PERSONAL FINANCE AND TAX PLANNING

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The Finance Act, 2020 has introduced alternative optional low rate Tax regime with the rationale of simplification so that individuals do their tax management themselves without any professional advice or consultation on savings/expenditures and investments for tax planning as the new system does not allow the existing deductions and exemptions except a few. Perhaps it is an economic compulsion for consumption boost, compromising savings and supply side management. However, so long the old system is there, deductions/exemptions exceeding break-even point of Rs.250000/- at income level of Rs. 15 lakhs and more (similarly at lower level of income), old regime shall always be better. In absence of motivation for forced savings and investments coupled with COVID-2019 pandemic, more importance arises on Personal Finance for carefully planned savings and prudent investments to achieve various short/medium/long term financial goals of life including social security. This article is emphasizing only one aspect of personal finance of tax planning with a view to optimizing tax liability to increase real return on investment besides impact of inflation and risk-return trade off. Reference of any provision of law shall be pertaining to the Indian Income Tax Act, 1961 unless otherwise specified.

Emergency/contingency Fund:

In personal finance thumb rule for emergency/contingency fund is estimated to be six months equivalent of household expenses. Now, salary cut/job loss/ closure or scale down of business in COVID-19 pandemic scenario demands emergency/contingency fund at least for 12 months requirement of household expenses. Total emergency fund may be divided in to Bank savings account, sweep-in or multiplier account and liquid debt fund in order of increasing rate of interest. Tax on bank interest is on periodical accrual basis whereas it is only on redemption of debt funds as short term capital gains tax up to holding period of three years at applicable slab rates.

Life Insurance:

and foremost of personal finance is income protection of dependents by life insurance policy. Insurance plans comprise of traditional endowment products of specific periods, money back policy and whole life policy with twin components of insurance and investment, guaranteed benefits and non-guaranteed bonus having nominal overall return. Term insurance plans are exclusively for protection with very low premium, claims allowed to nominee only if the insured dies within period of coverage.

Modern version of insurance product is market linked ULIPs (Unit Linked Insurance Plans), unified hybrid schemes where one part of investment goes for life risk coverage and remaining part is invested in a fund of specified asset allocation of equity and debt as per choice and risk appetite of the insured.

Taxation – Premium paid in endowment and term plans up to 10 % of sum assured and investment in ULIPs are qualified for deduction u/s 80C limit of Rs.1.50 lakhs subject to the conditions that (1) single premium policy to be continued at least for two years and (2) in other cases premium to be paid for minimum two years, for ULIPs five years. In case of failure of conditions earlier deductions shall be treated as income of the year of non-compliance. Subject to compliance of above conditions, maturity claims and death benefits shall be tax free u/s 10(10D).

Surrender value after mandatory lock-in period of one/three/five years for single premium policy/other endowment policies/ULIPs respectively is also tax free and so is the switching of one scheme to another in ULIPs.

Cost-benefit and liquidity in terms of rate of return from all kinds of insurance plans including ULIPs of generally long duration of 20-30 years is very low, as such, insurance is not advisable for investment purpose. Term insurance plan of 10-12 times yearly income at low premium for protection and other investment products for investment purpose are always recommended.

Health Insurance:

Besides life insurance, health insurance is of most priority for risk coverage in a prudent financial planning. Tax benefit on medical insurance premium for an individual/HUF (resident/non-resident) u/s 80D from Assessment Year (AY) 2019-20 is as follows:

		Family	Parents
A	Maximum deduction applicable	25000	25000
B	Additional for sr. citizen (60 years)	25000	25000
	Medical exp. for sr. citizen (60 years) In absence of medi -claim insurance	50000	50000
C	Maximum deduction in respect of (A) and (B)	50000	50000

Note:

(1) Family includes individual, spouse and dependent children.
(2) Parents include father and mother (dependent or otherwise).
(3) (A) Includes aggregate payment on health check -up for family and parents maximum up to Rs.5000 .
(4) No cash payment is allowed except for health check-up.
(5) Payment should be out of income chargeable to tax.

Corona Kavach and Corona Rakshak:

Insurance Regulatory and Development Authority of India (IRDAI) has mandated that all general insurers provide a COVID-specific health-insurance plan, named 'Corona Kavach'.

The regulator has also issued guidelines for another COVID-specific plan, named 'Corona Rakshak'. But it is not mandatory for insurance companies to offer this plan.

Corona Kavach - both individual and family floater options are available, Minimum/maximum entry age- 1 day/65 years, coverage- Minimum Rs.50000 and maximum Rs.5 lakhs, policy tenure- 3.5/6.5/9.5 months, cashless hospitalization similar to normal health insurance as well as home care treatment with cost of PPE shall be indemnified, waiting period for policy implementation- 15 days, single premium policy.

Korana Rakshak - only individual policy available, Minimum/maximum entry age-18 years/65 years, coverage- minimum Rs.50000 and maximum Rs. 2.5 lakhs, tenure- 3.5/6.5/9.5 months, lump sum assured amount is paid if hospitalized with positive diagnosis at least for 72 hours, waiting period for policy implementation- 15 days, single premium policy.

Regular policies are expected to cover hospitalization expenses of COVID-19.

Taxation is covered u/s 80D.

Fixed income debt funds:

Bank fixed deposit/Term deposit/Time deposit: Periodic interest either received or accrued is taxable at applicable slab rate under the head 'income from other sources'. Interest is compounded either quarterly, half yearly or annually across banks. TDS(tax deducted at source) of 10% applicable if the aggregate amount of interest in a financial year exceeds Rs.50000 for senior citizen (60 years) from AY 2019-20 and Rs.40000 for others from AY 2020-21 u/s 194A. Earlier exemption limit was Rs.10000. TDS without PAN is 20% and for Non-resident Indian 30%.Premature encashment is allowed usually with penalty. Deposit is insured up to Rs. 5 lakhs from FY 2020-21 by Deposit Insurance and Credit Guarantee Scheme of India in case the bank fails. For resident individual senior citizen (60 years) aggregate amount of interest from fixed deposit/ Savings bank account/ recurring deposit/post office schemes up to Rs.50000 per year is exempt from tax u/s 80TTB from AY 2019-20.

It may be noted individual/HUF below 60 years get exemption of savings bank interest only up to Rs.10000 u/s 80TTA.TDS is not applicable on interest from savings bank account.

Rate of interest (varying with tenure of deposit) depends on economic factors and policy of Reserve Bank of India. Present lowering trend (around 5% on FD) is posing a great risk of capital erosion.

Bank recurring deposit: Monthly predefined investment earns a fixed rate of interest (more than savings bank account) through entire tenure available for 6 months to 10 years. Interest is taxable as income from other sources and subject to TDS of 10% on entire amount (threshold for time deposit not applicable) u/s 194A.

Five year (tax saving) fixed deposits: deposits in banks except co-operative and rural banks with lock-in period of 5 years, no loan is allowed against such deposits and post office 5 year time deposits are allowed deduction u/s 80C limit of Rs.1.50 lakhs. Interest credited is taxable as income from other sources at applicable slab rate and subject to TDS of 10% (amount included in aggregate of threshold for time deposit u/s 194A).

Senior citizen savings scheme (SCSS): Resident individual senior citizen of age 60 years and above, voluntary retired resident individual of over 55 years and retired defence personnel of over 50 years can avail this safe investment scheme guaranteed by Govt. of India. Minimum investment Rs. 1 lakh and maximum investment limit in single or joint with spouse mode is Rs. 15 lakhs.

Maturity and Lock-in period is 5 years extendable at applicable rate of interest at that time up to 8 years, pre-matured withdrawal is allowed with penalty (1.5% after one and before two years, 1% after two years). Fixed interest is paid on quarterly basis (not reinvested).

Investment is allowed deduction u/s 80C and interest is taxable under the head 'income from other sources' at applicable slab rate. Interest is reviewed quarterly (7.4% p.a. during July-Sept.2020) applicable for new investors. Threshold for TDS u/s 194A and exemption u/s 80TTB is applicable. Rate of interest applicable at the time of opening account shall continue for entire tenure of 5 years.

Pradhan Mantri Vaya Vandana Yojona (PMVVY-Modified 2020):

This is the modified form of PMVVY Govt. subsidized pension scheme of Life Insurance Corporation of India (LIC) for senior citizen expired on 31st March, 2020, extended up to 31st March, 2023.

Features of the scheme: - tenure- 10 years, maximum investment- Rs. 15 lakhs per senior citizen (Rs. 30 lakhs by two separate accounts of husband and wife), options of monthly/quarterly/half-yearly/yearly pension. Maximum monthly pension is Rs.9, 250 at interest rate of 7.40% p.a. for the year 2021. Interest shall be reviewed on 1st April of every year. Pre-matured exit is allowed only for treatment of critical/terminal illness of self or spouse with 2% penalty. On completion of 3 years loan of 75% is available. On death/survival purchase price shall be refunded to beneficiary/pensioner respectively. Investment is deductible u/s 80CCC within Rs. 1.50 lakhs u/s 80C and Pension amount shall be taxable at applicable slab rate.

Annuity plans:

Insurance companies provide various types of annuity plans to serve as retirement plans for regular flow of fixed/growing income with or without life cover for a fixed tenure or lifelong for single or joint holder.

Annuity may be immediate or deferred. In case of immediate annuity one time lump sum investment is made and periodical annuity pay out starts immediately thereafter as per terms of the contract monthly/quarterly/half-yearly/annually. In deferred annuity corpus is accumulated with regular premium for certain tenure of a policy called accumulating stage, vesting stage starts thereafter with regular annuity pay outs. Alternatively, make the lump sum deposit and start annuity payment after certain periods. Fixed amount of regular annuity pay out depends on features of the scheme selected, amount invested, rate of interest, tenure of scheme, age of annuity holder etc. Pay out options available are (i) life annuity, (ii) life annuity with return of purchase price, (iii) joint life and last survivor without return of purchase price, (iv) joint life and last survivor with return of purchase price and (v) life annuity guaranteed for five/ten/15 years and thereafter.

LIC is currently providing annuity pension plan called **'Jivan Shanti'** where return is around 6% p.a. fixed for the entire tenure.

Tax benefit –Contribution towards pension fund is deductible u/s 80CCC jointly with section 80C aggregate limit of Rs.1.50 lakhs. Pension amount shall be taxable at applicable slab rate.

Though less tax benefit, may not be inflation protected, it is safe investment for regular income of retiree without any risk.

PPF (Public Provident Fund):

It is a long term Govt backed fixed income debt instrument with zero default suitable for accumulation stage of life to be opened in post office or bank with annual minimum and maximum investment of Rs.500 and Rs.150000, maximum 12 times deposit per year is allowed. Tenure is 15 years (matured on 1st April of 17th year) extendable for 5 years block at a time without limit with or without contribution, Interest is compounded annually but paid on maturity and subject to quarterly review (7.1% p.a. during July-Sept.2020).

Liquidity is provided in terms of loan from third year to sixth year and withdrawal once in a year from seventh year(including year of opening in both cases). Loan amount- maximum up to 25% of account balance including interest at the end of 2nd year immediately preceding the year of application, at current interest rate of 2% p.a. if principal is repaid lump sum or monthly installment within 36 months after year of loan after which interest shall be 6% p.a., interest amount to be paid in 2 monthly installments. 2nd loan shall be given after repayment of 1st loan only.

Withdrawal amount (non-refundable) shall be 50% of accounts balance at the end of 4thpreceding or immediate preceding financial year of withdrawal whichever is lower.

Tax benefit is on the principle of Exempt-Exempt-Exempt which means yearly deposit is exempt u/s 80C, both accrued interest and withdrawal of matured value are tax exempt.

EPF (Employees Provident Fund):

Tax treatment- Recognized Provident Fund (recognized by Commissioner of Income Tax)- (1) employees contribution is deductible u/s 80C, (2) employer's contribution is exempt up to 12% of salary, beyond that taxable, salary means basic + DA (if terms of service so provides), (3) accrued annual interest credited is exempt up to 9.5% p.a., beyond that taxable, (4) Withdrawal of total amount on retirement is exempt if total period of continuous service (including present and previous employment with transfer of PF balance) is equal to or more than 5 years, (5) in case of termination due to ill health or closure of employer's business or any reason beyond the control of employee, withdrawal amount is exempt from tax(no TDS) even though period of service is less than 5 years, (6) withdrawal amount is taxable if continuous service is less than 5 years with TDS of 10%/30%(with PAN/without PAN), if the amount is more than Rs. 50000, (no TDS if form 15G/15H submitted), no TDS if the amount is less than Rs.50000, (7) in less than 5 years' service employees' own contribution is taxable only if section 80C benefit availed. Employer's contribution with interest there on and employee contribution is taxable under head 'Salary', interest on employee contribution is taxable under head 'income from other sources'. (8) If service is discontinued before 5 years, 75% of accumulated corpus can be withdrawn after one month and balance 25% shall be withdrawn after 2 months of unemployment, (9) Employer's aggregate contribution in excess of Rs.750000 per year and interest/dividend thereon in the schemes- recognized provident fund, NPS and approved superannuation fund shall be taxable as perquisites from Ay 2021-22.

Statutory provident Fund- (1) employee contribution is eligible for section 80C deduction. (2) Any amount of employer's contribution, total interest credited and withdrawal of total balance on retirement is exempt from tax.

Unrecognized Provident Fund- (1) Section 80C deduction is not available on employee contribution. (2) Any amount of employer's contribution, total interest credited is exempt from tax. (3) On withdrawal on retirement employee contribution is exempt; interest on employee contribution is taxable under head 'income from other sources', employer contribution with interest there on is taxable under the head 'Salary'.

NSC (National Savings Certificate) VIII issue:

It is a Govt. backed fixed income investment product for Indian resident available in post office with minimum investment of Rs.1000 without any upper limit, maturity and lock-in period being 5 years, transferable across post offices, loan facility on pledging, premature exit on death only. Quarterly revised rates are applicable for new investors only (6.8% during July- Sept.2020).

Investment is tax exempt u/s 80C limit of Rs.1.50 lakhs. Annually compounded interest is taxable on accrual basis (no TDS)and its automatic reinvestment is eligible for deduction u/s 80C except for the last year.

SSY (Sukanya Samriddhi Yojana):

Resident Indian parent/legal guardian of girl child of age 10 or below can open SSY account in post office or authorized commercial banks in the name of girl child with a minimum deposit of Rs.250 and maximum up to Rs.1.50 lakhs in a year in multiple chosen frequencies. Yearly compounded interest is subject to quarterly review (7.6% p.a. during July-Sept.2020).

Two accounts for two girl children are allowed, in special situations three accounts are allowed where two girls in 2nd birth or three girls in 1st birth itself are born.

Maturity is 21 years but account can be closed after marriage on attaining age of 18, so lock-in period is 8 years after which partial withdrawal up to 50% of preceding year's balance is allowed for the purpose of marriage or education.

Tax benefit is on the model of Exempt-Exempt-Exempt, that is, investment is deductible u/s 80C, accrued interest is tax exempt and maturity value is also tax free.

Post office small saving schemes:

Post office recurring deposit – 5 year scheme with monthly equal deposit of any amount (minimum Rs.100), interest being compounded quarterly payable on maturity, rate of interest is revised quarterly applicable for new investors (5.8% p.a. during July-Sept 2020), no tax benefit on investment, accrued interest is taxable, no tax deducted at source.

Post office savings account scheme- Minimum deposit is Rs.500 with no upper limit. Interest is around 4% p. a. credited annually. Interest is tax exempt up to Rs.3500 in a single account and Rs.7000 in a joint account u/s 10(15) (i). Additionally the amount above Rs.3500/7000 shall be included in deduction amount of Rs.10000 u/s 80TTA and Rs.50000 u/s 80TTB.

Post office time deposit–similar to bank fixed deposit of tenures one, two, three or five years with fixed rate of interest compounded quarterly, rate is revised quarterly for new investors (5.5% p.a. for 1,2,3 years and 6.7% p.a. for 5 years tenure during July-Sept.2020).Minimum lump sum deposit is Rs. 1000 with no upper limit, pre-matured withdrawal after six months with graded penalty. Deposit for 5 years scheme only qualifies for deduction u/s 80C, interest is taxable (no TDS).

Post office monthly income scheme – 5 year deposit scheme with fixed interest during entire period of investment paid monthly as regular income, interest is reviewed quarterly applicable for new investors (6.6% p.a. during July-Sept.2020), maximum investment on single account Rs. 4.5 lakhs, joint account Rs. 9.0 lakhs, only one deposit in multiple of Rs.1000 is permitted, penalty for pre-mature closure within 3 years 2%, after 3 years 1%. There is no tax benefit on investment, interest is taxable (no TDS).

KVP (Kishan Vikas Patra) – a popular small savings instrument where double the amount of investment is printed payable on a specific date based on the prevailing rate of interest, investment available in denomination of Rs. 1000, Rs.5000, Rs.10000 and Rs.50000 with no upper limit, transferable across post offices and can be endorsed to any person, lock-in period 30 months, premature encashment is allowed with penalty, interest is reviewed quarterly applicable for new investors (6.9% p.a. during July-Sept.2020). There is no tax benefit on investment; interest on maturity/withdrawal is taxable (no TDS).

RBI Taxable bond 2020 –a floating rate non-cumulative Govt. bond for individual/HUF launched from 1st July 2020 with coupon rate of 7.15% p.a. payable semi-annually and to be reset on 1st July and 1st January based on NSC rate + 0.35%, minimum investment Rs. 1000 with no upper limit for a tenure of 7 years, provision of premature encashment after 6/5/4 years by Sr. citizen of 60-70/70-80/over 80 years respectively. No tax benefit on investment, interest is taxable on applicable slab rate (TDS likely to be applicable). The existing fixed 7.75% taxable bond is withdrawn from May, 2020.

Market linked investment products:

NPS (National Pension System) – a pension/retirement plan for citizen of India (resident or non-resident) between 18 and 65 years, mandatory for central Govt employees joined on or from 1st January, 2004, monthly contribution being 10% of (basic salary + DA) with same matching contribution by employer (14% matching contribution by Govt. for central Govt. employees from AY 2020-21).

Two types – Tier I – mandatory for central Govt employees, minimum initial and annual contributions are Rs. 500 and Rs. 1000 respectively. Withdrawal -25% of own contribution after 3 years for defined expenses, 60% of matured value at age 60, remaining 40% shall be invested in annuity scheme.

Tier II – voluntary savings account for Tier-I account holders, minimum initial Contribution is Rs. 1000 with no minimum annual contribution. There is no restriction on withdrawal.

Tier I& Tier II- Investment options available with varying exposure to equity (E), Corporate bonds (C), Govt. securities (G) and alternative investment schemes (A) are- (i) active choice – of investor allows E up to 75% for age less than 50 years, maximum 5% in A and balance in C and G.

(ii) Auto choice – by default E 50% at age 35, reducing by 2% per year to reach 10% by age 55 and C 30% at age 35 reducing by 1% per year to become 10% at 55. Funds are managed by Provident Fund Regulatory Authority approved 8 Pension Fund Managers (planned for separate NPS trust for Govt. employees).

Taxation- Tier I – deductible u/s 80CCD(1) up to 10% of salary for employee's own contribution, up to 20% of Gross Total Income for self -employed (10% up to AY 2017-18).

Deductible u/s 80CCD (2) is up to 10% of salary towards contribution of employer (14% for central Govt. employees from AY 2020-21).

U/s 80CCE aggregate amount u/ss 80C, 80CCC (contribution to pension plan) and 80CCD (1) cannot exceed Rs.150000.

Additional deduction u/s 80CCD (1B) towards contribution of any individual assessee up to Rs.50000 is allowed (from AY 2016-17), whether or not claimed u/s 80CCD (1) within limit of Rs.150000 u/s 80CCE. Withdrawal – (i) partial withdrawal up to 25% of own contribution is exempt from AY 2018-19. (ii) 60% amount received on maturity – full exempt from AY 2020-21, 40% exempt +20% taxable during AY 2017-18 to 2019-20, fully taxable up to AY 2016-17. (iii) Amount received by nominee on death of assessee – exempt from AY 2017-18. (iv) at age 60, 40% is invested in pension scheme. Pension received is taxable. (v) Employer's aggregate contribution in excess of Rs.750000 per year and interest/dividend thereon in the schemes- recognized provident fund, NPS and approved superannuation fund shall be taxable as perquisites from Ay 2021-22.

Note: (i) Salary = Basic pay+ DA (if the terms of employment so provides) + commission (if payable as a percentage of turn over achieved by employee).

(ii) If the employer contributes in all the schemes of recognized provident fund, NPS and superannuation fund of an employee, due to provision mentioned at (v) above there is a chance of double taxation of certain amount.

Tier II- no tax benefit on investment is available. However Govt. employee's contribution for a fixed period of not less than 3 years is deductible u/s 80C from AY 2020-21. Withdrawal is taxable at applicable slab rate in all cases.

Stocks and Equity: There are two ways of income from the ownership of shares- dividend, a part of profit distributed by a Company to its shareholders and capital gains on transfer of shares.

Taxation-

Up to AY 2020-21dividends up to Rs.10 lakh per year from domestic company by individual resident in India is exempt, not taxable in the hands of the investor u/s 10(34). However, they are liable to Dividend Distribution Tax (DDT) of 15 per cent (+SC+HEC) charged by the company, u/s 115-O.Dividends above Rs.10 lakh are taxable at the rate of 10 percent u/s 115BBDA (DDT applicable on full amount).

From the AY 2021-22 DDT is abolished and full amount of dividend under above situation is taxable in the hands of the investor u/s 56 under the head "Income from other sources" at applicable slab rate and subject to TDS @10% (7.5% for dividends received from 14th May 2020 to 31st March 2021 as COVID-19 relief) if the aggregate amount exceeds Rs.5000 per year u/s 194 and no expenditure other than related interest expense is allowed for deduction up to 20% of dividend received u/s 57. Surcharge on such dividend income cannot exceed 15%. Benefit in lower slab and more tax in higher slab.

Short Term Capital Gains (STCG) for holding period up to 12 months is taxable at 15 per cent (+SC+HEC) u/s 111A,where Security Transaction Tax (STT) of 0.1% on transaction value is applicable on transfer of shares of a listed domestic Company (for intraday transaction STT is 0.025%). Deductions u/s 80C to 80U is not available. Rebate u/s 87A is allowed. Surcharge cannot exceed 15% in AY 2020-21 and 2021-22. This concessional tax treatment is also applicable if transaction is undertaken in foreign currency on a recognized stock exchange located in an International Financial Services Centre (set- up in a special economic zone).

Where STT is not applicable STCG is taxable on applicable slab rate.

Long Term Capital Gains (LTCG) in excess of Rs. 1 lakh for holding period of more than 12 months is taxable at 10% (+SC+HEC) from AY 2019-20 u/s 112A provided that STT has been paid both on transfer as well as on acquisition (being after 1st October, 2004) of equity shares of a Company.

U/s 112A for resident individual/HUF it may be noted that-

1. Indexation is not allowed,
2. Deductions u/s 80C to 80U are not available,
3. Rebate u/s 87A is not allowed on tax on LTCG, however, it is allowed on tax on total income as reduced by tax on LTCG.
4. Surcharge cannot exceed 15%.
5. If shares are purchased before 1st February, 2018, deemed cost of acquisition shall be higher of actual purchase price or fair market value (calculated on specified procedure and not being more than sale consideration) as on 31st January, 2018.
6. Mode of computation of capital gains in foreign currency applicable for non-resident u/s section 48 (first proviso) is not applicable.

Benefit of exemption limit: STCG u/s 111A and LTCG u/s 112A are taxable in full without any exemption limit. However, if total income as reduced by Capital gains is less than exemption limit of the individual/HUF assessee, then unadjusted amount of exemption limit shall be deducted from the capital gains. Ex- say LTCG is Rs.255000 and other income Rs.240000 and exemption limit Rs.250000. Unadjusted exemption limit is Rs.10000 (250000-240000). Adjusted LTCG is Rs.245000 (255000-10000). Taxable LTCG shall be Rs.145000 (245000-100000).

Unlisted shares: STCG (holding period up to 24 months) is taxable at normal slab rate.

LTCG (holding period more than 24 months) is taxable at 20% (+SC+HEC) with indexation for resident. For non-resident it is 10% (+SC+HEC) without indexation and without the option to adjust foreign currency fluctuation.

Mutual Funds:

Rationalization and Classification of funds by SEBI:

Equity Schemes (based on investment criteria)- Large cap-at least 80% in large caps, Large & medium cap- at least 35% each in large and medium caps, Multi cap- at least 65% in any proportion across large, mid and small caps, Mid cap/Small cap- at least 65% in each case, Value oriented- following the value strategy with at least 65% in equity, ELSS- at least 80% across large, mid and small caps, Sectoral/Thematic- at least 80% in a particular sector or theme, Dividend yield/Contra/Focused- at least 65% in equity in each fund, International – more than 65% in foreign equities.

I. Large Cap: 1st -100th company in terms of full market capitalization
II. Mid Cap: 101st -250th company in terms of full market capitalization
III. Small Cap: 251st company onwards in terms of full market capitalization

Hybrid funds- Aggressive hybrid- 65 - 80% in equity and rest in debt, Balanced hybrid – 40-60% in equity and rest in debt, Equity savings- at least 65% in equity and at least 10% in debt, Arbitrage- investment in arbitrage opportunities with at least 65% in equity, Conservative hybrid- 10-25% in equity and 75-90% in debt, Dynamic asset allocation- between equity and debt managed dynamically, Multi asset allocation- investment in 3 different asset classes with minimum 10% in each class.

Debt funds- Long duration- greater than 7 years, Medium to long duration- between 4 and 7 years, Medium duration- between 3 and 4 years, Short duration- between 1 and 3 years, Money market- maturity up to 1 year, Low duration- between 6 and 12 months, Ultra short duration- between 3 and 6 months, Liquid- up to 91 days, Overnight- maturity of 1 day, Dynamic bond- across durations, Corporate bond- at least 80% in AA+ and above bonds, Credit risk- at least 65% in AA and below bonds, Banking and PSU- at least 80% in banks, PSU and Municipal bonds, Floater- at least 65% in floating rate instruments, Gilt- at least 80% in Govt securities, Gilt with 10 year constant duration- at least 80% in Govt bonds of 10 year duration, FMP- investment for pre-defined terms.

Solution oriented schemes- Retirement fund- schemes with lock-in-period of 5 years or till retirement whichever is earlier, Children's fund- lock-in-period of 5 years or children attaining majority whichever is earlier.

Other funds- Index/ETF funds- 95% in particular index, Fund of funds- 95% in underlying funds.

Tax and expense in various categories of funds:

Tax on dividends- Till 31st March, 2020, dividend income from Mutual fund of (i) equity, (ii) equity oriented (minimum 65% of total assets invested in equity and equity instruments), (iii) debt and (iv) debt oriented schemes was exempt from income tax u/s 10(35) in the hands of investor as DDT was applicable to AMC (Asset Management Company) at 10%(+SC+HEC) for schemes at (i) &(ii) and 25%(+SC+HEC) for scheme at (iii)&(iv) u/s 115R. From 1st April, 2020 that is from AY 2021-22 DDT is abolished and all such dividends shall be taxable in the hands of investor at applicable slab rate and subject to TDS of 10% (7.5% for dividends received from 14th May 2020 to 31st March 2021 as COVID-19 relief) on dividend in excess of Rs.5000 u/s 194K and no expenditure other than related interest expense is allowed for deduction up to 20% of dividend received u/s 57.

Capital Gains- from sale of units of equity and equity oriented mutual funds shall be same as on sale of shares of domestic Companies for STCG u/s 111A and for LTCG u/s 112A, except that STT of 0.001% is applicable on transfer only. STT is not applicable at the time of investment.

Debt and debt oriented fund- holding period for STCG is 36 months and that for LTCG is more than 36 months. STT is not applicable at any stage of purchase or sale. Where STT is not applicable section 111A for STCG and section 112A for LTCG are not applicable. There is no special rate for STCG which is added to other income and taxed at applicable slab rate of the assessee.

LTCG against debt mutual funds whether listed or not for individual/HUF taxpayers (resident or non-resident) is governed by section 112 as per which it shall be taxable at lower of 20% with indexation and 10% without indexation.

Above option is also available for listed securities like debenture, Govt. securities or bonds (holding period for LTCG of such listed securities is more than 12 months); if non-listed, option is not available. This option is available for zero coupon bonds also(holding period for LTCG listed or unlisted being more than 12 months). But u/s 48 indexation is not available for debenture and bonds. So, for listed bonds and debenture LTCG tax becomes 10% without indexation and for un-listed it is 20% with indexation.

ELSS (equity linked savings scheme) - investment is included in qualifying amount of Rs.1.5 lakh section 80C deduction. However, there is a lock-in period of 3 years. Other tax treatment of equity scheme MF is applicable.

SIP (systematic investment plan) - each SIP date shall be considered separately for the purpose of lock-in period or holding period for redemption.

STP (systematic transfer plan) and SWP (systematic withdrawal plan)- Income from mutual funds are not taxed on accrual basis and even purchase, sale or rebalance of portfolio done regularly at AMC level are not taxable. However, STP, SWP and rebalancing of portfolio done by investor are treated as redemption and taxed accordingly.

TER (total expense ratio)- to be borne by investor varies from 1.05% to 2.25% for open ended equity and equity oriented schemes and from 0.80% to 2.00% for other schemes on graded slabs of AUM (asset under management) size of over Rs.50000 cr to up toRs.500 cr. For closed ended schemes above figures will be maximum 1.25% and 1.00%. For Index, ETF (exchange traded fund) and their FoF (fund of funds) TER shall be maximum 1.00%. TER of direct plans (invest directly with AMC) is less than regular plans (invest through intermediaries).

Exit load - is usually 1% for redemption within one year and NIL after one year. There is a graded exit load of 0.0070% to 0.0045% for redemption within 6 days from liquid funds.

Stamp Duty- with effect from 1st July, 2020 mutual fund investors are required to pay stamp duty of 0.005% of investment at any mode of purchase, SIP, lump sum, STP, dividend reinvestment option and 0.015% in case of transfer of units between demat accounts.

Transaction charge - if invested through distributor transaction charge of Rs.100 per subscription for existing investor and Rs.150 per subscription for new investor for Rs.10000 and above is payable.

Segregated portfolio of debt and money market instruments scheme: To safeguard the interest of investors in debt fund after the credit risk crisis in IL&FS in September, 2018, SEBI in December, 2018 allowed debt funds suffering credit rating below investment grade to create segregated portfolio with distressed assets and main portfolio with good exposures in the scheme. Example- Mr X purchased 10000 units in a debt fund on 1st January, 2017 at NAV (net assets value) of Rs.80 per unit for Rs. 8 lakhs. On 1st October, 2019 due to credit issue of certain bonds leading to its 50% write down, segregated portfolio is created with such distressed bonds for which NAV becomes Rs.10. NAV for total portfolio on the same day is Rs.100. Now the **total portfolio** is split into **main portfolio** and **segregated portfolio** with NAV ratio of 90:10. As per SEBI guideline Mr. X shall be allotted same original number of units in both the portfolios that is 10000 units in main portfolio and 10000 units in segregated portfolio.

For the purpose capital gains holding period shall be considered from 1st January, 2017 for both the portfolios. U/s 49(2AG)/(2AH) (Finance Act, 2020) with retrospective effect from AY 2020-21, cost of acquisition of NAV of Rs. 80 per unit shall be apportioned in the ratio of 90:10 for main and segregated portfolios that is Rs.72 per unit and Rs.8 per unit. Capital gains tax shall be calculated accordingly on redemption of each portfolio separately.

SGB (Sovereign Gold Bonds): SGBs are Govt. securities under debt fund category issued in tranches by RBI through banks, post offices and stock holding corporation of India in paper form, also available in demat form, value being denominated in multiple of grams (basic unit is 1 gram) with fixed rate of interest of 2.5% per annum on nominal value payable semi-annually on fixed date called coupon pay out date.

Any Indian resident – individuals, Trusts, HUFs, Charitable Institutions and universities can invest, even on behalf of a minor.

Purchase price at nominal value shall be fixed on the basis of simple average of closing price of gold of 999 purity published by the India Bullion and Jewellers Association Limited, of the last 3 business days of the week preceding the subscription period.

The minimum initial investment is 1 gram with upper limit of 4 kgs of gold per investor (individual & HUF) in a financial year. For trusts and universities, 20 kgs is permissible.

Maturity period of the bond is 8 years with an option to exit (on interest pay out day only) after 5thyear onwards. Market-linked return on redemption shall be on Indian Rupees only based on simple average of closing price of gold of 999 purity of 3 business days before the date of redemption.

Commission of 1% of subscription amount is payable. Bonds are tradable in stock exchange after 5 years. Banks accept SGB as collateral/security for secured loan of specified loan to value (LTV) ratio of gold value.

Taxation- On redemption on maturity of 8 years LTCG is exempt from tax u/s 47 (viic) from AY 2017-18. However, LTCG on encashment/redemption/transfer after 5th year is taxable @20% with the benefit of indexation (section 48).Interest received semi-annually is taxable at applicable slab rate as income from other sources. No TDS is applicable at any stage.

Other schemes available for investment in gold are Gold ETF (exchange traded fund), Gold mutual debt fund, Gold monetization scheme and physical gold. Each scheme has got its own merits and demerits in respect of safety/security, operation, cost, risk, return, tax treatment. Out of all the avenues physical form is of the lowest grade for investment purpose in gold and should be avoided.