MUTUAL FUND TAXABILITY

Meaning: - A Mutual Fund is a type of investment fund which is set up for the purpose of making investment in various securities like stocks, bonds, money market instruments etc. from the amount deposited by the investors seeking investments in stock market.

As per Income Tax Act 1961"Mutual Fund" means a Mutual Fund specified under clause (23D) of section 10 of the Income-tax Act, 1961 (43 of 1961).

Types of Mutual Fund:- Only one type of Mutual Fund i.e. Equity oriented Mutual funds is mentioned under Income Tax Act 1961.

Equity oriented Mutual Funds:- Those mutual funds where more than 65% of total proceeds/fund are invested in equity shares of domestic companies are called Equity oriented Mutual funds.

Non Equity oriented Mutual Funds:- . Those mutual funds which are not Equity oriented Mutual funds are called Non Equity oriented Mutual funds.

Income from Mutual Fund: - Earnings from mutual fund can basically be bifurcated in the following sources:-

1. **Dividend: -** It is the amount paid by the company to its shareholders out of its profits/reserves. Receipt of dividend on equity oriented mutual funds is tax free for the investors. But the AMC (Assets Management Company)/Mutual fund Company pays a Dividend Distribution Tax (DDT) @28.84% (25% Tax+12% Surcharge+3% Cess) before distributing this dividend income to its Unit-holders.
   In simple words, dividend received from all types of mutual funds is tax free in the hand of investors.

2. **Capital Gain:-** The taxability of both Long Term Capital Gain (LTCG) & Short Term Capital Gain (STCG) for Equity & Non-Equity Oriented Mutual funds are given in the following table-

Funds	Long-term Capital Gain		Short-term Capital Gain	
	Holding Period	Tax	Holding Period	Tax
Equity Oriented Mutual Funds	1 year or more	Taxable @ 10%(without indexation* benefit) if capital gains are more than Rs.1,00,000/-	Less than 1 Year	Taxable @ 15%
Non-Equity Oriented Mutual Funds/Debt Funds	3 Years or more	Taxable @ 20% with Indexation* benefit	Less than 3 Years	Taxable according to Income tax slab rates

***** Indexation is a method of adjusting/inflating the purchase price of capital assets (here mutual funds units) on the basis of Cost of inflation index (CII) for calculating the cost of acquisition of capital assets on the date of transfer.

Equity-Linked Saving Scheme (ELSS):- Mutual funds coming under ELSS are basically Equity Oriented Mutual Funds which invest in equity share of the companies. It comes with a lock in period of 3 years and investments made under this schemes are qualified for the deduction up to Rs.1,50,000/- under Section 80C of Income tax Act.

Systematic Investment Plan (SIPs):- It is the most popular method of investing in mutual funds. Through SIP, a fixed amount of investment is made for purchasing the units of mutual funds periodically (weekly/monthly/quarterly/yearly).

For income tax purpose, each investment or each installment is treated as separate/fresh investment and shall be taxed as per their holding period which has been enumerated in above table.

Apart from this, on buying/selling the units of equity oriented mutual fund, a Securities Transaction Tax (STT) are levied which is collected and deposited by AMC/Broker.

Conclusion:- Investors who wants to invest in stock market but doesn't have much knowledge/ time, they may invest through mutual funds as mutual fund portfolios are being managed by the full time expert in the field of stock markets which creates the possibility of good return on investments. Best way to make investments in mutual funds is investments through SIPs.

(Source:- Income tax Act-1961,Internet)

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