

HDFC MF

Weekend Bytes

A weekly series from HDFC Mutual Fund

Are the recent changes to MF taxation confusing you?



The 2024 Union Budget has introduced significant changes to the taxation of mutual funds (MFs), aimed at simplification of taxation laws.



Some mutual fund categories have seen significant changes. Here's a breakdown to help you navigate and make the most of these updates.

Please note: Below given information is for general purposes only in a simple manner. In view of the individual nature of the tax consequences, each investor is advised to consult his/ her own professional tax advisor. The information given here is w.e.f. July 23, 2024 and is neither a complete disclosure of every material fact of Income-tax Act 1961, nor does it constitute tax or legal advice. Tax rates unless specified are excluding surcharges and health & education cess as applicable.

Commodity ETFs, Commodity Funds-of-Funds and Other Funds of Funds (with <65% in Debt) Benefit from Simplified Taxation

For Units purchased on or after 1 April 2023

	Then (For Redemptions upto 31 st March, 2025)	Now (For redemptions from 1 April, 2025)
Period of holding for classification	NA	1 year for Commodity ETFs, 2 years for Other FOFs
LTCC rate	Slab rate	12.5%
STCC rate	Slab rate	Slab rate

For Units purchased before 1 April 2023

	Then (For Redemptions upto 31 st March, 2025)	Now (For Redemptions from 1 April, 2025)
Period of holding for classification	3 years	1 year for Commodity ETFs, 2 years for Other FOFs
LTCC rate	20% with indexation	12.5% without indexation
STCC rate	Slab rate	Slab rate

What does this mean for you?

- ✓ For taking exposure to commodities, both ETFs and FOFs now have more favourable tax treatment for redemptions from 1 April, 2025 what they faced earlier.
- ✓ In fact, with 1 year holding period, Gold and Silver ETFs have a better taxation structure than holding physical gold, adding to various reasons to own it in a financial way vs a physical way, such as convenience, safety, Purity, Liquidity and Lower Costs. Refer our detailed presentation on Commodity Funds to [know more](#).

Equity Mutual Funds still remain attractive from tax perspective

	Then (For Redemptions upto 22 July, 2024)	Now (For Redemptions from 23 July, 2024)
Period of holding for classification	1 year	1 year
LTCC rate	10%	12.5%
Exemption amount for LTCC	Rs 1 Lakh	Rs 1.25 Lakh
STCC Rate	15%	20%

What does this mean for you?

While tax rates have gone up, higher exemption amount has been allowed under LTCC.



Debt Mutual Funds continue to be taxed on slab rates

For Debt Funds purchased on or after 1 April 2023

	Then (For Redemptions upto 22 July, 2024)	Now (For Redemptions from 23 July, 2024)
Period of holding for classification	NA	NA
LTCC rate	NA	NA
STCC Rate	Slab rate	Slab rate

For Debt Funds purchased before 1 April 2023

	Then (For redemption upto 22 July, 2024)	Now (For redemptions from 23 July, 2024)
Period of holding for classification	3 years	2 years
LTCC rate	20% with indexation	12.5% without indexation
STCC Rate	Slab rate	Slab rate

What does this mean for you?

- ✓ While much doesn't change for investments into debt mutual funds, they remain an attractive way to take exposure to debt as an asset class on account of professional management, varied investment options and marked to market nature of valuation.
- ✓ For existing investments, the change in long term capital gains i.e. removal of indexation benefits will likely increase the tax outgo.

These changes aim to simplify the tax structure as common LTCC rates are now being used across various asset classes. They may require investors to reassess their strategies.

Consulting a financial advisor can help you navigate these new rules effectively. Please refer Tax Reckoner published by HDFC MF at this [link](#). An extract from the same for Capital Gains is reproduced on the next page.



Extract of HDFC MF Tax reckoner

Capital Gain Taxation			
	Resident Individual/ HUF	Domestic Company	Non Resident Individuals#
Long Term Capital Gains			
Equity oriented schemes**/^^	Units held for more than 12 months		
Units Transferred before 23 July 2024	10% without indexation + Surcharge as applicable& + 4% Cess	10% without indexation + Surcharge as applicable& + 4% Cess	10% without indexation and without foreign currency fluctuation benefits + Surcharge as applicable& + 4% Cess
	= 11.96% or 11.44%	= 11.648% or 11.128% or 11.44%	= 11.96% or 11.44%
Units Transferred on or after 23 July 2024	12.5%^^ without indexation + Surcharge as applicable& + 4% Cess	12.5%^^ without indexation + Surcharge as applicable& + 4% Cess	12.5%^^ without indexation and without foreign currency fluctuation benefits + Surcharge as applicable& + 4% Cess
	= 14.95% or 14.30%	= 14.56% or 13.91% or 14.30%	= 14.95% or 14.30%
Other than equity oriented schemes (other than specified mutual fund schemes!!)	Units held for more than 36 months – If transferred before 23 July, 2024 More than 12 months for listed units and 24 months for unlisted units – If transferred on or after 23 July, 2024		
Units Transferred before 23 July 2024	20% with indexation + Surcharge as applicable& + 4% Cess	20% with indexation + Surcharge as applicable& + 4% Cess	For Listed - 20% with indexation and with foreign currency fluctuation / For Unlisted - 10% without indexation and without foreign currency fluctuation + Surcharge as applicable& + 4% Cess
	= 23.92% or 22.88%	= 23.296% or 22.256% or 22.88%	= 23.92% or 22.88% = 11.96% or 11.44%
Units Transferred on or after 23 July 2024	12.5% without indexation + Surcharge as applicable& + 4% Cess	12.5% without indexation + Surcharge as applicable& + 4% Cess	12.5% without indexation and without foreign currency fluctuation + Surcharge as applicable& + 4% Cess
	= 14.95% or 14.30%	= 14.56% or 13.91% or 14.30%	= 14.95% or 14.30%
Specified Mutual Fund Schemes!!	Deemed Short Term irrespective of holding period. The capital gain will be taxed basis rates as applicable for short term capital gain.		

	Resident Individual/ HUF	Domestic Company	Non Resident Individuals#
Short Term Capital Gains			
Equity oriented schemes**	Units held for 12 months or less		
Units Transferred before 23 July 2024	15%+ Surcharge as applicable& + 4% Cess	15% + Surcharge as applicable& + 4% Cess	15% + Surcharge as applicable& + 4% Cess
	= 17.94% or 17.16%	= 17.472% or 16.692% or 17.16%	= 17.94% or 17.16%
Units Transferred on or after 23 July 2024	20%+ Surcharge as applicable& + 4% Cess	20% + Surcharge as applicable& + 4% Cess	20% + Surcharge as applicable& + 4% Cess
	= 23.92% or 22.88%	= 23.296% or 22.256% or 22.88%	= 23.92% or 22.88%
Other than equity oriented schemes (other than specified mutual fund schemes!!)	Units held for less than or equal to 36 months – If transferred before 23 July, 2024 Less than or equal to 12 months for listed units and 24 months for unlisted units – If transferred on or after 23 July, 2024		
	30%^ + Surcharge as applicable& + 4% Cess	30% + Surcharge as applicable& + 4% Cess 25%^ + Surcharge as applicable& + 4% Cess 22%& + 10% Surcharge& + 4% Cess 15%& + 10% Surcharge& + 4% Cess	30%^ + Surcharge as applicable& + 4% Cess
	= 42.744% or 39% or 35.88% or 34.32%	= 34.944% or 33.384% = 29.120% or 27.820% = 25.168% = 17.16%	= 42.744% or 39% or 35.88% or 34.32%
Specified Mutual Fund Schemes!!	Deemed Short Term irrespective of holding period		
	30%^ + Surcharge as applicable& + 4% Cess	30% + Surcharge as applicable& + 4% Cess 25%^ + Surcharge as applicable& + 4% Cess 22%& + 10% Surcharge& + 4% Cess 15%& + 10% Surcharge& + 4% Cess	30%^ + Surcharge as applicable& + 4% Cess
	= 42.744% or 39% or 35.88% or 34.32%	= 34.944% or 33.384% = 29.120% or 27.820% = 25.168% = 17.16%	= 42.744% or 39% or 35.88% or 34.32%

Notes:

^{^^} Long term capital gains arising from transfer of a long-term capital asset being an equity share in a company or a unit of an equity oriented fund or a unit of a business trust shall be taxed at 10% (for transfers taking place before 23 July 2024) without indexation and without foreign currency fluctuation benefit whereas for transfer taking place on or after 23 July 2024, the same would be taxed at 12.5% without indexation and without foreign currency fluctuation benefit. The aggregate of the above capital gains would be taxable for an amount exceeding one lakh twenty-five thousand rupees. The concessional rate of 10%/12.5% shall be available only if securities transaction tax (STT) has been paid on both acquisition and transfer in case of equity shares and on transfer in case of units of equity-oriented mutual funds or units of business trust. Further, grandfathering benefit has been provided for long term capital gains upto January 31, 2018.

!! Deemed Short Term Capital Gains - Capital gains from transfer of units of "Specified Mutual Fund Schemes" acquired on or after 1st April 2023 are treated as deemed short term capital gains taxable at applicable rates as provided above irrespective of the period of holding of such mutual fund units.

For this purpose, "specified mutual fund" means mutual fund where not more than 35 per cent of its total proceeds is invested in the equity shares of domestic companies. Provided that the percentage of equity shareholding held in respect of the Specified Mutual Fund shall be computed with reference to the annual average of the daily closing figures.

The definition of the "specified mutual fund" is proposed to be amended from FY 2025-26 as (a) Mutual fund which invests more than 65 per cent of its total proceeds in debt and money market instruments; or (b) a fund which invests 65 per cent or more of its total proceeds in units of a fund referred to in above sub-clause (a).

****** STT will be deducted on equity-oriented scheme at the time of redemption/ switch to the other schemes/ sale of units. Mutual Fund would also pay securities transaction tax wherever applicable on the securities purchased/sold.

Short term/ long term capital gain tax will be deducted at the time of redemption of units in case of Non Resident Investors only. The withholding tax would be lower of 20% (plus applicable surcharge and cess) or the rate provided under the relevant tax treaty, subject to eligibility and compliance with applicable conditions.

& Surcharge applicable for FY 2024-25

1. The tax rates mentioned above are those provided in the Income tax Act, 1961 and amended as per the Finance Act (No.2), 2024 applicable for the financial year 2024-25 relevant to assessment year 2025-26. The information given as per the amendments as per the Finance Act (No.2), 2024. In the event of any change, we do not assume any responsibility to update the tax rates consequent to such changes. The tax rates mentioned above may not be exhaustive rates applicable to all types of assesseees / taxpayers.

2. The tax rates mentioned above are only intended to provide general information and are neither designed nor intended to be a substitute for professional tax advice. Applicability of the tax rates would depend upon nature of the transaction, the tax consequences thereon and the tax laws in force at the relevant point in time. Neither HDFC Mutual Fund nor HDFC Asset Management Company Limited nor any person connected with it accepts any liability arising from the use of this information. Users are advised that before making any decision or taking any action that might affect their finances or business, they should take professional advice.

3. A non-resident tax payer has an option to be governed by the provisions of the Income tax Act, 1961 or the provisions of the relevant DTAA, whichever is more beneficial. As per the provisions of the Income tax Act, 1961, submission of TRC along with Form No. 10F will be necessary for granting DTAA benefits to non-residents. A taxpayer claiming DTAA benefit shall furnish a TRC of his residence obtained by him from the Government of that country or specified territory. Further, in addition to the TRC, the non-resident may be required to provide such other documents and information subsequently, as may be prescribed by the Indian Tax Authorities.

[^] Assuming the investor falls into highest tax bracket. ^{^^^} The Finance Act (No. 2), 2024 provide that in case of domestic company, the rate of income-tax shall be 25% if its total turnover or gross receipts in the financial year 2022-23 does not exceed Rs. 400 crores. ^{@@} The corporate tax rates for domestic companies (not claiming specified incentives and deductions) at the rate of 22% under section 115BAA and domestic manufacturing companies (not claiming specified incentives and deductions) set-up and registered on or after 1 October 2019 and manufacturing commenced on or before 31 March 2024 at the rate of 15% under section 115BAB. The tax computed in case of domestic companies whose income is chargeable to tax under section 115BAA or section 115BAB shall be increased by a surcharge at the rate of 10%. Indexation benefit, as applicable. The indexation benefit is not available for transfers taking place on or after 23 July 2024.

Health and Education Cess shall be applicable at 4% on aggregate of base tax and surcharge.

Disclaimer:

The information set out in this document is for general purposes only and is not an offer to sell or a solicitation to buy/sell any units of schemes of mutual fund. The information set out is neither a complete disclosure of every material fact of the Income-tax Act, 1961 nor does it constitute tax or legal 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, each investor is advised to consult his/ her own professional tax advisor. The information/ data herein alone is not sufficient and shouldn't be used for the development or implementation of an investment strategy and should not be construed as investment advice. Investors alone shall be fully responsible / liable for any decision taken on the basis of this document. Neither HDFC Mutual Fund nor HDFC Asset Management Company Limited nor any person connected with it accepts any liability arising from the use of this information. The investors should before investing in the Scheme(s) of HDFC Mutual Fund make his/their own investigation and seek appropriate professional advice.

Glossary:

1. FOFs - Fund of Funds
2. ETFs - Exchange Traded Fund
3. LTCG - Long Term Capital Gains
4. STCG - Short Term Capital Gains

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