

Tax Reckoner

Dividend and Capital gain taxation in the hands of investors in Mutual Fund Schemes from April 1, 2021 to March 31, 2022

Dividend Income

Taxability	Equity Schemes ⁴	Other Than Equity Schemes ⁴ (including IDF) ⁶
All Assessee	As per applicable tax rates	As per applicable tax rates


Withholding of Tax (TDS)	Equity Schemes ³	Other Than Equity Schemes ³ (including IDF) ⁶
Resident	10%	10%
NRI ⁹	20%	20%

Dividend Distribution Tax ('DDT')

Finance Act 2020 has abolished Dividend Distribution Tax (DDT)⁴

Capital Gains

Short Term Capital Gains ¹⁵		
	Equity schemes (Units held for not more than 12 months)	Other Than Equity Schemes (including IDF) ⁶ (Units held for not more than 36 months)
Resident Individuals/HUF/AOP/BOI ⁹	15%	As per slab rates
Domestic Companies/Firms	15%	30%/25% ¹⁰ /22% ¹⁴ /15% ¹⁴
NRIs ⁹	15%	As per slab rates
FPIs ⁹	15%	30%



Long Term Capital Gain ¹⁵		
	Equity schemes ⁹ (Units held for more than 12 months)	Other Than Equity Schemes (including IDF) ⁶ (Units held for more than 36 months)
Resident Individuals/HUF/AOP/BOI ⁹	10% without Indexation ¹¹	20% with indexation
Domestic Companies/Firms	10% without Indexation ¹¹	20% with indexation
NRIs ⁹	10% without Indexation ¹¹	Listed Units - 20% with indexation Unlisted Units - 10% without indexation ⁷
FPIs ⁹	10% without Indexation ¹¹	10% without Indexation

Notes:

- The rates provided in the chart are on the basis of the Finance Act, 2021.
- It is assumed that the units are held as capital assets by the investors.
- 194K of The Income Tax Act, 1961 ("The Act") to provide that any person responsible for paying to a resident any income in respect of units of a Mutual Fund specified under clause (23D) of section 10. Mutual Fund shall at the time of credit of such income to the account of the payee or at the time of payment thereof by any mode, whichever is earlier, deduct income-tax there on at the rate of 10%.

Tax not deductible if dividend income in respect of units of a mutual fund is below Rs. 5,000 in a financial year (Only for Resident Investor). However, on account of practical difficulties involved due to unique nature of mutual fund investments and different schemes involved, Nippon India Mutual Fund shall deduct TDS from each dividend declared once it exceeds INR 4,000 threshold benefit on cumulative basis in a financial year (Consolidate on PAN basis). In case of total TDS exceeding the actual tax liability of any investor, he/she can claim refund while filing income-tax return.

- Finance Act, 2020 has also amended the provision of section 196A of the Act to revive its applicability on TDS on income in respect of units of a Mutual Fund.


4. Finance Act, 2020 has amended the provision of section 115R of the Act (Dividend Distribution Tax) to provide that the income distributed on or before 31st March 2020 shall only be covered under the provision of this section.

"Hence dividend or income distribution by mutual fund on units is taxable in the hands of unit holders at the applicable rates from 01.04.2020 onwards."

5. Securities Transaction Tax (STT)

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

Transaction	Rate	Payable by
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 unit of an equity oriented fund where (a) the transaction of such sale is entered into in a recognised stock exchange and (b) the contract for sale of units is settled otherwise than by the actual delivery or transfer of such unit	0.025%	Seller
Mutual fund would also pay STT wherever applicable on the securities purchase/ sale		



6. "Infrastructure debt fund" ('IDF') means a infrastructure debt fund as defined in clause 1 of the regulation 49L of the Securities and Exchange Board of India (Mutual Fund) Regulations, 1996.

7. As per section 112 of the Act (as amended by the Finance Act, 2012), long-term capital gains in case of non-residents would be taxable @ 10% on transfer of capital assets, being unlisted securities, computed without giving effect to first & second proviso to section 48 i.e. without taking benefit of foreign currency fluctuation and indexation benefit.

8. The short term/long term capital gain tax will be deducted at the time of redemption of units in case of non-resident investors only. Section 196D of the Act provides that no tax is required to be withheld for payment to a FPI in respect of capital gains arising on transfer of units. Non-resident investors / FPIs shall be entitled to be governed by provisions of the applicable Tax Treaty, which India has entered with the country of residence of the non-resident investor, if that is more beneficial than the provisions of the Income-tax Act, 1961 ('the Act'), subject to certain conditions. As per section 90(4) of the Act, a non-resident shall not be entitled to claim treaty benefits, unless the non-resident obtains a Tax Residency Certificate ('TRC') from their home country, containing such particulars as may be prescribed. The Central Board of Direct Taxes has issued a notification dated 17 September, 2012, wherein certain particulars have been prescribed in this regard.

The TDS rates would be applicable for non-resident investors as follows:

	Short Term Capital Gains		Long term Capital Gains	
	Equity Schemes	Other than Equity schemes (including IDF) ⁶	Equity Schemes	Other than Equity schemes (including IDF) ⁶
NRIs ⁹	15%	30%	10% Without Indexation	Listed Units-20% with indexation Unlisted Units-10% (without indexation)
Foreign Company	15%	40%	10% Without Indexation	Listed Units-20% with indexation Unlisted Units-10% (without indexation)
FPIs ⁹	Nil	Nil	Nil	Nil

The above rates are excluding applicable Surcharge and Health & education cess and the same will be at the rates indicated at note no. 15.

• Section 206AA provide that the deductee is required to mandatorily furnish his PAN to the deductor failing which the deductor shall deduct tax at source at higher of the following rates:

- the rate prescribed in the Act;
- at the rate in force i.e., the rate mentioned in the Finance Act; or
- at the rate of 20%.

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

• As per Rule 114B of the Income Tax Rules, 1962 quotation of PAN is mandatory if investor invest in mutual fund more than ₹ 50,000 in a financial year.

9. Some key definitions

• "Equity Oriented Fund" means a fund setup under scheme of mutual fund specified under clause(23D) of section 10 of the ACT and in a case where the fund invests in the unit of another Fund which is traded on recognised Stock Exchange & Minimum of 90% of the total proceeds of such fund is invested in other fund and, Such other fund also invests a minimum of 90% of its total proceeds in the Equity Shares of domestic companies listed on a recognised Stock

Exchange and, In any other case, a minimum of 65% of the total proceeds of such fund is invested in Equity Shares of domestic companies listed on recognised stock exchange Provided that the percentage of Equity Share holding or unit held in respect of the fund, as the case may be, shall be compared with reference to the annual average of the monthly averages of the opening and closing figures.

- The FPI Regulations replaced the SEBI (Foreign Institutional Investor) Regulations, 1995 and the Qualified Foreign Investors framework, and effective from 7 January 2014. As per Notification No. 9/2014 dated 22 January 2014, the Central Government has specified the Foreign Portfolio Investors registered under the Securities and Exchange Board of India (Foreign Portfolio Investors) Regulations, 2014, as 'Foreign Institutional Investor' for the purposes of clause (a) of the Explanation to section 115AD of the Act
 - HUF - Hindu Undivided Family, AOP - Association of Persons, BOI - Body of Individual, NRI - Non Resident Indian, FPI - Foreign Portfolio Investor
10. If total turnover/Gross Receipt of a company investor during FY 2019-20 does not exceeds ₹ 400 Cr.
 11. Exemption of tax on Long Term capital gain on equity oriented scheme units u/s 10(38) withdrawn and tax @ 10% (without indexation) will be charged on long term capital gain exceeding ₹ 1 Lakhs p.a., provided that is subject to STT on transfer of units as per provisions of sections 112A of the Act. Further, Grandfathering benefit has been provided for long term capital gains up to January 31, 2018.
 12. Transfer of units under 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 Fund) Regulations, 1996 shall not be treated as transfer for capital gain purpose.
 13. Transfer of units under consolidation of plans with in mutual fund scheme in accordance with SEBI (mutual fund) Regulations, 1996 shall not be treated as transfer for capital gain purpose.
 14. The taxation laws (Amendment) Ordinance, 2019 introduced new section 115BAA and 115BAB. The section 115BAA provides that any domestic company, which is satisfying certain conditions as mentioned in the provision may opt for tax rate @22% from April 1, 2019 onwards. Whereas the section 115BAB provides that companies engaged in manufacturing business (set up and registered on or after 1 october 2019) which is satisfying certain conditions as mentioned in the provision may opt for tax rate @15%. Surcharge and Education cess is applicable @10% and 4% respectively for both the section.
- 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.
15. In addition to the above rate, there would be additional applicable surcharge, if any, and Health & Education Cess at the rate of 4% on income-tax and surcharge

Surcharge applicable for FY 2021-22 : Equity Oriented Schemes

Assessee	If income below ₹0.50 crore	If income exceeds ₹0.50 crore but less than ₹1 crores	If income exceeds ₹1 crore but less than ₹2 crores	If income exceeds ₹2 crore but less than 5 crores	If income exceeds ₹5 crore but less than 10 crores	If income exceeds ₹10 crore
	Surcharge	Surcharge	Surcharge	Surcharge	Surcharge	Surcharge
Individual (including proprietor ships), Hindu Undivided Family (HUF), Association of Persons (AOP) and Body of Individual (BOI)	Nil	10%	15%	15%	15%	15%
Co-operative Society, Local Authority and Partnership Firms (including LLPs)	Nil	Nil	12%	12%	12%	12%
Indian Corporates	Nil	Nil	7%	7%	7%	12%
Foreign Companies	Nil	Nil	2%	2%	2%	5%

Surcharge applicable for FY 2021-22 : Other than Equity Oriented Schemes

Assessee	If income below ₹0.50 crore	If income exceeds ₹0.50 crore but less than ₹1 crores	If income exceeds ₹1 crore but less than ₹2 crores	If income exceeds ₹2 crore but less than 5 crores	If income exceeds ₹5 crore but less than 10 crores	If income exceeds ₹10 crore
	Surcharge	Surcharge	Surcharge	Surcharge	Surcharge	Surcharge
Individual (including proprietor ships), Hindu Undivided Family (HUF), Association of Persons (AOP) and Body of Individual (BOI)	Nil	10%	15%	25%	37%	37%
Co-operative Society, Local Authority and Partnership Firms (including LLPs)	Nil	Nil	12%	12%	12%	12%
Indian Corporates	Nil	Nil	7%	7%	7%	12%
Foreign Companies	Nil	Nil	2%	2%	2%	5%

16. The Finance Act, 2020 provides for 2 options for computation of income and tax payable. The tax payers need to select any of the following options at the time of filing of return of income.

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
₹ 2,50,001 to Rs. 5,00,000 ^{(d) (e)}	5%
₹ 5,00,001 to Rs. 10,00,000 ^(d)	20%
₹ 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 ₹ 300,000.

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

(c) Rate of surcharge

 <p>Rate of surcharge</p>	37%	on base tax where specified income exceeds ₹ 5 crore;
	25%	where specified income exceeds ₹ 2 crore but does not exceed ₹ 5 crore
	15%	where total income exceeds ₹ 1 crore but does not exceed ₹ 2 crore; and
	10%	where total income exceeds ₹ 50 lakhs but does not exceed ₹ 1 crore


Specified income - Total income excluding income under the provisions of section 111A, 112A of the Act and dividend from equity shares.

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 ₹ 12,500.

Option B :

 <p>New personal tax regime as per the Finance act, 2020</p>	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 under 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. Where the assessee has business income then once option exercised for a previous year shall be valid for that previous year and all subsequent years. In case of no business income option shall be exercised for every year before filing of income tax return.

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