

TAXATION OF CAPITAL GAINS

I. TAXATION OF EQUITY-ORIENTED PRODUCTS

1)	<p><u>Equity Oriented Mutual Funds</u> An equity Scheme is a fund that invests:</p> <ul style="list-style-type: none"> • 65% or more of its proceeds in equity share of domestic companies listed on a recognized stock exchange. • Balance 0% to 35% of its proceeds in any securities other than equity share of domestic companies listed on a recognized stock exchange. 	
	Category of Equity-oriented Mutual Funds	
	Type of Investment	Scheme Characteristics
	1) Multi cap Fund	Minimum investment in equity & equity related instruments- 65% of total assets
	2) Flexi Cap Fund	Minimum investment in equity & equity related instruments- 65% of total assets
	3) Large Cap Fund	Minimum investment in equity & equity related instruments of large cap companies- 80% of total assets
	4) Large and Midcap Fund	Minimum investment in equity & equity related instruments of large cap companies- 35% of total assets Minimum investment in equity & equity related instruments of mid cap stocks- 35% of total assets
	5) Mid cap Fund	Minimum investment in equity & equity related instruments of mid cap companies- 65% of total assets
	6) Small Cap Fund	Minimum investment in equity & equity related instruments of small cap companies- 65% of total assets
	7) Dividend Yield Fund	Scheme should predominantly invest in dividend yielding stocks. Minimum investment in equity- 65% of total assets
	8) Value Fund	Scheme should follow a value investment strategy. Minimum investment in equity & equity related instruments - 65% of total assets
	9) Contra Fund	Scheme should follow a contrarian investment strategy. Minimum investment in equity & equity related instruments - 65% of total assets
	10) Focused Fund	A scheme focused on the number of stocks (maximum 30) Minimum investment in equity & equity related instruments - 65% of total assets
	11) Sectoral/Thematic Fund	Minimum investment in equity & equity related instruments of a particular sector/ particular theme 80% of total assets
	12) ELSS	Minimum investment in equity & equity related instruments - 80% of total assets (in accordance with Equity Linked Saving Scheme, 2005 notified by Ministry of Finance)
	13) Aggressive Hybrid Fund	Equity & Equity related instruments between 65% and 80% of total assets; Debt instruments- between 20% to 35% of total assets
	14) Arbitrage Fund	Scheme following arbitrage strategy. Minimum investment in equity & equity related instruments - 65% of total assets
	15) Equity Savings	Minimum investment in equity & equity related instruments- 65% of total assets and minimum investment in debt- 10% of total assets. Minimum hedged & unhedged to be stated in the SID.

Taxation of Equity Oriented Mutual Funds			
Period of holding	Type of Gain	Tax Rate for	
		Resident	Non-Resident
Less than 12 months	STCG	15% (Section 111A)	15% (Section 111A)
More than 12 months	LTCG	After exemption of Rs. 1 lakh taxed at 10% (Section 112A) (without indexation)	After exemption of Rs. 1 lakh taxed at 10% (Section 112A) (without indexation)
2)	Listed Shares		
	Shares which are listed on recognized stock exchange.		
Period of holding	Type of Gain	Tax Rate for	
		Resident	Non-Resident
Less than 12 months	STCG	15% (Section 111A)	15% (Section 111A)
More than 12 months	LTCG	After exemption of Rs. 1 lakh taxed at 10% (Section 112A) (without indexation)	After exemption of Rs. 1 lakh taxed at 10% (Section 112A) (without indexation)
3)	Portfolio Management Service (PMS)		
	Portfolio management services construct investment portfolios across various investment options, and portfolio managers take care of the investment portfolio.		
Period of holding	Type of Gain	Tax Rate for	
		Resident	Non-Resident
Less than 12 months	STCG	15% (Section 111A)	15% (Section 111A)
More than 12 months	LTCG	After exemption of Rs. 1 lakh taxed at 10% (without indexation) (Section 112A)	After exemption of Rs. 1 lakh taxed at 10% (without indexation) (Section 112A)
-	Dividend	As per Tax Slab	20% (Section 115A)
4)	Fund of funds (FoFs)		
	Fund of funds are mutual fund schemes that invest in the units of other schemes of the same mutual fund or other mutual funds.		
	It shall be treated as an Equity Oriented Fund if:		
	<ul style="list-style-type: none"> • a minimum of 90% of the total proceeds of such fund is invested in the units of such 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 Recognized Stock Exchange. 		
	If a FoF invests in units of other Equity Oriented fund and fulfills the aforementioned criteria, then it shall be regarded as <u>Equity Oriented Fund</u> .		
	Otherwise it is <u>Other than equity oriented Mutual fund</u> .		
5)	Equity ETF		
	ETFs where the funds are invested in the equity shares or equity-related instruments of domestic companies.		
	Hence, the tax treatment of capital gains made from these ETFs is similar to that of individual shares.		

	Period of holding	Type of Gain	Tax Rate for	
			Resident	Non-Resident
	Less than 12 months	STCG	15% (Section 111A)	15% (Section 111A)
	More than 12 months	LTCG	After exemption of Rs. 1 lakh taxed at 10% (without indexation) (Section 112A)	After exemption of Rs. 1 lakh taxed at 10% (without indexation) (Section 112A)
	-	Dividend	As per Tax Slab	20% (Section 115A)

II. TAXATION OF SPECIFIED MUTUAL FUNDS

Specified Mutual Funds (Section 50AA)

Specified Mutual Fund is a Fund that invests:

- not more than 35% per cent of its total proceeds in the equity shares of domestic companies listed on a recognized stock exchange.
- balance 35% to 100% (i.e. 65% or more than 65%) in other than equity shares of domestic companies listed on a recognized stock exchange.

Category of Specified Mutual Funds

1) Overnight fund	Investment in overnight securities having maturity of 1 day
2) Liquid fund	Investment in Debt and money market securities with maturity of up to 91 days only
3) Ultra Short duration Fund	Investment in Debt & Money Market instruments such that the Macaulay duration of the portfolio is between 3 months - 6 months
4) Low duration fund	Investment in Debt & Money Market instruments such that the Macaulay duration of the portfolio is between 6 months- 12 months
5) Money market Fund	Investment in Money Market instruments having maturity up to 1 year
6) Short Duration fund	Investment in Debt & Money Market instruments such that the Macaulay duration of the portfolio is between 1 year – 3 years
7) Medium duration fund	Investment in Debt & Money Market instruments such that the Macaulay duration of the portfolio is between 3 years – 4 years
8) Medium to long duration fund	Investment in Debt & Money Market instruments such that the Macaulay duration of the portfolio is between 4 – 7 years
9) Long duration Fund	Investment in Debt & Money Market Instruments such that the Macaulay duration of the portfolio is greater than 7 years
10) Dynamic bond	Investment across duration
11) Corporate bond fund	Minimum investment in corporate bonds- 80% of total assets (only in highest rated instruments)
12) Credit risk Fund	Minimum investment in corporate bonds- 65% of total assets (investment in below highest rated instruments)
13) Banking and PSU Fund	Minimum investment in Debt instruments of banks, Public Sector Undertakings, Public Financial Institutions- 80% of total assets
14) Gilt Fund	Minimum investment in Government Securities- 80% of total assets (across maturity)
15) Gilt Fund with 10 year constant duration	Minimum investment in Government Securities - 80% of total assets such that the Macaulay duration of the portfolio is equal to 10 years
16) Floater Fund	Minimum investment in floating rate instruments- 65% of total assets

17) Conservative Hybrid Fund	Investment in equity & equity related instruments- between 10% and 25% of total assets; Investment in Debt instruments between 75% and 90% of total assets		
Taxation of Specified Mutual Funds			
Period of holding	Type of Gain	Tax Rate for	
		Resident	Non-Resident
Irrespective of period of holding, it is deemed STCG (Section 50AA)	STCG	As per Tax Slab	As per Tax Slab

III. TAXATION OF OTHER THAN EQUITY-ORIENTED PRODUCTS

1)	<u>Other than Equity oriented and Non-Specified Mutual Funds</u> A fund that invests: <ul style="list-style-type: none"> • 35% to 65% of its proceeds in equity shares of domestic companies listed on a recognized stock exchange and • the balance in other than equity shares of domestic companies listed on a recognized stock exchange. 		
	Taxation of Other than Equity oriented and Specified Mutual Funds		
	Period of holding	Type of Gain	Tax Rate for
			Resident
	Less than 36 months	STCG	As per Tax Slab
	More than 36 months	LTCG	20% (with indexation) (Section 112)
			Listed- 20% (with indexation) Unlisted- 10% (without indexation)
2)	<u>International Mutual Funds</u> International funds enable investments in markets outside India, by holding in their portfolio one or more of the following: <ul style="list-style-type: none"> • Equity of companies listed abroad. • ADRs and GDRs of Indian companies. • Debt of companies listed abroad. • ETFs of other countries. • Units of passive index funds in other countries. • Units of actively managed mutual funds in other countries. 		
	Period of holding	Type of Gain	Tax Rate for
			Resident
	Less than 36 months	STCG	As per Tax Slab
	More than 36 months	LTCG	20% (with indexation) (Section 112)
			Listed- 20% (with indexation) Unlisted- 10% (without indexation)

3)	<p>Fund of funds (FoFs) Fund of funds are mutual fund schemes that invest in the units of other schemes of the same mutual fund or other mutual funds. It shall be treated as an Equity Oriented Fund if:</p> <ul style="list-style-type: none"> • a minimum of 90% of the total proceeds of such fund is invested in the units of such 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 Recognized Stock Exchange. <p>If a FoF invests in units of other Equity Oriented fund and fulfills the aforementioned criteria, then it shall be regarded as <u>Equity Oriented Fund</u>.</p> <p>Otherwise it is <u>Other than equity oriented Mutual fund</u>.</p>																																
4)	<p>International Fund of Funds International FOFs invest in International Funds which invest in Global companies.</p> <table border="1" data-bbox="118 633 1544 913"> <thead> <tr> <th rowspan="2">Period of holding</th> <th rowspan="2">Type of Gain</th> <th colspan="2">Tax Rate for</th> </tr> <tr> <th>Resident</th> <th>Non-Resident</th> </tr> </thead> <tbody> <tr> <td>Less than 36 months</td> <td>STCG</td> <td>As per Tax Slab</td> <td>As per Tax Slab</td> </tr> <tr> <td rowspan="2">More than 36 months</td> <td rowspan="2">LTCG</td> <td rowspan="2">20% (with indexation) (Section 112)</td> <td>Listed- 20% (with indexation)</td> </tr> <tr> <td>Unlisted- 10% (without indexation)</td> </tr> </tbody> </table>				Period of holding	Type of Gain	Tax Rate for		Resident	Non-Resident	Less than 36 months	STCG	As per Tax Slab	As per Tax Slab	More than 36 months	LTCG	20% (with indexation) (Section 112)	Listed- 20% (with indexation)	Unlisted- 10% (without indexation)														
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Dividend	-	As per Tax Slab																															

7)	Debt, Gold and International ETFs			
	<ul style="list-style-type: none"> • Debt ETFs tracks bonds and invests in fixed income securities They are ETFs where less than 35% of the funds are invested in the equity shares of domestic companies. <u>Note:</u> If such ETFs are purchased after 1.4.2023, they come in the category of Specified ETFs and are taxed in the same manner as Specified Mutual Funds. • Gold ETFs that track the actual price of Gold and invest in Gold. • International ETFs that track stock market indices from different countries around the globe. 			
	Period of holding	Type of Gain	Tax Rate for	
			Resident	Non-Resident
Less than 36 months	STCG	As per Tax Slab	As per Tax Slab	
More than 36 months	LTCG	20% (Section 112) (with indexation)	Listed- 20% (with indexation)	
			Unlisted- 10% (without indexation)	

8)	Bonds and Debentures				
	Type of Investment	Period of holding	Type of Gain	Tax Rate for	
				Resident	Non-Resident
	a) Listed Bonds and Debentures	Less than 12 months	STCG	As per Tax Slab	As per Tax Slab
		More than 12 months	LTCG	10% (without Indexation) (Section 112)	10% (without indexation) (Section 112)
	b) Unlisted Bonds and Debentures	Less than 36 months	STCG	As per Tax Slab	As per Tax Slab
		More than 36 months	LTCG	20% (without Indexation) (Section 112)	10% (without Indexation) (Section 112)
	c) Market Linked Debentures (MLD)	Irrespective of period of holding, it is deemed STCG (Section 50AA)	STCG	As per Tax Slab	As per Tax Slab

IV. TAXATION OF ALTERNATIVE INVESTMENT FUNDS (AIFS)

1)	Category I & Category II:
	<ul style="list-style-type: none"> • Category I shall invest in startups, early stage ventures, Social Venture Funds, SME Funds, Social Impact Funds, Infrastructure Funds, Special situation funds, and such other Alternative Investment funds, etc. • Category II shall invest in Private Equity funds, Debt funds and Fund of Funds. • Pass through status has been granted. • Income other than Business Income is <u>taxable</u> in the hands of <u>Investor</u>. • Business Income is taxed at <u>AIF level</u>. <p>Any Business loss incurred on investments is carried forward and set-off with Business income in the following year.</p>

Taxation of Category I and II Alternative Investment Funds			
Type of Investment	Type of Gain	Tax rate for	
		Resident	Non-Resident
1) Listed Shares	STCG	15%	15%
	LTCG	After exemption of Rs. 1 lakh taxed at 10% (without indexation)	After exemption of Rs. 1 lakh taxed at 10% (without indexation)
2) Unlisted Shares	STCG	As per Tax Slab	As per Tax Slab
	LTCG	20% (with indexation)	10% (without indexation)
3) Listed Non-Convertible Debentures	STCG	As per Tax Slab	As per Tax Slab
	LTCG	10% (without indexation)	10% (without indexation)
4) Unlisted Non-Convertible Debentures	STCG	As per Tax Slab	As per Tax Slab
	LTCG	20% (without indexation)	10% (without indexation)
5) Market Linked Debentures (Section 50AA)	STCG	As per Tax Slab	As per Tax Slab
6) Other types of Income from Investments`	Dividend Income	As per Tax Slab	20% (section 115A)
	Interest Income	As per Tax Slab	As per Tax Slab
	Business Income	Taxed at Maximum Marginal rate (MMR) = basic tax (30%) + surcharge (25%) + education cess (4%) = 39%	Taxed at Maximum Marginal rate (MMR) = basic tax (30%) + surcharge (25%) + education cess (4%) = 39%
2) Category III:	<p>Category III AIF are those which are registered as Category III AIFs.</p> <ul style="list-style-type: none"> • No pass through status granted to Category III AIFs. • Thus, Income from Category III is taxed at <u>AIF level</u> and is <u>exempt</u> in the hands of the <u>Investor</u>. 		
Taxation of Category III Alternative Investment Funds			
Type of Investment	Type of Gain	Tax rate for	
		Resident	Non-Resident
1) Listed Shares	STCG	Taxed at Maximum Marginal rate (MMR) = basic tax (15%) + surcharge (15%) + education cess (4%) = 17.94%	Taxed at Maximum Marginal rate (MMR) = basic tax (15%) + surcharge (15%) + education cess (4%) = 17.94%

		LTCG	Taxed at Maximum Marginal rate (MMR) = basic tax (10%) + surcharge (15%) + education cess (4%) = 11.96%	Taxed at Maximum Marginal rate (MMR) = basic tax (10%) + surcharge (15%) + education cess (4%) = 11.96%
2) Unlisted Shares and Other than equity-Oriented Fund		STCG	Taxed at Maximum Marginal rate (MMR) = basic tax (30%) + surcharge (25%) + education cess (4%) = 39%	Taxed at Maximum Marginal rate (MMR) = basic tax (30%) + surcharge (25%) + education cess (4%) = 39%
		LTCG	Taxed at Maximum Marginal rate (MMR) = basic tax (20%) + surcharge (15%) + education cess (4%) = 23.92%	Taxed at Maximum Marginal rate (MMR) = basic tax (20%) + surcharge (15%) + education cess (4%) = 23.92%
3) Specified mutual funds (Section 50AA)		STCG	Taxed at Maximum Marginal rate (MMR) = basic tax (30%) + surcharge (25%) + education cess (4%) = 39%	Taxed at Maximum Marginal rate (MMR) = basic tax (30%) + surcharge (25%) + education cess (4%) = 39%
4) Other types of Income from Investments		Business Income	Taxed at Maximum Marginal rate (MMR) = basic tax (30%) + surcharge (25%) + education cess (4%) = 39%	Taxed at Maximum Marginal rate (MMR) = basic tax (30%) + surcharge (25%) + education cess (4%) = 39%
		Dividend Income	Taxed at Maximum Marginal rate (MMR) = basic tax (30%) + surcharge (15%) + education cess (4%) = 35.88%	Taxed at Maximum Marginal rate (MMR) = basic tax (30%) + surcharge (15%) + education cess (4%) = 35.88%
		Interest Income	Taxed at Maximum Marginal rate (MMR) = basic tax (30%) + surcharge (25%) + education cess (4%) = 39%	Taxed at Maximum Marginal rate (MMR) = basic tax (30%) + surcharge (25%) + education cess (4%) = 39%

NOTES

1: Basic exemption limit available to NRIs except only in the case of Short term Capital Gain taxed at slab rate. Residents (Individual and HUFs) can avail residual basic exemption limit with respect to tax on capital gains.

2: Rebate can only be claimed by Residents against income other than Equity Long-term Capital Gains (Section 112A).

3: NRIs cannot get rebate under section 87A.

4: Rate of Surcharge as per the new tax regime

Income	Surcharge in old tax regime	Surcharge in new tax regime
Less than Rs. 50 lakh	NIL	NIL
Rs. 50 lakhs – Rs. 1 Crore	10%	10%
Rs. 1 Crore – Rs. 2 Crore	15%	15%
Rs. 2 Crore – Rs. 5 Crore	25%	25%
Rs. 5 Crore – Rs. 10 Crore	37%	25%
More than Rs. 10 Crore	37%	25%