What does mutual fund industry want from Union Budget 2024-25?

By Surbhi Khanna, Published on: 19th July 2024

Ahead of the Union Budget 2024-25, the mutual fund industry has set its expectations. AMFI has released its 16-point budget proposal which states the budget expectations. ETMutualFunds also reached out to mutual fund managers to know what the mutual fund industry is expecting from Union Budget 2024-25.

A fund manager says that the budget should work on increasing resources for infrastructure investment and boosting consumption at the bottom end of the pyramid.

“Budget should carry on the good work of ‘vote on account’ by pursuing the path of fiscal prudence, increasing resources for infrastructure investment and boosting consumption at the bottom end of the pyramid,” said Nilesh Shah, MD, Kotak Mutual Fund.

“The limits for investments in international securities should be enhanced for mutual funds, since the diversification benefits of investing a portion of the portfolio internationally and in gold, have been impacted due to the non-availability of fresh monies to be deployed across most international mutual fund schemes, or even in those schemes which invest a part of their money overseas,” said Vishal Dhawan, CEO, Plan Ahead Wealth Advisors, a wealth management firm in Mumbai.

AMFI in its 16-point budget proposal has proposed an amendment to remove arbitrage between fixed deposits and close-ended debt mutual funds.

According to AMFI, this amendment will bring the required parity in the taxation of the FOF schemes with that of a fund investing more than 35 per cent of the total corpus in shares of domestic companies directly.

“One of the possible unintended consequences of the change in taxation on capital gains on mutual fund schemes was that other asset classes like gold and international equities also became less attractive relative to domestic equities, especially for investors in higher tax brackets. If the intent was to remove tax arbitrage between debt funds and bank deposits, that should be addressed by going back to the earlier tax regime wherein long-term capital gain benefits with indexation were available for gold and international investments through mutual funds,” said Dhawan.

SBI wants fixed deposits to get the same tax parity as mutual funds get. As bank credit growth exceeded the increase in deposits in FY24 by Rs 2 lakh crore, the State Bank of India (SBI) has sought income tax parity on bank fixed deposits (FDs) in line with other asset classes in Budget 2024.

Under the current income tax regime, short-term capital gains in equity and MF holdings are taxed at a flat rate of 15%, while long-term capital gains (LTCG) are taxed at a moderate 10%, with exemption allowed till income of LTCG up to Rs 1 lakh during a given financial year.

AMFI proposed LTCG on listed equity shares or units of equity-oriented fund schemes - (i) held for more than one year and up to three years be subjected to LTCG tax @ 10% (plus applicable surcharge and cess) on the capital gains exceeding Rs 2 lakh in a financial year. (ii) held more than three years be exempted from Capital Gains tax years by suitable amendments to section 112A. The existing threshold limit of Rs 1 lakh in a financial year is very low. Exemption from capital tax after 3 years holding period will encourage long-term investments in equities and will help channelize more household savings into the equity markets, thus helping the Indian economy.

“The benefits of no tax on mutual funds till actual sale of the units, unlike the tax deduction at source on bank deposits, actually tries to counterbalance the benefits of bank deposits of not having mark to market impacts on bonds held by mutual funds, and thus bank deposits where returns can be more predictable. We believe that both deposits and debt funds now have a good mix of pros and cons in each of them making it more of a level playing field than it may appear at first glance,” commented Vishal.

In the 16-point budget proposal by AMFI, the first important proposal is a request for tax concession in debt mutual funds. AMFI proposed that the capital gains on redemption of units of debt oriented mutual funds held for more than 3 years should be taxed at the rate of 10% without indexation, as applicable in respect of debentures. This move will encourage the retail investor participation in bond markets we request for an amendment to Finance Act, 2023 and consider the mutual fund units as “securities”, with long-term capital tax rate thereon should be according to / in line with the capital gains tax on bonds, debentures, SDL and G-secs etc.

The mutual fund advisor believes that indexation is a great way to compensate investors partially for inflationary impact on their capital.

“Indexation is a great way to compensate investors partially for the inflationary impact on their capital and it also helps in strengthening and deepening the corporate bond markets in India which help with capital formation. We therefore believe that restoring the long-term capital gains benefits, along with indexation, can help both these causes, and also protect investors from having too much money in domestic equities just because of the tax arbitrage available,” Vishal Dhawan.