216	.188
	Kurtosis		-1.176	.374
dv34	Mean		3.32	.072
	95% Confidence Interval for Mean	Lower Bound	3.18	
		Upper Bound	3.47	
	5% Trimmed Mean		3.33	
	Median		4.00	
	Variance		.871	
	Std. Deviation		.933	
	Minimum		1	
	Maximum		5	

	Range		4	
	Interquartile Range		1	
	Skewness		-.464	.188
	Kurtosis		-.538	.374
dv35	Mean		3.43	.080
	95% Confidence Interval for Mean	Lower Bound	3.27	
		Upper Bound	3.58	
	5% Trimmed Mean		3.45	
	Median		4.00	
	Variance		1.077	
	Std. Deviation		1.038	
	Minimum		1	
	Maximum		5	
	Range		4	
	Interquartile Range		1	
	Skewness		-.403	.188
	Kurtosis		-.647	.374

Source- Author's own compilation

As per the criteria, since the value of skewness and kurtosis values are between designated parameters, all 3 dependent variables are normal. Normal distributions make mean-based test results a lot more accurate since parametric tests assume normality.

4.2 Reliability Test (Cronbach's Alpha)

Reliability testing using Cronbach's Alpha assesses the internal consistency of a survey or questionnaire, ensuring that multiple items measuring the same construct produce consistent results. Cronbach's Alpha values range from 0 to 1, with higher values indicating greater reliability.

Table 4.3 - Change in Tax

Reliability Test

	N	%
Valid	167	100.0
Cases Excluded[a]	0	.0

Total	167	100.0

Reliability Statistics

Cronbach's Alpha	N of Items
.752	5

Table 4.4 – Reliability Test for Participation in stock market

Case Processing Summary

	N	%
Valid	167	100.0
Cases Excluded[a]	0	.0
Total	167	100.0

Reliability Statistics

Cronbach's Alpha	N of Items
.755	5

Table 4.5 - -Reliability Test for Investment Holding Period

Case Processing Summary

	N	%
Valid	167	100.0
Cases Excluded[a]	0	.0
Total	167	100.0

Reliability Statistics

Cronbach's Alpha	N of Items
.756	5

Table 4.6 – Reliability Test for Shift in Asset Preference

Case Processing Summary

	N	%
Valid	167	100.0

Cases Excluded[a]	0	.0
Total	167	100.0

Reliability Statistics

Cronbach's Alpha	N of Items
.825	5

Since the Cronbach's Alpha for the independent and dependent variables clear the 0.7 cutoff, each variable is reliable. This means that the answers given by the sample are consistent. A Cronbach's Alpha value above the cutoff range Reliability increases the credibility of study as responses accurately mirror investor behaviour.

4.3 Other Descriptive Statistics -

	N	Minimum	Maximum	Mean	Std. Deviation	Skewness		Kurtosis	
	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Std. Error
iv1	167	1	5	3.71	.873	-.543	.188	-.041	.374
iv2	167	1	5	3.84	.871	-.798	.188	.435	.374
iv3	167	1	5	3.80	.889	-.787	.188	.745	.374
iv4	167	2	5	3.75	.874	-.593	.188	-.207	.374
iv5	167	1	5	3.54	1.096	-.364	.188	-.945	.374
dv11	167	1	5	3.50	.924	-.687	.188	-.011	.374
dv12	167	1	4	3.33	.802	-.951	.188	.073	.374
dv13	167	1	5	3.17	1.112	-.364	.188	-.596	.374
dv14	167	1	5	3.41	.933	-.374	.188	-.231	.374
dv15	167	1	5	3.04	.996	-.122	.188	-.704	.374
dv21	167	1	5	3.49	1.005	-.769	.188	.063	.374
dv22	167	1	5	3.22	.989	-.370	.188	-1.127	.374
dv23	167	2	5	3.47	.890	-.599	.188	-.814	.374
dv24	167	1	5	3.43	1.078	-.725	.188	-.467	.374
dv25	167	1	5	3.80	.801	-.695	.188	.672	.374
dv31	167	1	5	3.28	1.005	-.050	.188	-.990	.374

dv32	167	1	5	3.33	1.061	-.294	.188	-.801	.374
dv33	167	1	5	3.26	1.071	-.216	.188	-1.176	.374
dv34	167	1	5	3.32	.933	-.464	.188	-.538	.374
dv35	167	1	5	3.43	1.038	-.403	.188	-.647	.374
Valid N (listwise)	167								

The mean values for independents variable (IVs) were from 3.54. to 3.84 on the Likert scale which means that the respondents agreed moderately to high for the Likert scale. Correspondingly, the dependent variables' (DVs) mean values vary from 3.04–3.80 having a moderate response pattern. The value with the lowest mean value (3.04 for DV15) means that the respondents tend to take a relatively neutral standpoint, and the value with the highest mean value (3.84 for IV2) shows that the respondents are prone to agree on this topic. The standard deviation (SD) values, mostly between 0.8 and 1.1, indicate a moderate spread in responses. A higher SD suggests greater variability in responses, meaning participants had more diverse opinions. A negative skew means that responses tend to cluster more towards the higher end of the scale, with fewer responses on the lower end. The most negatively skewed variable is DV12 (-0.951), indicating that respondents were more likely to select higher values, while DV31 (-0.050) is the closest to a symmetrical distribution. Although skewness is present, all values remain within an acceptable range (±1), meaning the deviation from normality is not extreme. Kurtosis varies from -1.176 to 0.745, which shows that most distributions are fairly normal, but a fair mixture of skewed on the side of the flatter and skewed on the side of the peaked distributions. A key indicator of normality is whether skewness falls within ±1 and kurtosis within ±2, both of which hold true for this dataset. This suggests that the data is approximately normally distributed, making it suitable for most parametric statistical analyses.

1) Retail Investor Participation

H_0 (Null Hypothesis): Changes in tax policy do not significantly affect retail investor participation in the stock market.

H_1 (Alternative Hypothesis): Changes in tax policy significantly impact retail investor participation in the stock market.

Table 4.8 – Correlation Test – Change in Tax and Retail Investor Participation in stock market

		iv1	iv2	iv3	iv4	iv5	dv11	dv12	dv13	dv14	dv15
iv1	Pearson Correlation	1	.628**	.582**	.576**	.091	.279**	.345**	.045	.201**	-.013
	Sig. (2-tailed)		.000	.000	.000	.244	.000	.000	.566	.009	.863
	N	167	167	167	167	167	167	167	167	167	167
iv2	Pearson Correlation	.628**	1	.535**	.471**	.303**	.224**	.238**	.027	.087	-.138
	Sig. (2-tailed)	.000		.000	.000	.000	.004	.002	.728	.263	.075

	N	167	167	167	167	167	167	167	167	167	167
iv3	Pearson Correlation	.582**	.535**	1	.346**	.126	.307**	.137	-.081	.124	-.201**
	Sig. (2-tailed)	.000	.000		.000	.106	.000	.078	.298	.111	.009
	N	167	167	167	167	167	167	167	167	167	167
iv4	Pearson Correlation	.576**	.471**	.346**	1	.334**	.428**	.468**	.334**	.568**	.212**
	Sig. (2-tailed)	.000	.000	.000		.000	.000	.000	.000	.000	.006
	N	167	167	167	167	167	167	167	167	167	167
iv5	Pearson Correlation	.091	.303**	.126	.334**	1	.174*	.448**	.296**	.382**	.354**
	Sig. (2-tailed)	.244	.000	.106	.000		.024	.000	.000	.000	.000
	N	167	167	167	167	167	167	167	167	167	167
dv11	Pearson Correlation	.279**	.224**	.307**	.428**	.174*	1	.209**	.124	.396**	.141
	Sig. (2-tailed)	.000	.004	.000	.000	.024		.007	.112	.000	.069
	N	167	167	167	167	167	167	167	167	167	167
dv12	Pearson Correlation	.345**	.238**	.137	.468**	.448**	.209**	1	.545**	.509**	.480**
	Sig. (2-tailed)	.000	.002	.078	.000	.000	.007		.000	.000	.000
	N	167	167	167	167	167	167	167	167	167	167
dv13	Pearson Correlation	.045	.027	-.081	.334**	.296**	.124	.545**	1	.722**	.331**
	Sig. (2-tailed)	.566	.728	.298	.000	.000	.112	.000		.000	.000
	N	167	167	167	167	167	167	167	167	167	167
dv14	Pearson Correlation	.201**	.087	.124	.568**	.382**	.396**	.509**	.722**	1	.409**
	Sig. (2-tailed)	.009	.263	.111	.000	.000	.000	.000	.000		.000
	N	167	167	167	167	167	167	167	167	167	167
dv15	Pearson Correlation	-.013	-.138	-.201**	.212**	.354**	.141	.480**	.331**	.409**	1
	Sig. (2-tailed)	.863	.075	.009	.006	.000	.069	.000	.000	.000	

	N	167	167	167	167	167	167	167	167	167	167

The highest positive correlations are: iv4 (Change in Tax Structure) and dv14 (.568) – A strong relation between iv4 and dv14, as change in tax structure seem to motivate individuals to participate. Tax related factors and stock market involvement have a moderate correlation; iv5 and dv12 (.448). A significant positive correlation suggests that as tax policy changes, participation in stock markets increases or decreases accordingly.

Table 4.9 – Regression Test – Change in Tax and Retail Investor Participation in stock market

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.406[a]	.165	.160	.624

a. Predictors: (Constant), iv

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.715	.280		6.129	.000
	iv	.422	.074	.406	5.714	.000

a. Dependent Variable: dv1

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	12.722	1	12.722	32.652	.000[b]
	Residual	64.290	165	.390		
	Total	77.013	166			

a. Dependent Variable: dv1
b. Predictors: (Constant), iv

The **correlation** analysis shows a significant positive correlation between changes in tax policy and retail investor participation in the stock market. This suggests that changes in tax policy influence investor behavior. This is further supported by an R^2 value of 0.165 which implies that the independent variable, or tax policy change, explains 16.5% of the variation in market participation. Since the p value is 0.000, we can confirm the model's statistical significance and the estimate is Beta 0.422 which indicate a moderate positive relationship between changes in tax policy and market participation. Given these findings, we **reject** the null hypothesis and accept alternative hypothesis.

Hypothesis 2

2) Investment Holding Period

H_0: Changes in tax policy do not influence the investment holding period of retail investors.

H_1: Changes in tax policy significantly affect the investment holding period of retail investors.

Table 4.10 - Correlation Test – Change in Tax and Investment Holding Period

		iv1	iv2	iv3	iv4	iv5	dv21	dv22	dv23	dv24	dv25
iv1	Pearson Correlation	1	.628**	.582**	.576**	.091	.170*	.395**	.386**	.129	.244**
	Sig. (2-tailed)		.000	.000	.000	.244	.028	.000	.000	.097	.001
	N	167	167	167	167	167	167	167	167	167	167
iv2	Pearson Correlation	.628**	1	.535**	.471**	.303**	.224**	.067	.289**	.091	.232**
	Sig. (2-tailed)	.000		.000	.000	.000	.004	.388	.000	.241	.003
	N	167	167	167	167	167	167	167	167	167	167
iv3	Pearson Correlation	.582**	.535**	1	.346**	.126	.179*	.318**	.494**	.476**	.544**
	Sig. (2-tailed)	.000	.000		.000	.106	.021	.000	.000	.000	.000
	N	167	167	167	167	167	167	167	167	167	167
iv4	Pearson Correlation	.576**	.471**	.346**	1	.334**	.314**	.431**	.458**	.241**	.352**
	Sig. (2-tailed)	.000	.000	.000		.000	.000	.000	.000	.002	.000
	N	167	167	167	167	167	167	167	167	167	167
iv5	Pearson Correlation	.091	.303**	.126	.334**	1	.073	.120	.352**	.057	.321**
	Sig. (2-tailed)	.244	.000	.106	.000		.349	.122	.000	.464	.000
	N	167	167	167	167	167	167	167	167	167	167
dv21	Pearson Correlation	.170*	.224**	.179*	.314**	.073	1	.385**	.365**	.223**	.067
	Sig. (2-tailed)	.028	.004	.021	.000	.349		.000	.000	.004	.387
	N	167	167	167	167	167	167	167	167	167	167
dv22	Pearson Correlation	.395**	.067	.318**	.431**	.120	.385**	1	.556**	.285**	.244**
	Sig. (2-tailed)	.000	.388	.000	.000	.122	.000		.000	.000	.001
	N	167	167	167	167	167	167	167	167	167	167
dv23	Pearson Correlation	.386**	.289**	.494**	.458**	.352**	.365**	.556**	1	.567**	.536**
	Sig. (2-tailed)	.000	.000	.000	.000	.000	.000	.000		.000	.000
	N	167	167	167	167	167	167	167	167	167	167
dv24	Pearson Correlation	.129	.091	.476**	.241**	.057	.223**	.285**	.567**	1	.685**

	Sig. (2-tailed)	.097	.241	.000	.002	.464	.004	.000	.000		.000
	N	167	167	167	167	167	167	167	167	167	167
dv25	Pearson Correlation	.244**	.232**	.544**	.352**	.321**	.067	.244**	.536**	.685**	1
	Sig. (2-tailed)	.001	.003	.000	.000	.000	.387	.001	.000	.000	
	N	167	167	167	167	167	167	167	167	167	167

Table 4.11 - Regression Test – Change in Tax and Investment Holding Period

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.525[a]	.276	.271	.582

a. Predictors: (Constant), iv

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	21.249	1	21.249	62.837	.000[b]
	Residual	55.796	165	.338		
	Total	77.045	166			

a. Dependent Variable: dv2
b. Predictors: (Constant), iv

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta	t	Sig.
1	(Constant)	1.445	.261		5.543	.000
	iv	.546	.069	.525	7.927	.000

a. Dependent Variable: dv2

The correlation analysis indicates a positive relationship between changes in tax policy and the investment holding period, thus, changes in tax policy tend to have positive impact on the length of the investment holding period. The analysis shows a significant relationship between changes in tax policy and the investment holding period for retail investors. The R-squared value of 0.276 indicates that tax policy changes explain 27.6% of the variation in the investment holding period, suggesting moderate predictive power. The ANOVA and p-value (0.000) further confirm

the statistical significance of the model, meaning tax policy changes significantly impact the investment holding period. Given these findings, we **reject** the null hypothesis and accept alternative hypothesis.

Hypothesis 3

H_0: There is no significant shift in asset preferences (equity to other asset classes) among retail investors due to changes in tax policy.

H_1: Changes in tax policy led to a significant shift in asset preferences among retail investors.

Table 4.12 - Correlation Test – Change in Tax and Shift in Asset Preference

		iv1	iv2	iv3	iv4	iv5	dv31	dv32	dv33	dv34	dv35
iv1	Pearson Correlation	1	.628**	.582**	.576**	.091	-.187*	-.006	.102	.147	.138
	Sig. (2-tailed)		.000	.000	.000	.244	.016	.943	.188	.059	.074
	N	167	167	167	167	167	167	167	167	167	167
iv2	Pearson Correlation	.628**	1	.535**	.471**	.303**	-.184*	.062	.089	-.138	-.160*
	Sig. (2-tailed)	.000		.000	.000	.000	.018	.424	.250	.076	.039
	N	167	167	167	167	167	167	167	167	167	167
iv3	Pearson Correlation	.582**	.535**	1	.346**	.126	-.111	.078	.126	.167*	.023
	Sig. (2-tailed)	.000	.000		.000	.106	.154	.317	.104	.031	.772
	N	167	167	167	167	167	167	167	167	167	167
iv4	Pearson Correlation	.576**	.471**	.346**	1	.334**	-.037	.042	.359**	.120	.129
	Sig. (2-tailed)	.000	.000	.000		.000	.631	.588	.000	.122	.097
	N	167	167	167	167	167	167	167	167	167	167
iv5	Pearson Correlation	.091	.303**	.126	.334**	1	.375**	.525**	.520**	.259**	.232**
	Sig. (2-tailed)	.244	.000	.106	.000		.000	.000	.000	.001	.003
	N	167	167	167	167	167	167	167	167	167	167
dv31	Pearson Correlation	-.187*	-.184*	-.111	-.037	.375**	1	.664**	.457**	.403**	.479**
	Sig. (2-tailed)	.016	.018	.154	.631	.000		.000	.000	.000	.000
	N	167	167	167	167	167	167	167	167	167	167
dv32	Pearson Correlation	-.006	.062	.078	.042	.525**	.664**	1	.639**	.336**	.419**
	Sig. (2-tailed)	.943	.424	.317	.588	.000	.000		.000	.000	.000
	N	167	167	167	167	167	167	167	167	167	167
dv33	Pearson Correlation	.102	.089	.126	.359**	.520**	.457**	.639**	1	.318**	.430**

	Sig. (2-tailed)	.188	.250	.104	.000	.000	.000	.000		.000	.000
	N	167	167	167	167	167	167	167	167	167	167
dv34	Pearson Correlation	.147	-.138	.167*	.120	.259**	.403**	.336**	.318**	1	.709**
	Sig. (2-tailed)	.059	.076	.031	.122	.001	.000	.000	.000		.000
	N	167	167	167	167	167	167	167	167	167	167
dv35	Pearson Correlation	.138	-.160*	.023	.129	.232**	.479**	.419**	.430**	.709**	1
	Sig. (2-tailed)	.074	.039	.772	.097	.003	.000	.000	.000	.000	
	N	167	167	167	167	167	167	167	167	167	167

Table 4.13 - Regression Test – Change in Tax and Shift in Asset Preference

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.223[a]	.050	.044	.767

a. Predictors: (Constant), iv

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	5.092	1	5.092	8.652	.004[b]
	Residual	97.117	165	.589		
	Total	102.209	166			

a. Dependent Variable: dv3
b. Predictors: (Constant), iv

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.328	.344		6.770	.000
	iv	.267	.091	.223	2.941	.004

a. Dependent Variable: dv3

Change in tax policy is reflected in a shift towards gold, debt instruments, mutual funds, and stocks by seeing in several significant positive correlations. However, a negative relationship of tax changes with returns on assets

implies that tax changes might discourage investing in assets including real estate. This conclusion supported by the regression analysis. Although $R^2 = 0.050$, the model is statistically significant (p-value = 0.004), and the Beta coefficient of 0.223 is positive with a modest relationship. It implies that retail investors do react to changes in such tax policy and make a meaningful shift in the assets they prefer. We thus do not accept the null hypothesis.

Given these findings, we reject the null hypothesis and accept alternative hypothesis.

Table 4.14 - ANOVA Test – Shift in Asset Preference

		Sum of Squares	Df	Mean Square	F	Sig.
dv31	Between Groups	53.592	13	4.122	5.524	.000
	Within Groups	114.181	153	.746		
	Total	167.772	166			
dv32	Between Groups	48.115	13	3.701	4.081	.000
	Within Groups	138.771	153	.907		
	Total	186.886	166			
dv33	Between Groups	95.622	13	7.356	11.873	.000
	Within Groups	94.785	153	.620		
	Total	190.407	166			

The results reveal that those groups differ significantly (by tax policy perceptions) in the shift of asset preference. The p-value (0.000) < 0.05, hence the null hypothesis is rejected. The value of the F-statistic; F = 5.524 leads to the conclusion that the variance between groups is considerably greater than the variance within groups. In the case of alternative/traditional assets also, there is a significant difference between the groups. The value of p is 0.000 is smaller than one in a thin double line, or cannot be read as p = 0.000 as such the independent variable (tax policy perceptions) has a significant effect on the shift in asset preference for dv32. This result is further confirmed by the F Statistic of 4.081. Tax-efficient mutual funds or index funds also contains a statistically significant effect of the independent variable on the dependent variable (shift changes in the assets preference). Tax policy changes have a very strong effect on tax-efficient mutual funds or index funds, as the p-value = 0.000 is far below 0.05 and F-statistic = 11.873 is quite high. In conclusion, all three null hypotheses are rejected and the alternative hypothesis are accepted.

5- Conclusion

The present study analyses the effect of tax policy changes on retail investors' behavior in India focusing on participation in the stock market, the holding period of their investment and switching in their assets preferences in case of change in tax regime. By performing a thorough analysis through correlation, regression and ANOVA tests, the conclusion is that changes in Tax policy do affect the Investor behavior. Findings indicate that both increased tax rates who inclined retail investors to participate more and to engage in longer holding periods and due to elevated tax rates, retail investors to prefer tax golf investments, tilting the results to investments exposed to indirect tax hikes.

The independent variable explains the variation moderately but the statistical significance and positive correlations lead to the rejection of the null hypothesis and support of alternative hypotheses. The implications can bring significant implication to the policymakers, specifically, the understanding of the effects of tax reforms on retail investors can inform policymakers to implement policies that will push towards particular investment pattern, market participation and diversification of the portfolio of the investors in a sustainable manner.

Lastly, the paper states the way of how a future research could be accomplished in terms of sectoral analysis, behavioral impact on investment decisions, country comparison, and long-term effects of tax change. Future investigators could replicate this analysis using other policy changes and investigate firms' investment behaviour in different sectors. Focusing on a sector-by-sector basis could give more targeted insights to policymakers in order for them to implement industry specific taxes that would encourage investment without disturbing the markets.

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