

Snapshot of Tax rates specific to Mutual Funds

The rates are applicable for the financial year 2020-21 subject to enactment of the Finance Bill, 2020

Income-tax implications on income in respect of units of Mutual Fund

| Type of Investor | Withholding tax rate |
|------------------|----------------------|
| Resident | 10%* |
| NRI | 20%** |

The Finance Bill, 2020 proposes to abolish income distribution tax and instead proposes to tax income from mutual fund units in the hands of the unit holders.

* Tax not deductible if dividend income in respect of units of a mutual fund is below Rs. 5,000 in a financial year.

** The base tax is to be further increased by surcharge at the rate of:

- 37% on base tax where specified income exceeds Rs. 5 crore;
- 25% where specified income exceeds Rs. 2 crore but does not exceed Rs. 5 crore;
- 15% where total income exceeds Rs. 1 crore but does not exceed Rs. 2 crore; and
- 10% where total income exceeds Rs. 50 lakhs but does not exceed Rs. 1 crore

Specified income – Total income excluding income under the provisions of section 111A and 112A of the Income-tax Act, 1961 ('the Act')

Further, "Health and Education Cess" is to be levied at 4% on aggregate of base tax and surcharge.

CAPITAL GAINS TAXATION

| | Individual/ HUF \$ ¹ | Domestic Company @ ¹ | NRI [§] |
|---|---------------------------------|---|---|
| Equity Oriented Schemes | | | |
| • Long Term Capital Gains (units held for more than 12 months) • Short Term Capital Gains (units held for 12 months or less) | | | |
| Long term capital gains | 10%* | 10%* | 10%* |
| Short term capital gains | 15% | 15% | 15% |
| Other Than Equity Oriented Schemes | | | |
| • Long Term Capital Gains (units held for more than 36 months) • Short Term Capital Gains (units held for 36 months or less) | | | |
| Long term capital gains | 20% [§] | 20% [§] | Listed - 20% [§] Unlisted - 10%** |
| Short term capital gains | 30% [^] | 30%/25% ^{^^} /22% ^{^^^} /15% ^{^^^} | 30% [^] |

| Tax Deducted at Source (Applicable to NRI Investors) # | | |
|---|---------------------------------------|--|
| | Short term capital gains [§] | Long term capital gains [§] |
| Equity oriented schemes | 15% | 10%* |
| Other than equity oriented schemes | 30% [^] | 10%** (for unlisted) & 20% [§] (for listed) |

* Income-tax at the rate of 10% (without indexation benefit and foreign exchange fluctuation) to be levied on long-term capital gains exceeding Rs. 1 lakh provided transfer of such units is subject to STT.

\$ Surcharge to be levied at:

- 37% on base tax where specified income exceeds Rs. 5 crore;
- 25% where specified income exceeds Rs. 2 crore but does not exceed Rs. 5 crore;
- 15% where total income exceeds Rs. 1 crore but does not exceed Rs. 2 crore; and
- 10% where total income exceeds Rs. 50 lakhs but does not exceed Rs. 1 crore.

Specified income – Total income excluding income under the provisions of section 111A and 112A of the Act.

Further, Health and Education Cess to be levied at the rate of 4% on aggregate of base tax and surcharge.

@ Surcharge at 7% on base tax is applicable where total income of domestic corporate unit holders exceeds Rs 1 crore but does not exceed 10 crores and at 12% where total income exceeds 10 crores. However, surcharge at flat rate of 10 percent to be levied on base tax for the companies opting for lower rate of tax of 22%/15%. Further, "Health and Education Cess" to be levied at the rate of 4% on aggregate of base tax and surcharge.

Short term/ long term capital gain tax (along with applicable Surcharge and Health and Education Cess) will be deducted at the time of redemption of units in case of NRI investors. However, the Finance Bill, 2020 proposes withholding tax of 20% on any income in respect of units of mutual fund in case of non-residents as per section 196A of the Act. Hence, based on language provided in said section, it seems that apart from any income distributed to NRI, withholding tax at 20% may be applicable on capital gains notwithstanding that such capital gains are taxable at a rate lower than 20%.

! The Finance Bill, 2020 proposes to insert new section (i.e. section 194K) which provides for withholding tax of 10% on any income in respect of units of mutual fund in case of residents. However, as per press release issued on 4 February 2020, it has been clarified that withholding tax of 10% is only on dividend income and not on capital gains.

& After providing indexation.

** Without indexation.

^ Assuming the investor falls into highest tax bracket.

^^ If total turnover or gross receipts in the financial year 2018-19 does not exceed Rs. 400 crores.

^^^ This lower rate is optional and subject to fulfillment of certain conditions as provided in section 115BAA.

^^^ This lower rate is optional for companies engaged in manufacturing business (set-up & registered on or after 1 October 2019) subject to fulfillment of certain conditions as provided in section 115BAB.

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.

Transfer of units upon consolidation of mutual fund schemes of two or more schemes of equity oriented fund or two or more schemes of a fund other than equity oriented fund in accordance with SEBI (Mutual Funds) Regulations, 1996 is exempt from capital gains.

Transfer of units upon consolidation of plans within mutual fund schemes in accordance with SEBI (Mutual Funds) Regulations, 1996 is exempt from capital gains.

Relaxation to non-residents from deduction of tax at higher rate in the absence of PAN subject to them providing specified information and documents.

Bonus Stripping: 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.

1. Income Tax Rates

Option A

For Individuals, Hindu Undivided Family, Association of Persons, Body of Individuals and Artificial juridical persons

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

(a) In case of a resident individual of the age of 60 years or above but below 80 years, the basic exemption limit is Rs. 300,000.

(b) In case of a resident individual of age of 80 years or above, the basic exemption limit is Rs 500,000.

(c) Rate of surcharge

- 37% on base tax where specified income exceeds Rs. 5 crore;
- 25% where specified income exceeds Rs. 2 crore but does not exceed Rs. 5 crore
- 15% where total income exceeds Rs. 1 crore but does not exceed Rs. 2 crore; and
- 10% where total income exceeds Rs 50 lakhs but does not exceed Rs. 1 crore.

Specified income – Total income excluding income under the provisions of section 111A and 112A of the Act.

Marginal relief for such person is available.

(d) Health and Education cess @ 4% on aggregate of base tax and surcharge.

(e) Individuals having total income not exceeding Rs. 500,000 can avail rebate of lower of actual tax liability or Rs. 12,500 .

Option B

The Finance Bill, 2020 has proposed New Personal Tax Regime:

| Total Income | Tax Rates |
|-----------------------------|-----------|
| Up to 2,50,000 | Nil |
| From 2,50,001 to 5,00,000 | 5% |
| From 5,00,001 to 7,50,000 | 10% |
| From 7,50,001 to 10,00,000 | 15% |
| From 10,00,001 to 12,50,000 | 20% |
| From 12,50,001 to 15,00,000 | 25% |
| From 15,00,001 and above | 30% |

For adopting Option B, most of the deductions/exemptions such as section 80C, 80D, etc. are to be foregone. The aforesaid regime is optional. Accordingly, Individuals and HUFs have the option to be taxed under either of the options. Option B once exercised can be changed in subsequent years (not applicable for business income).

2. Securities Transaction Tax (STT)

STT is levied on the value of taxable securities transactions as under:

| Transaction | Rates | Payable by |
|---|--------|------------------|
| Purchase/ Sale of equity shares (delivery based) | 0.1% | Purchaser/Seller |
| Purchase of units of equity oriented mutual fund | Nil | Purchaser |
| Sale of units of equity oriented mutual fund (delivery based) | 0.001% | Seller |
| Sale of equity shares, units of business trust, units of equity oriented mutual fund (non-delivery based) | 0.025% | Seller |
| → → Sale of an option in securities | 0.05% | Seller |
| Sale of an option in securities, where option is exercised | 0.125% | Purchaser |
| Sale of a futures in securities | 0.01% | Seller |
| Sale of units of an equity oriented fund to the Mutual Fund | 0.001% | Seller |
| Sale of unlisted equity shares and units of business trust under an initial offer | 0.2% | Seller |

3. Special rates for non-residents as per domestic provisions

(1) The following incomes in the case of non-resident are taxed at special rates on gross basis:

| Transaction | Rates(a) |
|--|----------|
| Dividend | 20% |
| Interest received on loans given in foreign currency to Indian concern or Government of India (not being interest referred to in section 194LB or section 194LC) | 20% |
| Income received in respect of units purchased in foreign currency of specified Mutual Funds / UTI | 20% |
| Royalty or fees for technical services ^(b) | 10% |
| Interest income from a notified infrastructure debt fund, specified loan agreement, specified long-term bonds, rupee denominated bonds(c) and business trust | 5% |
| Interest on FCCB, Dividend on GDRs | 10% |

(a) These rates will be further increased by applicable surcharge and health and education cess.

(b) In case the non-resident has a Permanent Establishment (PE) in India and the royalty/ fees for technical services paid is effectively connected with such PE, the same is taxable at 40% (plus applicable surcharge and health and education cess) on net basis.

(c) Interest payable to a non-resident in respect of monies borrowed by any Indian company or business trust from a source outside India by way of issue of rupee denominated bond during the period 17 September 2018 to 31 March 2019 is exempt from tax.

(2) Tax on non-resident sportsmen or sports association on specified income @20% plus applicable surcharge and health and education cess.

4. Capital Gains rates applicable to unit holders as per domestic provisions

| Transaction | Short-term capital gains(a) | Long-term capital gains(a)(b) |
|---|---|-------------------------------|
| Sale transactions of equity shares/ unit of an equity oriented fund which attract STT | 15% | 10%* |
| Sale transaction other than mentioned above: | | |
| Individuals (resident and non-residents) | Progressive slab rates | 20% / 10% ^(b) |
| Firms | 30% | |
| Resident companies | 30% /25% ^(d) /22% ^(e) /15% ^(f) | |
| Overseas financial organizations specified in section115AB | 40% (corporate) 30% (non corporate) | 10% |
| FIs | 30% | 10% |
| Foreign companies other than ones mentioned above | 40% | 20% / 10% ^(c) |
| Local authority | 30% | 20% / 10% |
| Co-operative society rates | Progressive slab or 20% ^(g) | |

* Income-tax at the rate of 10% to be levied on long-term capital gains exceeding Rs. 1 lakh (without indexation benefit and foreign exchange fluctuation)

(a) These rates will further increase by applicable surcharge & health and education cess.

(b) Income-tax rate of 20% with indexation and 10% without indexation.

(c) Long term capital gains arising to a non-resident from transfer of unlisted securities or shares of a company, not being a company in which the public are substantially interested, subject to 10 per cent tax (without benefit of indexation and foreign currency fluctuation).

(d) If total turnover or gross receipts in the financial year 2018-19 does not exceed Rs. 400 crores.

(e) This lower rate is optional and subject to fulfillment of certain conditions as provided in section 115BAA.

(f) This lower rate is optional for companies engaged in manufacturing business (set-up & registered on or after 1 October 2019) subject to fulfillment of certain conditions as provided in section 115BAB.

(g) The Finance Bill, 2020 proposes new optional tax regime for co-operative societies. Thus, co-operative societies have the option to be taxed at progressive slab rates or 20% subject to fulfillment of certain conditions as provided in section 115BAD.

5. Personal Income-tax Scenario

| Individual | Total Income | | | | | | | | |
|--|--------------|---------|-----------|-----------|-----------|-----------|------------|-----------------|-----------------|
| | 475,000 | 825,000 | 1,000,000 | 1,200,000 | 1,500,000 | 5,650,000 | 11,150,000 | 21,150,000 # | 51,150,000 # |
| Tax in FY 2020-21 (Option A)* | NIL*** | 49,400 | 85,800 | 132,600 | 226,200 | 1,673,100 | 3,722,550 | 7,946,250 | 21,532,290 |
| Tax in FY 2020-21 (Option B)** | NIL*** | 50,700 | 78,000 | 119,600 | 195,000 | 1,638,780 | 3,686,670 | 7,907,250 | 21,489,546 |
| Additional Tax burden/ (Savings) in Option B | - | 1,300 | (7,800) | (13,000) | (31,200) | (34,320) | (35,880) | (39,000) | (42,744) |
| Additional Tax burden/ (Savings) (%) in Option B | - | 2.63% | (9.09%) | (9.80%) | (13.79%) | (2.05%) | (0.96%) | (0.49%) | (0.20%) |

| Resident senior citizen (age of 60 years but below 80 years) | Total Income | | | | | | | | |
|--|--------------|---------|-----------|-----------|-----------|-----------|------------|-----------------|-----------------|
| | 475,000 | 825,000 | 1,000,000 | 1,200,000 | 1,500,000 | 5,650,000 | 11,150,000 | 21,150,000 # | 51,150,000 # |
| Tax in FY 2020-21 (Option A)* | NIL*** | 46,800 | 83,200 | 130,000 | 223,600 | 1,670,240 | 3,719,560 | 7,943,000 | 21,528,728 |
| Tax in FY 2020-21 (Option B)** | NIL*** | 50,700 | 78,000 | 119,600 | 195,000 | 1,638,780 | 3,686,670 | 7,907,250 | 21,489,546 |
| Additional Tax burden/ (Savings) in Option B | - | 3,900 | (5,200) | (10,400) | (28,600) | (31,460) | (32,890) | (35,750) | (39,182) |
| Additional Tax burden/ (Savings) (%) in Option B | - | 8.33% | (6.25%) | (8.00%) | (12.79%) | (1.88%) | (0.88%) | (0.45%) | (0.18%) |

| Resident senior citizen (age 80 years and above) | Total Income | | | | | | | | |
|--|--------------|---------|-----------|-----------|-----------|-----------|------------|-----------------|-----------------|
| | 475,000 | 825,000 | 1,000,000 | 1,200,000 | 1,500,000 | 5,650,000 | 11,150,000 | 21,150,000 # | 51,150,000 # |
| Tax in FY 2020-21 (Option A)* | NIL*** | 36,400 | 72,800 | 119,600 | 213,200 | 1,658,800 | 3,707,600 | 7,930,000 | 21,514,480 |
| Tax in FY 2020-21 (Option B)** | NIL*** | 50,700 | 78,000 | 119,600 | 195,000 | 1,638,780 | 3,686,670 | 7,907,250 | 21,489,546 |
| Additional Tax burden/ (Savings) in Option B | - | 14,300 | 5,200 | - | (18,200) | (20,020) | (20,930) | (22,750) | (24,934) |
| Additional Tax burden/ (Savings) (%) in Option B | - | 39.29% | 7.14% | - | (8.54%) | (1.21%) | (0.56%) | (0.29%) | (0.12%) |

* For purpose of tax calculation under Option A, ad hoc deduction of INR 150,000 has been claimed. The ad hoc deduction is only illustrative in nature. Basis actual deduction, the tax amount will vary.

** For purpose of tax calculation under Option B, no exemption/ deductions have been claimed.

*** NIL tax on account of rebate under section 87A.

If the said taxable income includes capital gains under section 111A and section 112A of the Act, then enhanced surcharge of 37% and 25% would not be applicable and accordingly effective tax rate would be lower.

Disclaimer : The information set out above is included for general information purposes only and does not constitute legal or tax advice. In view of the individual nature of the tax consequences, each investor is advised to consult his or her own tax consultant with respect to specific tax implications arising out of their participation in the Scheme. Income Tax benefits to the mutual fund & to the unit holder is in accordance with the prevailing tax laws as certified by the mutual funds tax consultant. Any action taken by you on the basis of the information contained herein is your responsibility alone. Tata Mutual Fund will not be liable in any manner for the consequences of such action taken by you. The information contained herein is not intended as an offer or solicitation for the purchase and sales of any schemes of Tata Mutual Fund.