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| THEWEALTHWISHER | **Stamp Duty Applicability on Mutual Fund Investments Effective 1st July, 2020** |

1) **What is the back ground of Stamp Duty being levied on Mutual Fund Units?**
Finance Act 2019 amended Indian Stamp Act, 1899 to create a mechanism to enable states to collect stamp duty on all securities market instruments, including mutual fund units.

Government of India later notified the 'Indian Stamp (Collection of Stamp-Duty through Stock Exchanges, Clearing Corporations and Depositories) Rules, 2019' which was originally effective from 9th January 2020 but later postponed to be effective **from 1st July, 2020**.

2) **Transactions? What are the transactions in mutual fund wherein Stamp Duty will be applicable?**
Stamp Duty is applicable at the instance of Investment i.e. buying of units. Hence, any transaction that results in Issuance or Transfer of Units to the investor will be subject to Stamp Duty. Such transactions are:
a) Purchase of Units
b) Switch-in of Units
c) Systematic Investment or Transfer installments (SIP/STP).
d) Dividend Reinvestment of Units
e) Buying units on stock exchange through a stock-broker e.g. ETF, Closed ended schemes
f) Off-market transfer of units i.e. Transfer of units from one demat account to another demat account

**However, Stamp duty is not applicable in following transactions**
a) Where the existing units are converted from Physical to Demat and vice versa
b) Where the existing units are transferred to Claimants as a result of Transmission of units.

To further clarify, stamp duty is not applicable in transactions like Redemptions, Switch out, Dividend Payment.

3) **Rates: What are the applicable Stamp Duty rates?**

| In MF Units parlance | Stamp Duty Rate | As mentioned in Finance Act 2019 |
|---|---|---|
| Units issued by the Mutual Fund schemes in Physical or Demat form, in all modes of transaction including various Mutual Fund Transaction platforms offered by the stock exchanges. | 0.005% | Issue of security other than debenture |
| Trading of Mutual Fund units listed on the Stock Exchange (SE) example ETFs, Close ended Schemes, or Transfer of dematerialized units | 0.015% | Transfer of security other than debenture on delivery basis |

**4) What is the value on which Stamp Duty will be charged?**

a) 0.005% is the Stamp duty rate applicable of the net investment amount, i.e.
   i. Amount paid by the investor minus transaction charges in case of purchases,
   ii. Gross dividend amount minus TDS in case of dividend re-investment.

b) 0.015% of the value at which units are bought, in case of buying mutual fund units listed on a stock exchanges (e.g. Closed ended schemes, ETFs).

c) 0.015% of the value at which units are bought, in case of transfer of units from one demat account to another demat account including off market transfers.

*Note: All the subsequent questions in this document pertain to transactions in mutual fund units with AMC / RTA or through Stock Exchange Platforms like StarMF, MFSS, ICEX.*

*With respect to transactions in "Listed Units", like ETFs, on stock exchanges (similar to equity shares), the stamp duty will be levied on the transaction amount by the stock exchanges, details of which will be available to investors through their stock brokers.*

**5) How is Stamp Duty calculated?**

Stamp duty is to be charged on the net amount for which the units are allotted and not on the gross amount. As a result, there is a reverse calculation to be done to compute the stamp duty on the net amount, as "Amount Paid by Investor / 100.005% x 0.005%", where 0.005% is the stamp duty rate.

**Examples on computation of stamp duty for purchase, switch-in, dividend re-investment.**

| **(all amounts in Rs.)** | **Purchase** | **Switch-in** | **Dividend Reinvest** |
|---|---:|---:|---:|
| Amount received from investor for purchase; Switch-in amount in case of switch or Dividend amount in case of Dividend Reinvest | 1,50,000/- | Rs 15,000/- | 6,500.00 |
| Less : Transaction charges on purchase or TDS on Dividend, if applicable | 100/- | NA | 487.50 |
| Balance | 1.49,900/- | 15,000/- | 6,012.50 |
| Stamp Duty computation | 1,49,900/100.005% *0.005% | 15,000/100.005%* 0.005% | 6,012.50/100.005% * 0.005% |
| Stamp Duty Amount (round off to 2 decimals) | 7.49 | 0.75 | 0.30 |
| Amount available after stamp duty deduction for which units will be allotted | 1,49,892.51 (1,49,900 minus 7.49) | 14,999.25 (15,000 minus 0.75) | 6,012.20 (6,012.50 minus 0.30) |

**6) How will the stamp duty be collected from the investor?**

a. On issuance or allotment of units (e.g Purchase, Switch-in, Dividend Reinvestment) by mutual fund schemes, the Mutual fund shall deduct the stamp duty from the subscription amount paid by the investor and allot units for the balance as illustrated above.
b. On units bought on the stock exchange, the stock exchange shall collect the stamp duty from the broker through whom the units are bought and the stock broker in turn shall collect from the investor
c. On units transferred (off-market transfers), the stamp duty shall be collected by the depositories from the Transferor through their DP

**7) How will one know about Stamp duty levied? Whether any certificate will be issued for stamp duty collected?**

The Stamp Duty collected will be shown in the Account Statement of the Investor. No separate certificate will be issued. Below is a sample display in Account Statement:

| Date | Transaction Type | Amount ₹ | NAV ₹ | Price ₹ | Units | Unit Balance |
|---|---|---|---|---|---|---|
| **DSP Small Cap Fund - Regular Plan - Growth** | | | | | ISIN | : INF740K01797 |
| | Opening Balance as on : | | | | | 0.000 |
| 29/05/2020 | *Purchase-BSE - Physical - ARN-....* | 9,999.50 | 18.000 | 18.000 | 555.528 | 555.528 |
| 29/05/2020 | *Gross Investment Amount: Rs.10000/-; Stamp Duty charges Levied* | 0.50 | | | | |
| 12/06/2020 | *Purchase Physical - ARN-.....* | 9,899.50 | 20.000 | 20.000 | 494.975 | 1,050.503 |
| | *Gross Investment Amount: Rs.10000/-; Transaction Charges Levied* | 100.00 | | | | |
| | *Gross Investment Amount: Rs.10000/-; Stamp Duty charges Levied* | 0.50 | | | | |

**8) Is there any difference in rates for different schemes of mutual funds or different categories of Investors?**

**No.** There is no difference in applicability and rates of Stamp Duty. The same rate of duty is applicable on all categories of mutual fund schemes (Equity, Debt, Liquid, ETF, etc.) as well as to all categories of investors (Individuals, NRIs, Corporates, etc.)

**9) Is there any difference in Stamp Duty, if the Mutual Fund units are bought in Demat form or otherwise?**

**No.** There is no difference. The same rate is applicable whether the units are bought in Demat mode or in Physical mode.

**10) Is there any exemption or threshold limit for applicability of stamp duty**

**No.** There is no exemption or threshold limit, stamp duty will be applicable on all amounts.

**Probable Impact**:
Investors who churn their portfolios frequently would be impacted more due to the stamp duty being levied.

**Example 1**: The below table shows the impact difference in redemption value when no stamp duty is levied and when stamp duty is levied:

| Parameters | No Stamp Duty | Stamp Duty Levied |
|---|---|---|
| Initial Investment | 10,00,000.00 | 10,00,000.00 |
| Stamp Duty | -- | 49.998 |
| Investment Amount post Stamp Duty | -- | 9,99,950.002 |
| Purchase NAV | 15.00 | 15.00 |
| No. of Units | 66,666.667 | 66,663.333 |
| Redemption NAV | 16.00 | 16.00 |
| Redemption Value | 10,66,666.667 | 10,66,613.336 |

The above example is for illustration purpose only and should not be construed as indicative returns for UTI MF schemes

**Example 2**: Let us assume a fund is giving 5% returns and Rs. 10,00,000 is invested in the same. The following table shows the impact of same if an investor stays invested for different holding periods:

| Holding Period (Days) | Redemption Value without levy of Stamp Duty (Rs.) | Redemption Value with levy Stamp Duty (Rs.) | Probable Return Differential |
|---|---|---|---|
| 7 | 1,000,958.90 | 1,000,908.86 | 0.274% |
| 14 | 1,001,917.81 | 1,001,867.71 | 0.137% |
| 30 | 1,004,109.59 | 1,004,059.39 | 0.064% |
| 90 | 1,012,328.77 | 1,012,278.15 | 0.021% |
| 180 | 1,024,657.53 | 1,024,606.30 | 0.011% |
| 365 | 1,050,000.00 | 1,049,947.50 | 0.005% |

The above example is for illustration purpose only and should not be construed as indicative returns for UTI MF schemes. It may also be noted that besides stamp duty on issue of units, stamp duty at the prescribed rates is also applicable on sale, transfer including off market transfer and on stock exchange, whether delivery based or otherwise, derivatives will also attract stamp duty as prescribed under the Indian Stamp Act 1899 and the Rules made thereunder and the Collecting Agent will be collecting the stamp duty.

**Mutual Fund Investments are subject to market risks, read all scheme related documents carefully.**