

Tax Regime Specific to Mutual Fund Investors in India

Applicable for the Financial Year 2021-22 subject to enactment of the Finance Bill, 2021

I. Tax Rates for Mutual Fund Investors

EQUITY ORIENTED FUNDS (Subject to STT³)

| Tax Status of Investor | Capital Gains Tax ¹⁰ | | Tax on Income Distributed under Dividend Option | TDS on Capital Gains ^{6,7} | TDS ^{6,7} on Income Distributed under Dividend Option |
|--|---------------------------------|-------------------|---|--|--|
| | Short Term | Long Term | | | |
| Resident Individual / HUF / AOP / BOI / Domestic Companies | 15% | 10% ¹² | At the applicable Tax slab rate | NIL | 10% ⁹ |
| NRIs ⁴ | | | | STCG - 15% LTCG - 10% ¹² | 20% ² |

OTHER THAN EQUITY ORIENTED FUNDS

| Tax Status of Investor | Capital Gains Tax ¹¹ | | Tax on Income Distributed under Dividend Option | TDS on Capital Gains ^{6,7} | TDS ^{6,7} on Income Distributed under Dividend Option |
|--|---|---|---|--|--|
| | Short Term | Long Term | | | |
| Resident Individual / HUF / AOP / BOI / Domestic Companies | At the applicable Tax slab rate | 20%* | At the applicable Tax slab rate | NIL | 10% ⁹ |
| Domestic Companies / Firms | 15% ¹³ / 22% ¹⁴ / 25% ¹⁵ / 30% | | | | |
| NRIs ⁴ | At the applicable Tax slab rate | <ul style="list-style-type: none"> • 20* (Listed Units) • 10%⁵⁵ (Unlisted Units) | At the applicable Tax slab rate | STCG - 30% LTCG - <ul style="list-style-type: none"> • 20*(Listed Units) • 10%⁵⁵(Unlisted Units)⁵ | 20% ² |

*With indexation ⁵Without indexation

Tax & TDS are subject to applicable Surcharge and Health & Education Cess at the rate of 4%. Please see the Notes below

NOTES:

1. Provided that the mutual fund units are held as capital assets.
2. Tax to be deducted at source as per section 196A of the Income tax Act, 1961 ('the Act') [plus applicable surcharge (please refer to Note 7 below), if any, and Health and Education Cess @ 4% on income-tax and surcharge].
3. Securities Transaction Tax ('STT') is applicable only in respect of sale of units of Equity-oriented funds (EOFs) on a recognised stock exchange and on repurchase (redemption) of units of EOFs by the mutual fund. STT is not applicable in respect of purchase/ sale/ redemption of units of other schemes (other than EOFs).
4. Non-resident individuals (NRI) shall be entitled to be governed by provisions of the applicable Tax Treaty, which India has entered with the country of residence of the NRI, if that is more beneficial than the provisions of the Act, subject to certain conditions. As per section 90(4) of the Act, a non-resident shall not be entitled to claim treaty benefits, unless the non-resident obtains a Tax Residency Certificate of being a resident of home country. Furthermore, as per section 90(5) of the Act, non-resident is also required to provide such other documents and information, as prescribed by CBDT, as applicable.
5. As per section 112 of the Act, long-term capital gains in case of NRIs would be taxable @ 10% on transfer of capital assets, being unlisted securities, computed without giving effect to first and second proviso to section 48 i.e., without taking benefit of foreign currency fluctuation and indexation benefit.
6. Relaxation to NRIs from deduction of tax at higher rate (except income distributed by mutual fund) in the absence of Permanent Account Number (PAN) is subject to the NRI providing specified information and documents. As per provisions of Section 206AA of the Act, if there is default on the part of a NRI (entitled to receive redemption proceeds from the Mutual Fund on which tax is deductible under Chapter XVII of the Act) to provide its PAN, the tax shall be deducted at higher of the following rates: i) rates specified in relevant provisions of the Act; or ii) rate or rates in force; or iii) rate of 20%. However, the provisions of section 206AA of the Act shall not apply, if the requirements as stated in Rule 37BC of the Income-tax Rules, 1962, are met.
7. Further, a new section i.e. 206AB has been proposed to be inserted vide Finance Bill 2021 providing for higher rate for TDS for the non-filers of income-tax return. The proposed TDS rate in this section is higher of the followings rates: i) twice the rate specified in the relevant provision of the Act; or ii) twice the rate or rates in force; or iii) the rate of five per cent. However, the said proposed provisions will not apply to a non-resident who does not have a permanent establishment in India.

8. Surcharge Rate as a percentage of Income-tax

| Tax Status | Income < ₹ 50 lakh | Income > ₹ 50 lakh but < / = ₹ 1 crore | Income > ₹ 1 crore but < / = ₹ 2 crore | Income > ₹ 2 crore but < / = ₹ 5 crore | Income > ₹ 5 crore |
|--|------------------------|--|--|--|--------------------|
| Individual / HUF/ AOP (resident & foreign)* | NIL | 10% | 15% | 25% | 37% |
| Tax Status | Income < / = ₹ 1 crore | Income > ₹ 1 crore, but < / = ₹ 10 crore | Income > ₹ 10 crore | - | - |
| Partnership Firm (Domestic / foreign) | NIL | 12% | 12% | - | - |
| Domestic company | NIL | 7% | 12% | - | - |
| Domestic company (opting for new tax regime) | NIL | 10% | 10% | - | - |
| Foreign company | NIL | 2% | 5% | - | - |

In addition, "Health and Education Cess" @ 4% shall be applicable on aggregate of base tax and surcharge.

* Enhanced surcharge rates shall not apply in case of capital gains earned under section 112A and 111A i.e. capital gains earned on sale of units of equity oriented mutual fund (which are subject to Securities Transaction Tax)

- There shall be no TDS deductible if dividend income paid / credited in respect of units of a mutual fund is below ₹ 5,000 in a financial year.
- Capital gains arising on the transfer or redemption of equity-oriented units held for a period of more than 12 months, immediately preceding the date of transfer, should be regarded as 'long-term capital gains'.
- Capital gains arising on transfer or redemption of Units of schemes other than EOF shall be regarded as long-term capital gains, if such units are held for a period of more than 36 months immediately preceding the date of such transfer.
- As per section 112A of the Act, long-term capital gains on transfer of units of EOFs exceeding ₹ 100,000 shall be taxable @10% provided transfer of such units is subject to STT, without giving effect to first and second proviso to section 48 i.e., without taking benefit of foreign currency fluctuation and indexation benefit. Further, cost of acquisition to compute long-term capital gains is to be higher of (a) Actual cost of acquisition; and (b) Lower of (i) fair market value as on 31 January 2018; and (ii) full value of consideration received upon transfer.
- The lower rate @ 15% is optional for companies engaged in manufacturing business (set-up & registered on or after 1 October 2019) subject to fulfilment of certain conditions as provided in the section 115BAB.
- If a company decides to opt for the new taxation regime as per the Taxation Law Amendment Act, 2019, then tax shall be levied at the rate of 22%. i.e., the lower rate of 22% is optional and subject to fulfilment of certain conditions as provided in section 115BAA.
- Tax shall be levied @ 25%, if the total turnover or gross receipts of the financial year does not exceed ₹ 400 crores. Further, the domestic companies are subject to minimum alternate tax (except for those who opt for lower rate of tax of 22%/15%) not specified in above tax rates.

16. Securities Transaction Tax (STT) in respect of Units of equity-oriented mutual fund Schemes

| Transaction | Rates | Payable by |
|---|--------|----------------|
| Purchase of units of equity-oriented mutual fund | Nil | Not Applicable |
| Sale of units of equity-oriented mutual fund (delivery based) | 0.001% | Seller |
| Sale of units of equity-oriented mutual fund (non-delivery based) | 0.025% | Seller |
| Sale of units of an equity-oriented fund to the Mutual Fund | 0.001% | Seller |

17. Various Categories of MF Schemes which fall under "Other than Equity Oriented Funds":

- Liquid Funds / Overnight Funds / Money Market Funds / Income Funds (Debt Funds) / Gilt Funds
- Hybrid Fund (Equity exposure < 65%)
- Gold ETFs / Bond ETF / Liquid ETF
- Fund of Funds (Domestic) other than Fund of funds as defined under the "Equity Oriented Fund" definition under section 112A of the Act.
- Fund of Funds Investing Overseas
- Infrastructure Debt Funds

II. OTHER TAX PROVISIONS

- a. Capital gains arising on Transfer of units upon consolidation of mutual fund schemes of two or more schemes of EOFs or two or more schemes of a Scheme other than EOF in accordance with SEBI (Mutual Funds) Regulations, 1996 is exempt from capital gains tax.
- b. Likewise, Capital gains arising on Transfer of units upon consolidation of Plans within a mutual fund scheme in accordance with SEBI (Mutual Funds) Regulations, 1996 is exempt from capital gains tax.
- c. Currently, switching units of mutual fund within the same scheme from Growth Plan to Dividend Plan and vice-versa is subject to capital gains tax.
- d. Creation of segregated portfolio: SEBI has permitted creation of segregated portfolio of debt and money market instruments by mutual fund schemes in certain situations. As per the said SEBI circular, all existing unit holders in the affected mutual fund scheme as on the date of the credit event shall be allotted equal number of units in the segregated portfolio as held in the main portfolio. As per sub-sections (2AG) and (2AH) to Section 49 of the Act, cost of acquisition of a unit or units in a segregated portfolio shall be the amount which bears to the cost of acquisition of a unit or units held by the assessee in the total portfolio in the same proportion as the net asset value of the asset transferred to the segregated portfolio bears to the net asset value of the total portfolio immediately before the segregation of portfolios. Further, the cost of acquisition of the original units held by the unit holder in the main portfolio shall be reduced by the amount as arrived for the units of segregated portfolio.
- e. An Equity Oriented Mutual Fund has been defined in section 112A of the Act. As per the said definition, a fund of fund scheme structure shall be treated as an Equity Oriented Fund if:
- a minimum of ninety per cent of the total proceeds of such fund is invested in the units of such other fund; and
 - such other fund also invests a minimum of ninety per cent of its total proceeds in the equity shares of domestic companies listed on a recognised stock exchange.
- Thus, if a fund invests in units of other funds and fulfils the aforementioned criteria, then it shall be regarded as Equity Oriented Fund. However, if the aforementioned conditions are not fulfilled, then the same shall be regarded as other than Equity Oriented Fund and subjected to the same tax treatment as applicable to a non-equity-oriented fund.
- f. Bonus Stripping: As per Section 94(8), the loss due to sale of original units in the schemes, where bonus units are issued, will not be available for set off; if original units are: (A) bought within three months prior to the record date fixed for allotment of bonus units; and (B) sold within nine months after the record date fixed for allotment of bonus units. However, the amount of loss so ignored shall be deemed to be the cost of purchase or acquisition of such unsold bonus units held on the date of transfer of original units.

III. INCOME TAX RATES FOR INDIVIDUAL / HUF / AOP/ BOI

Existing tax rates

| Total Income | Up to ₹ 2,50,000 ^{(a) (b) (d)} | ₹ 2,50,001 to ₹ 500,000 | ₹ 5,00,001 to ₹ 10,00,000 | ₹ 10,00,001 and above |
|--------------------------|---|-------------------------|---------------------------|-----------------------|
| Tax Rates ^(c) | NIL | 5% | 20% | 30% |

Tax Rates as per New Tax Regime^e

| Total Income | Up to ₹ 2,50,000 ^(a) | ₹ 2,50,001 to ₹ 500,000 | ₹ 5,00,001 to ₹ 7,50,000 | ₹ 7,50,001 to ₹ 10,00,000 | ₹ 10,00,001 to ₹ 12,50,000 | ₹ 12,50,001 to ₹ 15,00,000 | ₹ 15,00,000 and above |
|--------------------------|---------------------------------|-------------------------|--------------------------|---------------------------|----------------------------|----------------------------|-----------------------|
| Tax Rates ^(c) | NIL | 5% | 10% | 15% | 20% | 25% | 30% |

- a) In the case of a resident individual of the age of 60 years or more, but less than 80 years, the basic exemption limit is ₹ 300,000.
- b) In the case of a resident individual of the age of 80 years or more, the basic exemption limit is ₹ 500,000.
- c) Plus, surcharge on income-tax, as applicable (Health and Education cess is applicable at the rate of 4% on income-tax and surcharge.)
- d) Rebate of upto ₹ 12,500 available for resident individuals whose total income does not exceed ₹ 500,000.
- e) Under section 115BAC, an option has been provided to pay tax at the above tax rates subject to the condition that certain exemptions/ losses/ deductions cannot be claimed. In case, the taxpayer intends to claim deductions/ exemptions, the existing tax rates and slabs will continue to apply.
- f) Individuals having total income not exceeding ₹ 500,000 can avail rebate of lower of actual tax liability or ₹ 12,500.

Risk Factors & Disclaimer

MUTUAL FUND INVESTMENTS ARE SUBJECT TO MARKET RISKS, READ ALL SCHEME RELATED DOCUMENTS CAREFULLY.

The above information is provided for basic guidance for investments in mutual funds and is based on provisions of the Income-tax Act, 1961, as sought to be amended by the Finance Bill, 2021. All rates and figures appearing are for illustrative purposes only. Tax benefits are subject to change in tax laws. Contents of this note have been drawn for informative purpose only and it is neither a complete disclosure of every material fact of Income-tax Act, 1961 nor does it constitute tax or legal advice. This is not an offer to sell or a solicitation to buy any mutual fund units / securities or to have business relations with Union Asset Management Company Private Limited (the AMC)/ Union Trustee Company Private Limited (the Trustee Company) or any of its associates. The above information is neither designed nor intended to be a substitute for professional tax advice. Investors should be aware that the fiscal rules/ tax laws may change and there can be no guarantee that the current tax position may continue indefinitely. **In view of the individual nature of the tax consequences, investors are requested to consult their own professional tax advisor before investing.** The above information alone is not sufficient and should not be used for the development or implementation of an investment strategy. Investors alone shall be fully responsible / liable for any decision taken on the basis of the above information. The Sponsors/the AMC/ the Trustee Company/ their associates/ any person connected with it, do not warrant the completeness or accuracy of the information and disclaim all liabilities, losses and damages arising out of the use of this information. The Investors should rely on their own investigations and take their own professional advice.