Firstly, we will understand what is capital gain then we will discuss the effect of capital gain tax.

Capital gain is basically the profit earned by selling the capital assets. By capital assets, we mean the stocks, bonds, Gold, Real estate etc.

For example - Suppose that today you purchase 100 shares at the price Rs. 100. After one year the price of share goes up to Rs. 120 then the capital gain after one year earned by you = 12000 - 10000

= Rs. 2000.

Now what will happen if tax is imposed on the capital gain?

So, suppose that if no tax is not taken on your capital gain of Rs. 2000. Then, either you invest this amount of Rs. 2000 in other capital assets or you may save in the bank to minimize risks.

Hence, imposition of tax on the capital gain can reduce both savings and investment.