

Berkshire owes \$48 billion in tax it has not paid. That is the point

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Maxim: *Unpaid capital-gains tax is an interest-free loan — let it compound — after Warren Buffett, Berkshire Hathaway shareholder letter (1989)*

Every time you sell a winner, you repay a loan the government never asked you to return. As Delhi debates the tax on long-term gains, Buffett's 1989 arithmetic is worth relearning.

The cheapest money most investors will ever borrow is the tax they have not yet paid.

This month that idea is suddenly live in Delhi. On 13 October, Finance Minister Nirmala Sitharaman told the Bloomberg New Economy Forum that long-term capital gains tax was something “a lot of people are commenting on, both Indian and foreign investors”, and said the government would hear views during Budget consultations, [according to a Bloomberg report](#). She announced nothing. A day earlier SBI Research had suggested lengthening the holding period to two or three years and abolishing the tax on long-term equity gains, [the Free Press Journal reported](#).

Whatever the next Budget decides, the rule that already works in every patient investor's favour is older and quieter. Warren Buffett explained it in his 1989 letter to Berkshire Hathaway shareholders, and it is worth understanding before you next press sell on a winner.

The loan nobody asks you to repay

At the end of 1989 Berkshire would have owed more than \$1.1 billion in tax had it sold everything it owned. Buffett did not treat that as a burden. In [that year's letter](#) he said the liability resembled “an interest-free loan from the U.S. Treasury that comes due only at our election”.

His illustration is still the clearest lesson in compounding most investors will meet. Take one dollar that doubles every year for twenty years. If you sell, pay a 34% tax and reinvest each year, you end with about \$25,250. If instead one investment doubles twenty times and you pay the tax once at the end, you keep about \$692,000. Same returns, same tax rate. The only difference is when the tax is paid, because money you have not yet handed over keeps earning on itself.

Thirty-six years later the loan has grown with the portfolio. Berkshire's deferred tax liability on its investments stood at about \$48.4 billion at the end of 2025, [its annual filing with the US Securities and Exchange Commission](#) shows. That is not a sign of trouble. It is the shadow of gains the company has chosen not to cash.

Buffett was careful not to oversell the point. In the same letter he wrote that the arithmetic was not why Berkshire held for the long term; he held because he liked the businesses and the people running them. The tax loan was the reward for patience, not the reason for it.

The same loan, on Indian terms

Indian investors are offered the same loan on slightly different terms. Since the July 2024 Budget, gains on listed shares and equity funds held for more than a year are taxed at 12.5% above an exemption of ₹1.25 lakh a year, and gains made within a year at 20%, as the [Budget speech](#) set out. The new Income-tax Act that took effect this April keeps the 12.5% rate, [the Income Tax Department's notes on Section 198](#) show.

Where you hold an investment matters more than most people realise. A mutual fund can buy and sell inside its portfolio all year, and its investors owe nothing until they redeem or switch. A portfolio management service (PMS) account works differently: every sale inside it is the client's own taxable gain. "Churn does not get taxed in case of MFs, but it gets taxed in PMS schemes," Saurabh Mukherjea told [Business Standard](#) after the 2024 rate rise. Anyone who trades actively in their own demat account is in the PMS position, repaying the loan every time they book a profit.

India's fund investors seem to be splitting into two camps. The share of mutual fund assets held for more than five years rose from 7.7% in March 2021 to 19.2% in March 2026, the [AMFI-Crisil Factbook 2026](#) shows. Yet among women investors the share held for less than a year also rose, from 11% to 24%, alongside a jump in money held for five years or more. The patient are borrowing from the taxman at zero interest. The restless keep paying it back early.

The pattern is not only Indian. In Rob Arnott's long-running research on American funds, 15 of 71 funds beat the index before tax and only nine after it, [he wrote in 2018](#).

When paying early is the right call

The loan has conditions, and honesty requires spelling them out. Deferring tax is a quiet bet that rates will not rise. India raised the long-term rate from 10% to 12.5% in 2024, which made every gain deferred before then a little more expensive. Buffett himself sold part of Berkshire's Apple stake in 2024 and told shareholders he expected higher taxes, [Bloomberg reported](#). And a deferred tax is not a cancelled one. India does not reset the cost when shares are inherited; the heir takes over the original purchase price, and the bill with it.

Five questions before you book a profit

1. **Has the reason I bought it changed?** If the business or the fund is still doing what you bought it for, selling only to "lock in" a gain repays the loan early and buys you nothing.
2. **Is the selling inside a fund, or in my own account?** A fund manager's trades are tax-free to you. Switching between schemes, even within one fund house, counts as a sale, and in a PMS or demat account every sale is yours.
3. **Have I used this year's ₹1.25 lakh exemption?** Booking long-term gains up to that limit and reinvesting raises your cost without any tax. It is the one kind of churn that pays.
4. **Has it been a full year?** Selling a few weeks before the one-year mark turns a 12.5% tax into 20% and forfeits the exemption on that gain.
5. **Am I moving to something better, or just something different?** Buffett called this a transfer tax on moving between assets. The new holding has to beat the old one by more than the tax you pay to make the switch.

The rule to keep: sell when your reason for owning has broken or your plan says rebalance, and let the tax follow that decision rather than drive it. Never sell a working investment just to see the gain in your bank account. When you do sell, check the calendar and this year's exemption first, and remember that the loan never disappears; it only waits for you, or for your heirs.

Berkshire's \$48 billion is the most famous unpaid tax bill in investing, and it was built one decision at a time, each of them a decision not to sell. Few Indian investors will ever owe a fraction of it, but the arithmetic works at every size. Whatever the next Budget does to the tax on long-term gains, the loan is already on offer. The only way to take it is to sit still.

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