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Union Budget 2026 Hikes Securities Transaction Tax (STT) on F&O: Key Changes and Impacts

Securities Transaction Tax (STT) is a direct tax levied on every purchase and sale of securities listed on stock exchanges. Collected at source by the exchanges, it ensures tax compliance and curbs excessive speculation. STT applies to equities, futures & options (F&O) contracts, and equity-oriented mutual funds. Originally introduced when Long-Term Capital Gains (LTCG) tax was zero, it now coexists with both LTCG and Short-Term Capital Gains (STCG) taxes.

The **Union Budget 2026** proposes significant STT rate hikes on F&O, effective for all trades on or after April 1, 2026.

- STT on futures was changed to 0.05% from 0.02% which is a 150% increase.

- STT on options premium and exercised options has been increased to 0.15% from 0.10% and 0.125% respectively.

Instrument	Transaction Type	Existing STT	Revised STT	Change %
Futures	Sale of Futures	0.02%	0.05%	150%
Options	Sale of options (premium)	0.10%	0.15%	50%
Options	Sale of options (exercised)	0.125%	0.15%	20%

These hikes will raise trading costs significantly for F&O participants.

Futures Example

A trader with a futures contract value of ₹18,00,000 now pays ₹900 in STT (up from ₹360). This can be understood with the below table for futures:

Futures Trading Cost Analysis

Particulars	Before	After
Contract Value	Rs. 18,00,000	Rs. 18,00,000
STT Rate	0.02%	0.05%
STT Paid	Rs. 360	Rs. 900

Options Buyer Example

Buying 1 lot of Nifty options (lot size: 65) at a ₹100 premium:

- Total premium value: ₹100 × 65 = ₹6,500

- Old STT (0.10%): ₹6.50

- New STT (0.15%): ₹9.75 (Extra ₹3.25 per lot)

For a ₹300 premium, the extra cost rises from ₹19.5 to ₹29.75, (₹9.75 per lot).

Scenario	Pre-2026 STT	Post-2026 STT
Premium: ₹6500	₹6.5	₹9.75 (+50%)
Nifty ITM Exercise (Intrinsic: ₹10,000)	₹12.50	₹15 (+20%)

Government Rationale and Policy Objectives

- Curb Excessive Speculation: Revenue Secretary Arvind Shrivastava explained that F&O turnover is disproportionately high compared to the GDP, indicating a high level of speculation. Therefore, the increase in the Securities Transaction Tax (STT) on Futures and Options is a strategic measure to curb speculative activity, in which retail investors often lose money.

- Investor Protection: SEBI data shows 91% of retail F&O traders lost money in FY25, amid surging index options participation.

- Revenue Generation: Targets ₹63,700 crore in FY26 and ₹73,700 crore in FY27 (current collections: Approx ₹48,000 crore till Jan 2026).

- Shift to Cash Markets: Higher F&O costs aim to redirect retail flows to long-term equity investments, boosting capital formation.

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