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CAPITAL GAINS ON MUTUAL FUNDS

(a) Introduction:

"Mutual Funds" is an excellent way of investment to save and grow money for your life goals such as house, retirement, child's education/marriage, etc. Mutual funds give small or individual investors access to diversified, professionally managed portfolios at a low price.

Looking to its advantage of simplicity and potential for higher returns and in view of the fact that bank deposit rates have turned unattractive, many investors have resorted to mutual fund.

However, after the changes in Capital Gains Tax provision in Budget 2018, many investors are finding it troublesome to assess the tax implication.

So, here's a brief view about tax implication in a simplified manner.

(b) Glossary:

- **Equity Funds**:
  Equity fund is a class of mutual fund that primarily invests in listed stock market securities.

- **Hybrid/Balanced Funds**

  IT IS A MUTUAL FUND with Assets under Management comprising of:
  EQUITY INSTRUMENTS - >=65%
  DEBT INSTRUMENTS - <= 35%

  THE TAX TREATMENT IS SAME AS EQUITY ORIENTED MUTUAL FUND.

- **Debt Funds**:
  A debt fund is an investment pool, such as a mutual fund or exchange-traded fund, in which the core holdings comprise fixed income investments. A debt fund may invest in short-term or long-term bonds, securitized products, money market instruments or floating rate debt.

- **Indexation:**

  Indexation is used to adjust the purchase price of a Capital Asset (Debt Funds in case of Mutual Fund Taxation) so as to reflect the effect of inflation on it and to bring it to realistic cost on purchasing power parity basis. A higher purchase price means lesser profit, which effectively means lesser tax. By applying indexation, you can actually reduce your long-term capital gains to lower your taxable income.

- **Growth Option**

  With a growth option, the investor lets the fund company take decisions about market operations and they earn return by way of purchase/sale of assets under management through market operations.

- **Dividend Option**

  In a dividend pay-out scenario, dividend distributions made by the mutual fund are paid out directly to the shareholder.

  In a dividend reinvestment scenario, asset management company reinvests the declared dividend on behalf of the investor i.e. NAV of a fund remains same, but no. of units increase over a period of time.

- **Direct Plan & Regular Plan**

  Regular and Direct plans are just the two options to buy the same mutual fund scheme, run by the same fund managers who invest in the same stocks and bonds. The only difference between the two is that in the case of a regular plan your AMC or mutual fund house does pay a commission to your broker as distribution expenses or transaction fee out of your investment, whereas in case of a direct plan, no such commission is paid and full amount is invested by the AMC, thereby reducing the expense ratio of your mutual fund scheme and increasing your return over the long term.

(c) Asset Classification into Long/Short Term Capital Assets:

Mutual Fund Class	**Time period of holding**	**Capital Gains Classification**
Equity/Hybrid Mutual Funds	<12m	Short Term
	>12m	Long Term
Debt Mutual Funds	<12m	Short Term
	>12m	Long Term

(d) Tax Provisions Summary:

TYPE	**< 1 YR**	**1-3 YEAR**	**>3 YEAR**
EQUITY FUND	15%	10% IF LTCG<1 LAKH	10% IF LTCG<1 LAKH
HYBRID FUND	15%	10% IF LTCG<1 LAKH	10% IF LTCG<1 LAKH
DEBT FUND	SLAB RATE	SLAB RATE	20% WITH INDEXATION

(e) Latest Amendment In Taxability (Grand Fathering Of Past Capital Gains):

For Equity Shares/Mutual Funds purchased prior to 31st January, 2018, the COST OF ACQUISITION (COA) of Equity Shares/Equity Oriented Mutual Funds shall be deemed to be the higher of -

- ❖ The actual COA of such investments; and
- ❖ The lower of-
  - i. Fair Market Value ('FMV') of such investments on 31/1/2018 and
  - ii. The Full Value of Consideration received or accruing as a result of the transfer of the capital asset i.e. the Sale Price.

Example:

Mr X bought equity shares on 15/Dec/2016 for Rs. 20,000. FMV of the shares was Rs. 24,000 as on 31/Jan/18. He sold the shares on 10/May/2018 for Rs. 30,000. What will be the long-term capital gain/ loss?

Cost of Acquisition (COA)

Higher of –

- ❖ Original COA i.e. Rs. 20,000, and
- ❖ Lower of –
  - i. FMV on 31.1.18 i.e. Rs. 24,000, and
  - ii. Sale Price i.e. Rs. 30,000

Hence, COA = Higher of (Rs. 20,000 or Rs. 24,000) = Rs. 24,000

Capital Gain/ (Loss)

a) Sale Price – Cost of Acquisition
b) Rs. 30,000 – Rs. 24,000
c) Rs. 6,000

(f) Various Scenarios in Mutual Fund Taxation:

Sr No.	Scenario	Tax Implications
1	Equity Funds Purchase and sale before 31/1/2018	Exempt under Section 10(38)
2	Equity Funds Purchase before 31/1/2018 Sale after 31/1/2018 but before 1/4/2018	Exempt under Section 10(38)
3	Equity Funds Purchase before 31/1/2018 Sale on or after 1/4/2018	LTCG taxable Gains accrued before 31/1/2018 exempt (Grandfathering) Capital Gains computed in the manner as discussed above will be taxed @ 10% if it exceeds Rs. 1 Lac p.a.
4	Equity Funds Purchase after 31/1/2018 Sale on or after 1/4/2018	LTCG taxable @ 10% if it exceeds Rs. 1 lac. Capital Gains computed in the manner as discussed above

(g) SIP Taxability:

SIP is a fixed amount invested in a mutual fund periodically.

Capital Gains on Sale of Mutual Funds, which are invested through SIP will be calculated on FIFO Basis.

Purchase date	Units	NAV(Rs)	SIP (Rs)
01-05-2017	200	50	10000
01-06-2017	222	45	10000
01-07-2017	166	60	10000

SUPPOSE THERE IS A SIP IN **EQUITY MUTUAL FUND OF RS 10000 EVERY MONTH.**

NAV ON 10/5/18 = 75
SAY 300 UNITS ARE SOLD ON 10/5/18

- 200 Units OF 1/5/17- Long Term Capital Gains. – EXEMPT IF LESS THAN 1 LAKH, ELSE Taxed @ 10%
- 100 Units OF 1/6/17 – Short Term Capital Gains. – Taxed @ 15%.

(h) Taxation of Mutual Fund Dividends:

Dividends from equity mutual funds are tax-free in the hands of investors. But dividends from equity mutual funds are paid after deducting a dividend distribution tax (DDT) of 12.9422% (including surcharge and cess), which reduces the in-hand return for investors.

Dividends obtained from a debt mutual fund is tax-free in the hands of the investors. However, the fund house pays a dividend distribution tax (DDT) of 38.8267% on debt funds. This is inclusive of surcharge and cess

(i) Conclusion:

Based on Mutual Fund terms explained above and tax treatment of various options, we suggest as under.

1. The longer one keep the investment, it will be more beneficial as the tax rate would be low and the return would be higher.

   - Avoid investing in a dividend plan due to the fact that though, it is not taxable in the hands of investor but it is taxable in hands of the AMC and hence, net return is lower in the hands of the investor.

2. Always continue with your SIP even if the market is down as the principle of "cost averaging" coupled with concessional tax treatment of long term capital gains will help you out in long term.

THANK YOU. STAY INVESTED.

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PUBLIC SECTOR BANK REFORMS

In another round of boosters for the economy, finance minister has announced amalgamation of 10 public sector banks into four big banks. After this the total number of Public Sector Banks in the country will come down to 12 from 27 banks in 2017. Apart from this the government announced Rs 55,250 crore upfront capital infusion in the PSBs and certain key Governance Reforms also.

(a) The Key Announcements:

- PNB, OBC and United Bank to be merged. The new merged bank will be the second largest PSB in the country with Rs 18 lakh crore business and second largest branch network in India
- Canara and Syndicate Bank will also be merged to become the fourth largest PSB with Rs 15.2 lakh crore business and third largest branch network in India.
- Merger of Union Bank of India, Andhra Bank and Corporation Bank will create India's fifth largest PSB with Rs 14.6 lakh crore business and fourth largest branch network.
- Indian Bank and Allahabad Bank merged. The new bank will be seventh largest with Rs 8.08 lakh crore business.
- Government also announced Rs 55,250 crore upfront capital for credit growth & regulatory compliance to support economy. Detailed break up of capital infusion is as under.

Sr.No.	Name of the Bank	Amount (Rs. In Crores)
1	PNB	16,000
2	Union Bank	11700
3	Indian Overseas Bank	3800
4	Central Bank of India	3300
5	Bank of Baroda	7000
6	Indian Bank	2500
7	UCO Bank	2100
8	Canara Bank	6500

- Big banks with enhanced capacity to increase credit and bigger risk appetite, with national presence and global reach.

- Finance Minister said: "the government is trying to create big next generation banks".

- Government's intention not just to give capital but also give good and autonomous governance to banks.

(b) Governance Reforms Announced:

- To make management accountable to Board, Board committee of nationalized banks to approve performance of GM and above (including MD).

- To make span of control manageable in large PSBs, post consolidation, Boards given flexibility to introduce CGM level as per business needs.

- PSBs to recruit Chief Risk Officer from market, at market-linked compensation to attract best available talent.

- To enable succession planning, Board to decide system of 'Individual Development Plans' for all senior executive positions.

- To ensure sufficient tenure, Boards given flexibility to prescribe residual service of two years for appointment of GM and above.

- Flexibility given to Boards of large PSBs to enhance sitting fees of non-official directors (NODs).

- For better Board committee functioning, Boards given mandate to reduce/rationalize Board committees.

- Risk Management Committee given mandate to fix accountability for compliance of Risk Appetite Framework.

- Longer term to directors on Management Committee of Board to enable them to contribute effectively.

- MCB loan sanction thresholds enhanced by up to 100%, to enable focused attention to higher value loan proposals.

- Boards given mandate for training of directors, both for induction and for specialized purposes.

- Boards given mandate to evaluate NOD performance annually on peer-review basis.

- Executive Directors' strength in larger banks raised to four, for better functional focus and thrust on technology.

TAXABILITY OF LIFE INSURANCE PROCEEDS

(a) Introduction:

People perceive that proceeds of life insurance policies are totally tax free. However, it is necessary for one to be aware of when these proceeds are tax-free and when not, in order to take advantage of the tax benefit.

As per Section 10(10D) the amount of sum assured plus any bonus paid on maturity or surrender of policy or on death of the insured are completely tax free for the receiver except in certain cases.

(b) Exemption Under Section 10(10D) on Maturity Amount Received:

Section 10(10D) of Income Tax Act:
When the premium paid on the policy does not exceed 10% of the sum assured for policies issued after 1 April 2012 and 20% of sum assured for policies issued before 1 April 2012– any amount received on maturity of a life insurance policy is fully exempt from Income Tax.

The amount received on maturity is exempt on Policies taken after 1 April 2013, on the life of a person with a disability under Sections 80U and 80DDB, when the premium paid does not exceed 15% of the sum assured.

Thus, by implication, where premium paid exceeds the threshold limits specified above, the maturity amount will be subject to tax. In many Single premium policies or market linked policies (eg. ULIPs), the premium paid is invariably higher than the thresholds specified hereinabove.

(c) TDS:

Position before A. Y. 2020-21:

Let's understand with an example.

Suppose you bought a policy on May 10, 2013 and paid a premium of Rs 36,000 with a maturity value of Rs 2,04,000. Now, 10 per cent of the sum assured works out to Rs 20,400. Here the premium paid exceeds 10 per cent of sum assured; therefore, your maturity receipts shall be taxable. If receipts are taxable and are Rs 1 lakh or more, TDS is deducted by the insurance company u/s. 194DA of Income Tax Act, 1961 before releasing the payment. The TDS rate is 1 per cent. Hence TDS = 1% of 2,04,000 = 2,040.

Suppose the premium is paid for 5 years and the net return is:

Rs 2,04,000 - (Rs 36,000 x5 years) = Rs. 24,000.

However, as per provision as it exited before Finance (No. 2) Act, 2019, entire amount of Rs. 2,04,000/- would be added to income of the assesse and tax will have to be paid according to the income tax slab applicable to the taxpayer. Assuming that the taxpayer is in the 30 per cent tax bracket, tax to be paid on the policy maturity works out to Rs 72,000 (Rs 204,000 x 30%). **Notice that while the tax payable is way more than the net return earned. This created an absurd situation.**

Position after A. Y. 2020-21 (w.e.f. 1st September, 2019):

<u>To overcome the anomaly in TDS on Insurance receipts, the rate of TDS is revised to 5% per cent. And it is provided that TDS shall be deducted on the 'income' portion and not on the entire amount. It is also provided that only the "net income" would be added to tax payer's income.</u>

Now let's look at the same example as above.

TDS shall be deducted at 5 per cent on the income of Rs 24,000 and it works out to Rs 1200. The form 26AS would indicate an income of Rs 24,000.

Assuming that the tax payer is in 30% tax bracket, total tax payable would be 30% of Rs. 24,000 i.e. Rs. 7,200/-. Balance tax (Rs. 7,200 – Rs. 1,200/-) of Rs. 6,000/- would be paid by the tax payer.

(d) Cases wherein TDS is not deductible:

- TDS is not deductible in case life insurance policy qualifies under Section 10 (10D).
- TDS is not deductible when amount is received on account of the death of the policyholder.
- No TDS deductible if the aggregate amount of payment during the financial year is less than INR 1,00,000.

In case of death of the insured, where his nominees receive the policy proceeds the same shall be tax free in the hands of the nominee(s) even if premium paid in any year crossed the prescribed percentage of sum assured.

(e) Conclusion

- Always check the premium amount should be less than 10% of the sum assured.
- Be ware while buying single premium policies/Market Linked policies like ULIP.

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TAX CALENDAR:- DUE DATES FOR THE MONTH OF AUGUST

August	Mon	Tue	Wed	Thu	Fri	Sat	Sun
				1	2	3	4
	5	6	7	8	9	10	11
	12	13	14	15	16	17	18
	19	20	21	22	23	24	25
	26	27	28	29	30	31	

Income Tax

Due Date	Particulars	Challan / Form No.
07/08/2019	Deposit of TDS/TCS for the month of July, 2019	ITNS-281
07/08/2019	Issuance of TDS Certificate for Tax Deducted U/S 194 IA/IB in the month of June, 2019	16B/16C
15/08/2019	Quarterly TDS Certificate (in respect of tax deducted for payments other than salary) for the quarter ending June 30, 2019	16A
30/08/2019	Furnishing of Challan-cum-statement in respect of Tax deducted U/S 194 IA/IB in the month of July, 2019	26QB/26QC
31/08/2019	Due date for filing Income tax return for FY 2018-19 for all persons except : i. Companies ii. Non-Companies whose books are required to be audited iii. Working partner of a firm whose accounts are required to be audited	Form As Notified By CBDT

GST

Due Date	Particulars	Challan / Form No.
10/08/2019	Monthly statement of outward supply (Turnover exceeding 1.5 crores p.a.) for July, 2019	GSTR 1
10/08/2019	Monthly consolidated return for the month July, 2019	GSTR 3B
11/08/2019	Return of TDS with payment of tax	GSTR 7
18/08/2019	Statement by e-commerce operator with tax	GSTR 8

EPF & ESI ACT

Due Date	Particulars	Challan / Form No.
15/08/2019	Deposit of EPF & ESI Contribution	
25/08/2019	PF Return filing for July, 2019 (including pension and insurance scheme forms)	

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SERVICES

Auditing & Assurance Services

Internal Audit
Management Audit
System Audit
Functional Audits (Non-Financial)
Audit Under Various Statutes
Evaluation of Accounting Systems and Internal Controls

Due Diligence & Valuation Services for M & A

Financial Due Diligence
Legal Due Diligence
Valuation of Business

Taxation

Comprehensive Services to Individuals, Firms, Corporate Entities & Trusts
We cover Income Tax and GST
Services Include:

- Tax Return Preparation
- Tax Planning
- Tax Representation
- International Taxation

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On site/off site Complete Accounts Outsourcing

Project Financing

Feasibility Study
Project Report Preparation
Presentations before Banks and Financial Institutions
Project Monitoring and Advising on innovative Working Capital Solutions

Business Process Outsourcing

Accounts Payable Processing
Accounts Receivable Processing
Recruitment & Payroll Processing
Equity Research

Start Up Services

Formation of Company
Umbrella of Registrations like Income Tax, GST
Premises Leasing
Contracts Vetting
Initial Recruitment
Accounting System Implementation

NRI Services

Investment & Portfolio Management
Income & Wealth Remittance – Procedural Assistance
Custodian and Conveyancing Services

Other Services

Business Advisory & Business Tie Ups
Company Law Related Services
Succession Planning