Understanding Tax Implications on Mutual Funds
An Investor Education and Awareness Initiative
by Franklin Templeton Mutual Fund in Association
Factors Determining Tax Status of Mutual Funds

• **Type of Mutual Fund**
  – Equity Funds
  – Non Equity Funds

• **Type of Income**
  – Dividend Income
  – Capital Gains

• **Period of holding and Capital Gains**
  – Long Term Capital Gain
  – Short Term Capital Gain

• **Tax Status**
  – Resident Individual / Hindu Undivided Family (HUF)
  – Partnership Firm / AoP / BoI
  – Domestic Company
  – NRIs
### Tax Implication on Equity Mutual Fund Investments

- Dividend received from an equity oriented mutual fund scheme is exempt from tax.
- No dividend distribution tax borne by the mutual fund house on the dividend distributed on equity mutual funds.

<table>
<thead>
<tr>
<th>Type of Unit Holder</th>
<th>Distribution Tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY 2014-15</td>
<td></td>
</tr>
<tr>
<td>Resident Individual/HUF</td>
<td>NIL</td>
</tr>
<tr>
<td>Resident Partnership Firms/AOP/BOI</td>
<td>NIL</td>
</tr>
<tr>
<td>Domestic Companies</td>
<td>NIL</td>
</tr>
<tr>
<td>NRIs</td>
<td>NIL</td>
</tr>
</tbody>
</table>
## Tax Implication on Equity Mutual Fund Investments...

(contd.)

<table>
<thead>
<tr>
<th>For Capital Gains on Equity Mutual Funds</th>
<th>Short Term Capital Gains Tax (Period &lt; 1 Year)</th>
<th>Long Term Capital Gains Tax (Period &gt; 1 Year)</th>
<th>TDS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Resident Individual / HUF</td>
<td>15%</td>
<td>Nil</td>
<td>Nil</td>
</tr>
<tr>
<td>Domestic Companies / Partnership Firms / AOP / BOI</td>
<td>15%</td>
<td>Nil</td>
<td>Nil</td>
</tr>
<tr>
<td>NRIs</td>
<td>15%</td>
<td>Nil</td>
<td>STCG - 15% ^ LTCG - Nil ^</td>
</tr>
</tbody>
</table>

^ Plus applicable surcharge and secondary and higher education cess.

Securities Transaction Tax (STT) @ 0.025% on redemptions / switch over
Tax Implication on Equity Mutual Fund Investments…
(contd.)

- There is no Long Term Capital Gains Tax on equity mutual fund schemes
- Short Term Capital Gains on equity oriented mutual funds is taxable @ 15%
- Securities Transaction Tax (STT) @ 0.025%
## Tax Implication on Debt Mutual Fund Investments…

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>FY 2014-15</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Resident Individual / HUF</strong></td>
<td>Tax free</td>
<td>28.325%</td>
<td>28.325%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(25% + 10% surcharge + 3% education cess)</td>
<td>(25% + 10% surcharge + 3% education cess)</td>
</tr>
<tr>
<td><strong>Domestic Companies / Partnership Firms / AOP / BOI</strong></td>
<td>Tax free</td>
<td>33.99%</td>
<td>33.99%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(30% + 10% surcharge + 3% education cess)</td>
<td>(30% + 10% surcharge + 3% education cess)</td>
</tr>
<tr>
<td><strong>NRIs</strong></td>
<td>Tax free</td>
<td>28.325%</td>
<td>28.325%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(25% + 10% surcharge + 3% education cess)</td>
<td>(25% + 10% surcharge + 3% education cess)</td>
</tr>
</tbody>
</table>
Dividend income received is exempt from tax, in case of debt mutual fund schemes as well.

Dividend Distribution Tax is deducted by debt mutual fund schemes while they distribute dividends.
### For Capital Gains Tax on Non-Equity / Debt Mutual Funds

<table>
<thead>
<tr>
<th></th>
<th>Short Term Capital Gains Tax (Period &lt; 1 Year)</th>
<th>Long Term Capital Gains Tax (Period &gt; 1 Year)</th>
<th>TDS</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Domestic Companies / Partnership Firms / AOP / BOI</strong></td>
<td>As per Tax Slab</td>
<td>10% without Indexation OR 20% with Indexation (whichever is lower)</td>
<td>Nil</td>
</tr>
<tr>
<td><strong>NRIs</strong></td>
<td>As per Tax Slab</td>
<td></td>
<td>STCG - 30% ^</td>
</tr>
</tbody>
</table>

^ Plus applicable surcharge and secondary and higher education cess.

**STCG** - 30% ^ LC 20% (if listed) ^ (After Providing for Indexation)
Tax Implication on Debt Mutual Fund Investments…
(Contd.)

• Long Term Capital Gains on debt mutual fund schemes are taxable @ 10% without indexation or 20% with indexation, whichever is lower

• Short Term Capital Gains Tax on Debt mutual funds is taxable @ 30% or as per your tax slab

• Tax Deduction at Source (TDS) on capital gains will take place for NRIs
Points To Remember

- Mutual fund schemes holding at least 65% of its assets in equity shares in domestic companies, enjoy equity oriented tax status.
- Mutual fund schemes holding less than 65% of its assets in equities are classified as non-equity scheme.
- Profits from schemes held for more than 1 year, attract Long Term Capital Gains Tax.
- Profits earned from schemes held for less than 1 year, is liable for Short Term Capital Gains Tax.
Points To Remember

- There is no Long Term Capital Gains Tax on equity oriented mutual fund schemes.
- Long Term Capital Gains on debt mutual fund schemes is taxable @ 10% without Indexation and 20% with Indexation.
- Dividend Distribution Tax is deducted by the fund house while distributing dividend income on debt mutual fund schemes.
- TDS is applicable only on gains made by NRIs.
We now invite you to test your learning by taking up this simple quiz
(And Win Exciting Prizes!)
Thank You For Participating!
Disclaimer: The contents of this document are only for informative purposes and are not to be used or considered to be an offer to sell or buy units of Franklin Templeton Mutual Fund schemes. This video is for information purposes only, provided on an ‘as is’ basis. Nothing in it should be construed as personal financial advice. You are responsible for your own investment decisions and you should seek advice concerning suitability from your investment adviser regarding any of the investments mentioned. The video is for personal non-commercial use only and may not be copied, stored, redistributed or broadcast in any way. We recommend you read the complete Terms of Use.
1) Long Term Capital Gains on equity mutual funds are _________________.
   A. Taxable @ 15%    B. Taxable @ 10%
   C. Taxable @ 20%    D. Not Taxable

2) Short Term Capital Gains on equity oriented mutual funds are taxable @ 30%
   A. True
   B. False

3) Dividend income is tax free in the hands of investors.
   A. True
   B. False
Quick Quiz

4) TDS on gains from mutual funds is applicable only for ______________.
   A. Resident Individuals   B. NRIs
   C. Domestic Companies    D. Partnership Firms

5) One can claim indexation benefit on long term gains from one’s investment in ____________
   A. Equity Mutual Funds   B. Stocks
   C. Debt Mutual Funds     D. Fixed Deposits
Mutual Fund investments are subject to market risks, read all scheme related documents carefully.