

FAQs on Stamp Duty on Mutual Fund Units

1. What are the amendments in the Stamp Duty?

- Pursuant to amendments in the Indian Stamp Act announced by the Ministry of Finance (MoF) vide letter dated June 26, 2020, the stamp duty will be levied on securities transactions, including mutual fund units with effect from July 1, 2020, as per the rates mentioned in below table.

Description	Applicable New Rate
Issue of Security	0.005%
Transfer of Security	0.015%

2. Does Mutual Fund come under the securities as per Indian Stamp Act, 1899?

- Yes. Sub-section 23A of Section 2 of the Indian Stamp Act, 1899 in finance Act, 2019 (the Stamp Act) defines securities as including securities as defined in clause (h) of section 2 of the Securities Contracts (Regulation) Act, 1956 (SCRA 1956).
- Further, clause(h)(id) of Section 2 of SCRA 1956 which defines "Securities" includes "units or any other such instrument issued to the investors under any mutual fund scheme" under its ambit. Therefore. Units of Mutual Fund schemes are to be considered as securities.

3. What is the effective date for implementation of Stamp Duty on Mutual Fund transactions?

- Effective date is July 1, 2020.

4. What is the applicable rate for mutual fund transactions?

- 0.005% will be levied on mutual fund transaction involving unit creation & 0.015% for transfer of units.

5. What are the transactions will attract the Stamp Duty?

- Stamp Duty will be applicable to transactions involving unit creation like Purchase (Lumpsum or SIP), Switch-in, Transfer-in and Dividend Re-investment, irrespective transactions are fulfilled in physical (statement of account) mode or de-mat mode.
- Transfer of units from one de-mat account to another de-mat account including market / off market transaction.
- Stamp duty would be applicable for transfer of units both in physical form and Demat form.

6. Will Stamp Duty be applicable during redemption?

- Stamp duty is not applicable to redemption transaction. Redemption is neither a transfer nor an issue nor a sale.

7. What type of categories of mutual fund schemes will attract Stamp Duty?

- Stamp Duty will be levied on all the categories of mutual fund schemes during unit creation or transfer of Units, Switch in.

8. Will Stamp Duty be applicable for Index Fund and ETFs?

- Yes. All types of Schemes of Mutual Funds are covered under Stamp duty.

9. What would be the impact on units created under dividend re-investment?

- For units created under dividend re-investment, stamp duty will be applicable on dividend amount (less TDS, if any). The Units will be created on the net amount after adjusting TDS and stamp duty.

10. Does Stamp Duty get levied on value of units including service charges, AMCs Fees , GST etc.?

- No, Stamp Duty will be levied at the time of creation of units based on the value of units. For example: If the purchase amount is ₹ 1 Crs, then ₹ 500/- would be deducted as stamp duty and units will be allotted on ₹ 99,99,500.

11. Whether Investor will get the credit of stamp duty paid on creation of units?

- No, there is not set-off or credit available for the stamp duty paid on creation of units.

12. Whether Investor will get deduction of stamp duty while computing the tax liability for the profits/capital gain?

- Yes, while computing the tax on capital gain/profit, stamp duty will be allowed as expenses.

13. How the Stamp Duty will be levied to the investors?

- For units issued/created to the investors whether it is in de-mat or physical mode (account statement) for transactions (purchase, switch-in, transfer-in, dividend re-investment etc) Stamp Duty will be deducted from the net investment amount i.e. gross investment amount less any other deductions like transaction charge, TDS etc and then deduct stamp duty and create/issue units on the net amount (i.e. Gross Investment Amount – Charges/TDS – Stamp Duty = Net Investment amount /applicable NAV = Units allotted/created).

Illustration:

Particulars	Overnight Fund				
Invested Amount (in Rs.) (A)	10,00,000	10,00,000	10,00,000	10,00,000	10,00,000
Stamp Duty	0.005%	0.005%	0.005%	0.005%	0.005%
Stamp Duty Amount (in Rs.) (B)	50	50	50	50	50
Actual Amount investment (in Rs.) (C) = (A-B)	9,99,950	9,99,950	9,99,950	9,99,950	9,99,950
Return on investment	3.00%	3.00%	3.00%	3.00%	3.00%
No. of days holding	1	3	5	7	10
Absolute return on investment (in Rs.) (D)	82	247	411	575	822
Market value at the redemption (in Rs.) (E=C+D)	10,00,032	10,00,197	10,00,361	10,00,525	10,00,772
Absolute Return (in Rs.)	32	197	361	525	772
Actual Return on your investment	1.17%	2.39%	2.63%	2.74%	2.82%

Particulars	Liquid Fund				
Invested Amount (in Rs.) (A)	10,00,000	10,00,000	10,00,000	10,00,000	10,00,000
Stamp Duty	0.005%	0.005%	0.005%	0.005%	0.005%
Stamp Duty Amount (in Rs.) (B)	50	50	50	50	50
Actual Amount investment (in Rs.) (C) = (A-B)	9,99,950	9,99,950	9,99,950	9,99,950	9,99,950
Return on investment	4.00%	4.00%	4.00%	4.00%	4.00%
No. of days holding	7	10	30	60	90
Absolute return on investment (in Rs.) (D)	767	1,096	3,288	6,575	9,863
Market value at the redemption (in Rs.) (E=C+D)	10,00,717	10,01,046	10,03,238	10,06,525	10,09,813
Absolute Return (in Rs.)	717	1,046	3,238	6,525	9,813
Actual Return on your investment	3.74%	3.82%	3.94%	3.97%	3.98%

14. What would be the impact of Stamp Duty on Mutual Fund Schemes?

- Investors with Short term Investment horizon would be impacted more because Stamp Duty is being charged as one time charge. As can be seen in the above table, actual return on investment is higher with long term investment horizon.

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