BUDGET EXPLAINER- Mutual Funds - Expectations

Mutual funds (MFs) have gained significant attention over the last decade and a wider share of the Indian middle class have not just preferred saving money alone but rather engage more actively by investing in low-risk funds. The risk tolerance of a larger share of the population has improved significantly despite the economic shifts that occurred during this period. Funds-under-management (AUM) surpassed 60 lakh crores recording a share of 17% in the AUM-to-GDP ratio in 2023 which displays a highly positive growth share compared to 7.75% in 2014. However, mutual fund managers request more governmental incentives that could aid people from various income groups in investing these funds.

Striking down the modifications of the Finance Bill 2023 which stated that gains generated up to 35% of equity shares will not be considered under the ambit of long-term capital gains and will not be eligible for indexation benefits. It would then be treated as short-term gains which are now taxed at income levels after a person chooses to sell these units. This has made equities look tax unfriendly. Investors are expecting a return on the old policy that placed a capital gains tax (long-term) of 20% if they were held in units exceeding 3 years. Bringing closure to the ULIPs vs. equity MFs debate is vital as ULIPs also protect from risk due to their investment nature. Currently, gains from ULIPs (annual premium) of less than 2.5 lakhs are not taxed. Hence, parity must be ensured for the same.

Lastly, transfers done for intra-schemes shouldn’t be charged for long-term gains as they merely allocate a portion of the resources from one scheme to another scheme within the same classification (e.g. Equities) of a mutual fund.

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