Income Tax Provisions

Capital Gains Tax Provisions:

a. Tax treatment on Equity Mutual Funds should be on par with the tax treatment for ULIPs:

Presently when the value of ULIPs is realised at the time of maturity there is no capital gains tax thereon. However, capital gains on equity mutual funds is taxable @ 10%.

We request that tax treatment on Equity Mutual Funds should be on par with the tax treatment for ULIPs. Therefore, there should be no tax on capital gains from sale of Equity mutual funds.

b. Exempt Long Term Capital Gains Tax (LTCG) on sales of Equity Mutual Funds upto Rs 5 lakhs:

If LTCG on Equity mutual funds is not considered as exempt as stated in point (a) above, we request as under:

Our country needs lot of capital to invest into manufacturing, services and agricultural facilities to increase GDP. Domestic savings if channelized properly can provide tremendous capital for the same. And there is no better way to channelize these savings into capital formation than mutual funds. Competing products like ULIPs from insurance industry enjoy tax free maturity. We therefore request that the exemption limit on sale of equity mutual funds of Rs. 1 lakh be increased to Rs 5 lakhs.

c. Include all equity funds under permitted investments under Sec 54 EC(where presently only NHAI and REC bonds permitted) and increase in the cap of investment to Rs 1 crore:

Presently on transfer of a long term capital asset being land or buildings or both, if capital gains arises, if the amount of capital gains subject to a maximum of Rs 50 lakhs is invested in specified investments – presently bonds issued by NHAI and REC, no capital gains tax would become payable.

It is recommended that investment in equity mutual funds or infrastructure related debt mutual funds be considered as permitted investment along with NHAI and REC bonds as exists presently.

d. Holding period of Debt funds to qualify for long term capital gains:

Presently, the holding period to qualify as a long term capital gain for Debt Schemes is 3 Years.

Whereas, in respect of Real Estate the holding period to qualify as a long term capital gain is 2 Years.

We request that the the holding period to qualify as a long term capital gain for Debt Schemes be reduced to 2 years.

e. Capital Gains exemption be permitted on investment of capital gains in equity mutual funds

Erstwhile provisions of Section 54EA and Section 54EB provided for exemption of capital gains on transfer of Long Term capital assets when the capital gains were invested in Equity Mutual Funds. The provisions for these sections was withdrawn from 1/4/2000.

We request that government consider re-introduction of section 54EA and Section 54EB and exempt from tax the capital gains on transfer of Long Term capital assets when the capital gains are invested in Equity Mutual Funds. This will help in channelizing the capital gains into productive assets.

f. Include Debt funds in the list of permitted payments to qualify for deduction under Section 80 C

Presently, Sec 80 C (1)(xx) includes subscription to any mutual funds referred to in clause 23 D of Section 10 if covered in the Eligible Issue of Capital. This does not presently include debt mutual fund subscriptions. It is suggested that Debt funds be included within the ambit of the Eligible issue of Capital to qualify as a deduction under this section

g. The overall limit of permitted payments qualifying for deduction under Sec 80 C which is presently Rs 1.5 lakhs may be considered to be increased to Rs 3 lakhs.

h. All retirement schemes of mutual funds should be brought on par with NPS for the purpose of deduction under Section 80 CCD.

16/A, 16th Floor, Nirmal Bldg., Nariman Point, Mumbai 400 021 T: +91-22-49120219 E-mail:response@fifaindia.com
C. I. N. - U74990MH2012NPL226953 – Website – www.fifaindia.org

i. Many retired people, who are not in receipt of regular pension, use dividend as their pension or resort to Systematic Withdrawal Plan. We therefore request you to:
a. Withdraw DDT from dividends distributed by mutual funds.
b. Exempt SWP from capital gains tax whether short term or long term upto 10 lakhs p.a.

j. A Mutual Fund Distributor's (MFD) work is mix of professionals like an architect, CA, doctor etc. and a trader businessman. An MFD has to go out and meet people, educate and convince them and plan their investment. It is not limited to just that, the MFD further monitors and reviews the investment done till the time the investor withdraws them to meet his/her financial objectives. It requires investment in time from the MFD, cost of which can't be measured with a fixed formula and considerable expenses also. We suggest that MFDs whose total gross receipt of commission is less than one crore per annum, be allowed to avail presumptive tax like any other businessman with a tax rate of 8 %.

GST Related Suggestions:

a. Mutual Fund distributors are providers of service and not recipients of service. They provide service to the asset management companies. However, the practice of accounting followed bring about the following inconsistencies.

    (i) Though the distributors are service providers, yet the GST on the commission earned is borne and paid by them. This amounts to a levy akin to a direct tax levy and is against the fundamentals of any indirect tax levy.

    (ii) Though the service is provided by the mutual fund distributors, the commission paid to the distributors is accounted for as an expense to the scheme instead of being paid from the books of the asset management companies. As a result the distributors are unable to claim any set off.

b. Distributors outside the state of Maharashtra have to raise an IGST tax invoice for the brokerage received as all or most of the AMC's have only one GST registration in the state of Maharashtra.

As per the GST law, once any service provider provides an interstate service (i.e. Service provided outside the state in which the distributor is registered) then he cannot

- Claim the benefit of the initial non taxable slab of RS. 20 lacs.
- Cannot claim the benefits of the composition scheme also

It is suggested that the GST provisions be amended to permit basic exemption limit as well as the benefits of the composition scheme to the mutual fund distributors as well.

c. Request to make applicable GST to 5% without input credit instead of 18 % as at present. As advisors we hardly have any expense we can claim as input credit. It only helps the Banks and National Distributors as they have a lot of expense on which they can claim input credit. It is totally unfair to Distributors to pay such high GST even though we are intermediaries and not the final consumer.

Further, the imposition of GST should be identical to other financial products like insurance product where the GST is charged to the Policy Holder premium where in distributors commission is also the part of that premium hence the Agents or Distributors are exempted from the GST.