

## Tax Savings with Mutual Fund Investments



November 2009

*Part of the Investor Education Initiative from Canara Robeco Mutual Fund*

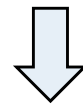
## Contents

- Tax in India
- Tax Saving Investments
  - Fixed Return
  - Variable Return
- Equity Linked Savings Schemes
  - Benefits of Equity Investing
  - Lower Lock – in
  - Multiple Tax Benefits
- Tax Aspects of MF Investments
- Disclosures

## Tax in India – *Income Tax Act, 1961*

- Income tax liability for everyone earning Income in India exceeding maximum exemption limit i.e. Rs. 1,90,000 for Resident Women, Rs. 2,40,000 for Senior Citizens and Rs. 1,60,000 for other individuals and HUFs.
- Taxes are collected by three means-
  - a) Tax Deducted at Source (TDS) on your behalf from the payments received by you
  - b) Tax Collected at Source (TCS) on your behalf at the time of spending
  - c) Voluntary payments like Advance Tax and Self Assessment Tax into various designated banks.
- Possible to move to a lower tax bracket by investing in tax saving instruments

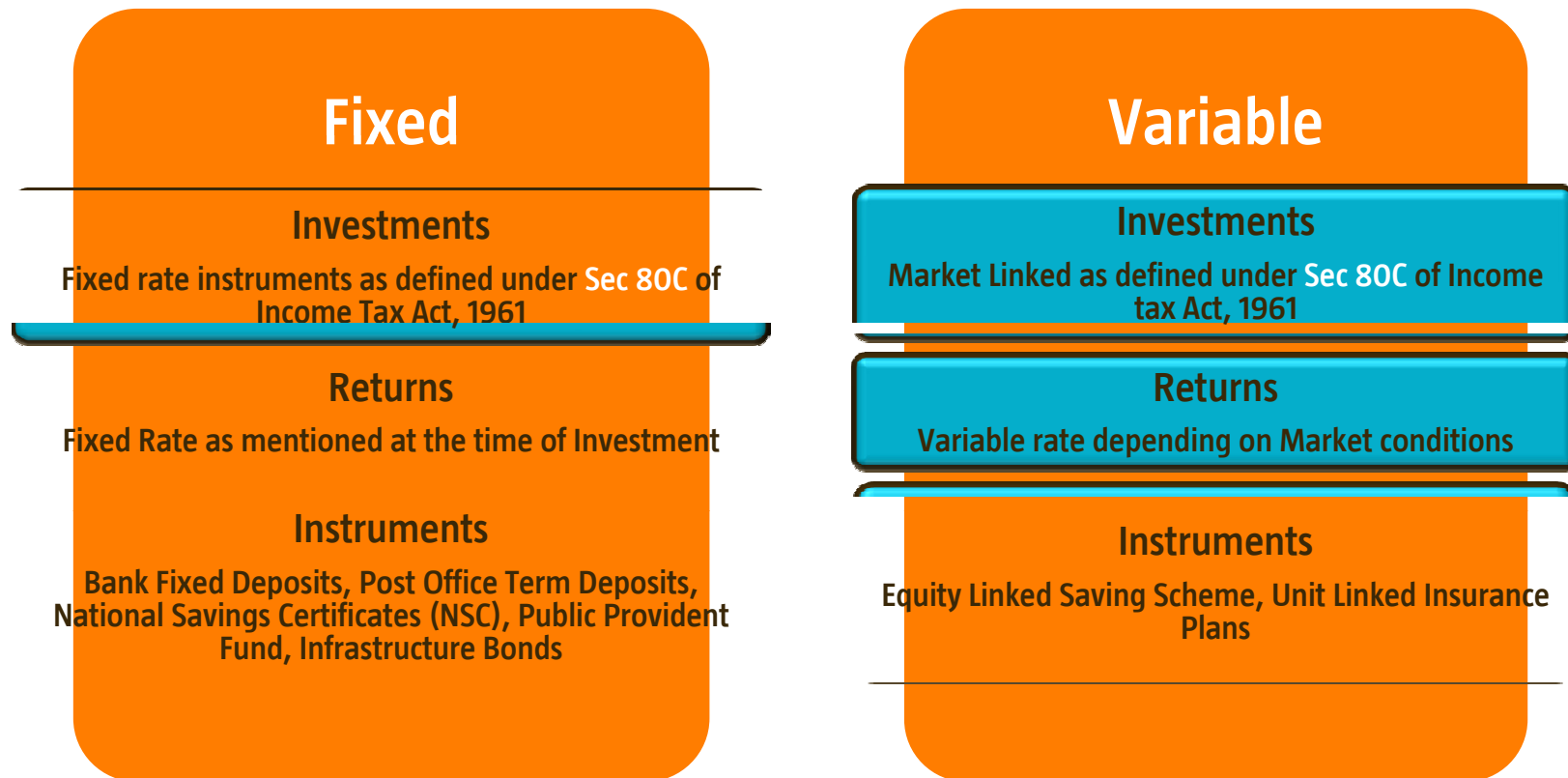
**Tax Payment is mandatory, but proper investment planning ensures tax savings, keeping in mind future requirements**



**Wide range of Tax Saving options available with varying risks , returns and options**

Do you know there are Investments with which you can save TAX???

Tax Saving Investments



## Fixed Return Investments

- Guaranteed 'fixed' rate of interest payable periodically
- 'Safe' with high credit rating banks or backed by government
- Returns in the range of 6-10% p.a.

But...

- Minimum Lock-in period of at least 5 years
- Inflation could erode the minimal returns further
- While the principal invested is Tax exempt, Interest received from these deposits IS taxable at the time of receipt or on due basis

## Variable Return Investments – *Introducing ELSS*

- Equity Linked Savings Schemes are referred to as ELSS schemes which are offered by Mutual Funds for a locked-in period. ELSS schemes are also called as tax saving schemes

### *Investment pattern*

- ELSS funds invest their assets in equity markets
- Portfolio similar to equity-diversified schemes investing across variety of sectors

### *Attractive Avenue*

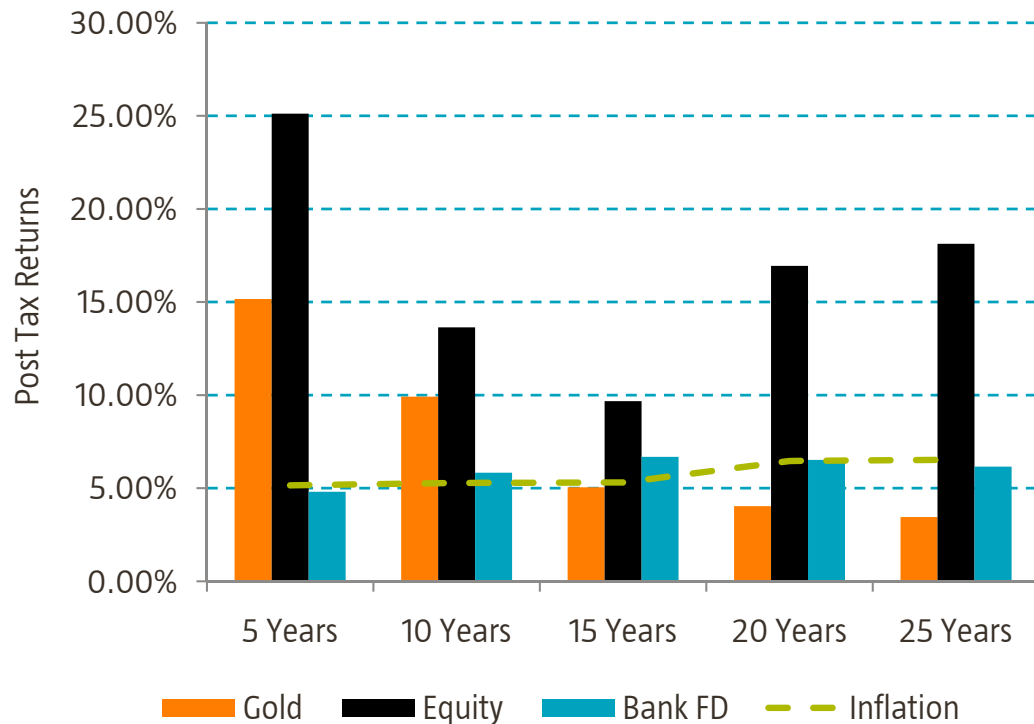
- Most attractive among plethora of tax saving instruments with an opportunity to invest in a diversified, professionally managed equity portfolio at relatively low cost
- Least lock-in period of 3 years as compared to other instruments

### *Options*

- Dividend – regular income for investors
- Growth – capital gains through long term investment

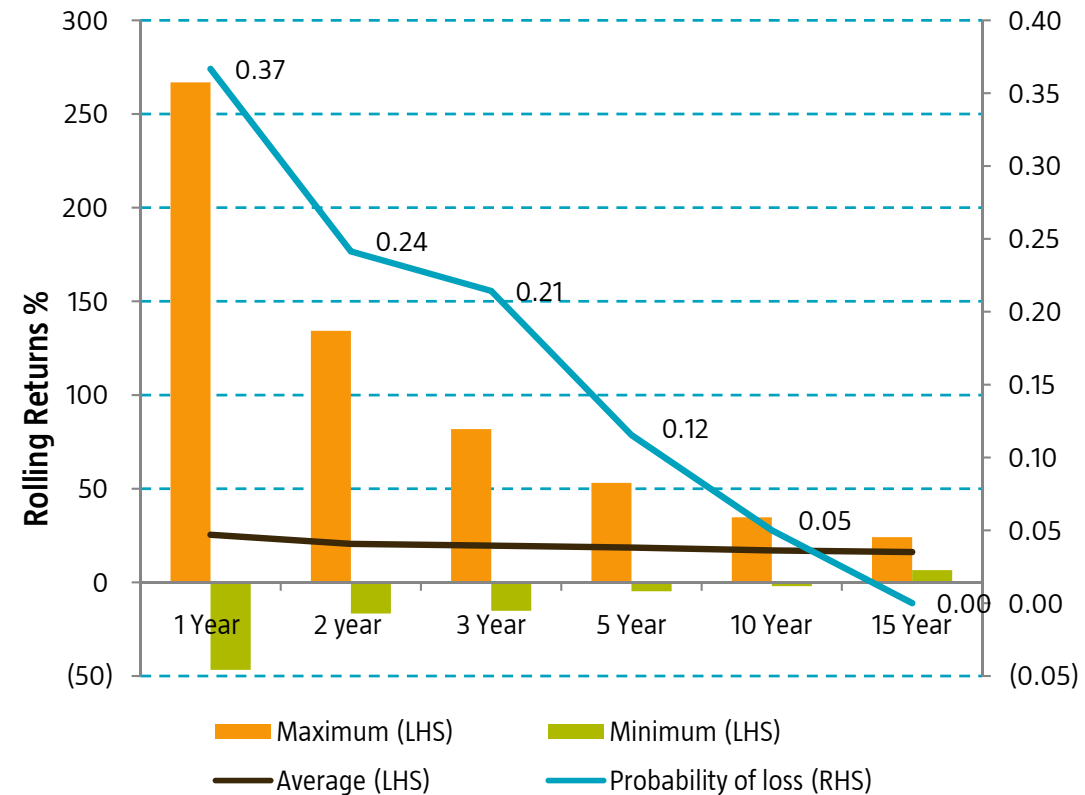
## Benefits of investing in Equities

The only asset class generating real return on post-tax and post-inflation basis across time periods



Equity can help you get through the 'Taxing' times

Equities fare better in long term diminishing probability of loss



Long term investors are less affected by volatility

## Lock-in period helps increase returns



- Helps fund managers focus on long term wealth creation
- Frees him of any unforeseen redemption pressures

- Avoids a risk of timing the entry and exit to the market and reduces the cost of transactions

- Higher post tax real rate of return
- Wealth accumulation by following long term investment strategy

## Multiple Tax benefits under ELSS investments

- **Income Tax Exemption**

Investments of upto Rs. 1,00,000 in an ELSS Fund is deductible from taxable income. For example, if an investor has an income of Rs. 6,00,000 and he invests Rs.1,00,000 in an ELSS, his taxable income reduces to Rs. 5,00,000- amounting to tax savings of about 5% of total income

- **Capital Gains Tax**

Long term capital gains are tax exempt

- **Dividend Distribution Tax**

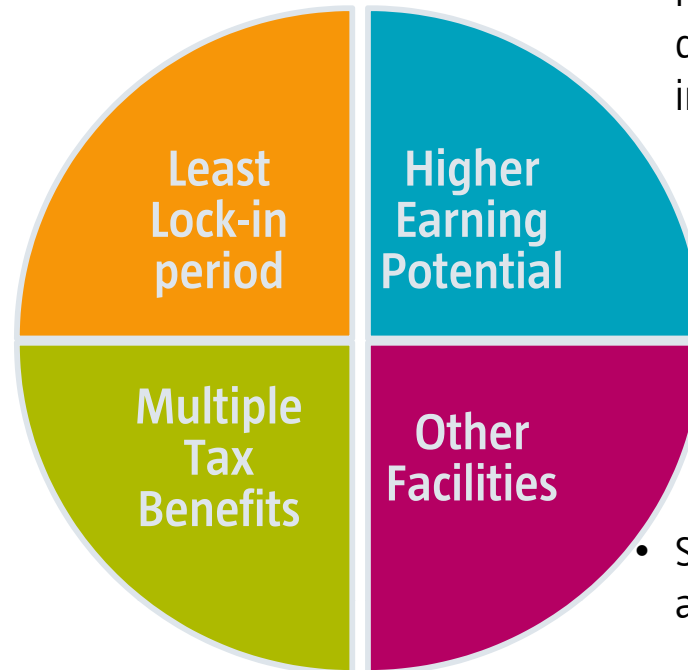
Dividends declared by an ELSS scheme are tax free as well

- **On investment : Enjoy up to Rs.30,900 tax deduction on investment amount(Rs.1 Lakh)**
- **On dividend declaration : Enjoy completely tax free dividends**
- **On maturity : No long term capital gains tax or TDS at the close of the 3 year lock-in period**

## ELSS – *The smart answer to save TAX*

- Least lock-in period of 3 years as compared to other tax saving investments

- By following a controlled risk-return profile of investing in equities, ELSS has a potential of a higher return as compared to traditional fixed return investments



- No Tax on dividend distributed & capitals gains

- Systematic Investment Plan is available for regular investing

## Snapshot on Tax Aspects of Mutual Fund Investments\*

Entity Type	Equity Funds			Other Funds				
	Short Term Capital Gains Tax	Long Term Capital Gains Tax & Dividend Distribution Tax	Tax Deducted at Source	Short Term Capital Gains Tax	Long Term Capital Gains Tax	Dividend Distribution Tax		Tax Deducted at Source
						Liquid / Money Market Funds	Others	
Resident Individual / HUF	15%	Nil	Nil	As per Income Slab	10% without Indexation or 20% with Indexation	25%	12.50%	Nil
Association of Person / Body of Individuals	15%	Nil	Nil	As per Income Slab	10% without Indexation or 20% with Indexation	25%	12.50%	Nil
Partnership Firm	15%	Nil	Nil	As per Income Slab	10% without Indexation or 20% with Indexation	25%	20%	Nil
Domestic Companies	15%	Nil	Nil	As per Income Slab	10% without Indexation or 20% with Indexation	25%	20%	Nil
NRIs	15%	Nil	15% of Gains	As per Income Slab	10% without Indexation or 20% with Indexation	25%	20%	STCG – 30% of Gains, LTCG – 20% of Gains
<i>Plus Surcharge as applicable</i>				<i>Individuals / HUFs / BOIs / AOPs - Nil</i>				
				<i>Corporate, Co-operative Societies, Firms and Local Authorities - 10%</i>				
<i>Plus Education Cess</i>				<i>Education Cess is levied at the rate of 3% on Tax Payable plus Surcharge</i>				

## Statutory Disclosures / Ratings Disclaimers / Risk Factors

- Statutory Details: Canara Robeco Mutual Fund (CRMF) has been set up as a Trust under Indian Trust Act, 1882. Sponsors: Canara Bank, Head Office, 112 J C Road, Bangalore; Robeco Groep N.V., Coosingel 120, 3011 Rotterdam, The Netherlands.
- Risk Factors: Mutual Funds and securities investments are subject to market risks and there can be no assurance or guarantee that the objectives of the scheme will be achieved. As with any investment in securities, the NAV of the units issued under the scheme may go up or down depending on the various factors and forces affecting capital markets and money markets. Past performance of the sponsors / Investment Manager / Mutual fund does not indicate the future performance of the scheme and may not necessarily provide a basis of comparison with other investments. The Sponsors of the Fund are not responsible or liable for any loss or shortfall resulting from the operations of the schemes of CRMF, beyond the initial contribution of a sum of Rs. 10 lacs made towards setting up of CRMF. Investors should read the Scheme Information Document for Scheme specific risk factors and other details before investing. Ratings Annexure