

## **TAX BENEFITS FOR DEBT ORIENTED SCHEMES.**

### **A. TO THE MUTUAL FUND**

1. Sahara Mutual Fund is a Mutual Fund registered with SEBI and as such is eligible for benefits under Section 10(23D) of the Act. Accordingly, its entire income is exempt from tax.
2. Mutual Funds are required to pay distribution tax on income distributed by it at the rate of 14.163% (including 10% surcharge, 2% education cess and 1% secondary and higher education cess) in the case of distributions to Individuals and HUFs. An increased rate of 22.66% (including 10% surcharge, 2% education cess and 1% secondary and higher education cess) is applicable for distributions made to persons other than an Individual or a HUF.
3. In the case of liquid funds, DDT is proposed at 28.325%, inclusive of taxes.

### **B. TO THE UNIT HOLDERS**

1. Income from the Mutual Fund received by Unit holders would be tax free in the hands of the Unit holders as per the provisions of section 10(35) of the Income-tax Act, 1961 ('Act').
2. Under Section 2(29A) of the Act, read with section 2(42A) of the Act, a unit of a Mutual Fund is treated as a long term capital asset if the same is held for more than 12 months. If the unit is held for 12 months or less, the same is treated as a short term capital asset.

Long term capital gains for resident individuals on sale of units, will be taxed under section 112 of the Act. Under Section 112 of the Act, capital gains arising on the transfer of long term capital assets are subject to tax at the rate of 20%. The capital gains will be computed by deducting the expenditure incurred wholly and exclusively in connection with such transfer and the cost as inflated indexed cost of acquisition of the unit from the sale consideration. However, the maximum tax payable on long term capital gains on units is restricted to 10% of capital gains calculated without indexation of the cost of acquisition.

In case of an individual or HUF, being a resident, where the total income as reduced by the long term capital gains is below the maximum amount not chargeable to tax (Rs.100,000 in case of all individuals, Rs.135,000 in case of women and Rs.185,000; in case of senior citizens), the long term capital gains shall be reduced to the extent of the shortfall and only the balance long term capital gains will be subject to the flat rate of taxation. As per the budget proposals 2007, the maximum amount not chargeable to tax is proposed to be increased to Rs.1,0,000/- in case of all individuals, Rs.1,45,000/- in case of women and to Rs.1,95,000/- in case of senior citizens.

In addition to the aforesaid tax, in the case of an individuals, HUFs or Association of Persons (AOP), where the income exceeds Rs.10,00,000 a surcharge of 10%, in the case of companies and artificial juridical persons a surcharge of 10%, and in case of foreign companies a surcharge of 2.5% of such tax liability is also payable. A 2% education cess and 1% secondary and higher education cess@1% on amount of tax plus surcharge on total income tax (including surcharge) is payable by all categories of taxpayers.

3. The capital loss resulting from sale of units would be available for setting off against other capital gains made by the investor and would reduce the tax liability of the investor to that extent. However, losses on transfer of long term capital assets would be allowed to be set-off only against gains from transfer of long-term capital assets and the balance long-term capital loss shall be carried forward separately for a period of eight assessment years to be set off only against long-term capital gains.
4. Where a person buys any units within a period of three months before the record date and sells such units within nine months after such date, the dividend income on such units being exempt from tax, then the capital loss, if any, on such sale to the extent of dividend income cannot be set off against other gains.
5. Where a person buys units (original units) within a period of three months before the record date, receives bonus units on such original units, and then sells the original units within a period of nine months from the record date and continues to hold the bonus units, then the loss incurred on the original units shall not be allowed to be set off against other profits but shall be deemed to be the cost of the bonus units.
6. Short term capital gains arising to a unit holder will be taxed at the normal rate applicable to that unit holder ( assessee) as per the provisions of the Act.
7. As per the provisions of Section 194K and 196A of the Act, no deduction of tax at source shall be made from income credited or paid by a mutual fund to a unit holder.
8. As per circular no. 715 dated August 8, 1995 issued by the CBDT in case of resident Unit holders, no tax is required to be deducted at source from capital gains arising at the time of repurchase or redemption of the units.
9. As per Part II of the first schedule to the finance Act 2007 {Clause 1(b) (i) (D)}, the Mutual Fund is liable to deduct tax @20% on long term capital gains. if the payee Unit holder is a non resident. In respect to short-term capital gains, tax is required to be deducted at source at the rate of 30% if the payee Unit holder is a non-resident non-corporate and at the rate of 40% if the payee Unit holder is a foreign company. Further, the aforesaid tax to be deducted is required to be increased by a surcharge in case of an individual, HUF or AOP, where the sum payable exceeds Rs. 10 lakhs by 10%, in case of companies by 2.5% and in case of an artificial juridical person by 10% of such tax liability. The above rates, including surcharge, are to be increased by a 2% education cess and 1% secondary and higher education cess, for deductions from all categories of taxpayers.

As per circular no. 728 dated October 30, 1995 issued by the CBDT, in the case of a remittance to a country with which a Double Tax Avoidance Agreement (DTAA) is in force, the tax should be deducted at the rate provided in the Finance Act of the relevant year or at the rate provided in the DTAA, whichever is more beneficial to the assessee. In order for the Unit holder to obtain the benefit of a lower rate available under a DTAA, the Unit holder will be required to provide the Mutual Fund with a certificate obtained from his Assessing Officer stating his eligibility for the lower rate.

12. Other Benefits: Section 80C provides that an individual or HUF shall get deduction, in respect of contribution to any units of any Mutual Funds notified under clause 23D of section 10 or from the Administrator or the specified company under any plan formulated in accordance with such scheme as the Central Government may, by notification in the Official gazette, specify in this behalf and in respect of contribution by an individual to any pension fund set up by the Mutual Fund notified under clause 23D of section 10 or by the Administrator or the specified company, as the Central government may, by notification in the Official Gazette, specify in this behalf, out of his income chargeable to tax and the aggregate sum does not exceed Rs.1,10,000/-.

Investments in Units of the Mutual Fund will rank as an eligible form of investment under Section 11(5) of the Income Tax Acts read with Rule 17C of the Income Tax Rules, 1962 for Religious and Charitable Trusts/Approved Gratuity Funds

13. Wealth Tax: Units held under the Plans of the Scheme are not treated as assets as defined under Section 2(ea) of the Wealth Tax Act, 1957 and therefore would not be liable to wealth tax.

14. Gift Tax: The Gift Tax Act, 1958, has ceased to apply to gifts made on or after 1st October 1998. Gifts of Units, purchased under the Plan, would therefore, be exempt from gift-tax. Further subject to certain exceptions, gifts from persons exceeding Rs.25000/- are taxable as income in the hands of donee on or after 1<sup>st</sup> September 2004 pursuant to section 2(24) (xiii) of the Act read with section 56(2) (v) of the Act.

## TAX BENEFITS FOR EQUITY SCHEMES

### (i) TO THE MUTUAL FUND

(A) The Fund is a Mutual Fund registered with the Securities and Exchange Board of India and hence, is eligible for the benefits of Section 10 (23D) of the Income-Tax Act, 1961. Accordingly, the entire income of the Fund is exempt from income tax.

- As per section 196(iv) of the Income-tax Act, the income received by the Fund is not liable for deduction of tax at source under the provisions of Section 196 (iv), of the Act.
- On income distribution, if any, made by the Mutual Fund, additional income tax is not payable under Section 115R of the Act, in the case of open ended equity oriented funds (i.e. where more than 65% of total proceeds of the mutual fund are invested in equity shares of domestic companies as defined in Section 115T of the Act)

### a. Securities Transaction Tax (STT)

The Mutual Fund is liable to pay securities transaction tax (STT) at prescribed rates on the value of transactions of purchase or sale of specified securities. The rates of STT are:

Nature of transaction	Payable by	Value on which tax shall be levied	Existing tax rate
Delivery based purchase transaction in equity shares or units of equity oriented fund entered in a recognized stock exchange	Purchaser	Value at which shares / units are bought	0.125
Delivery based sale transaction in equity shares or units of equity oriented fund entered in a recognized stock exchange	Seller	Value at which shares / units are sold	0.125
Non -Delivery based sale transaction in equity shares or units of equity oriented fund entered in a recognized stock exchange	Seller	Value at which shares / units are sold	0.025
Transaction for Derivatives entered in a recognized stock exchange	Seller	Futures: Value at which futures Are traded Options:	0.017

(Futures and options.		Aggregate value of strike price and premium.	
Sale of units of an equity oriented fund to the Seller	Seller	Value at which units are sold	0.25

For this purpose, an equity oriented fund. is defined to mean:

- a fund that invests at least 65 per cent of its investible funds in equity shares of domestic companies
- which has been set up under a scheme of mutual fund.

**b. Income Distribution Tax:** No income distribution tax is payable by the Fund, in respect of schemes in the nature of open equity oriented fund, in terms of section 115R of the Act, which deals with tax on income distributable to unitholders of mutual funds. The benefit of exemption from income distribution tax is extended to close ended equity oriented schemes.

Further, the above definition of an equity oriented fund would stand to mean a fund that invests at least 65 per cent of its investible funds in equity shares of domestic companies.

**c. Service tax:** The Mutual Fund is liable for payment of service tax as recipient of services on Business Auxiliary Service provided by distributors of mutual funds/ agents. The rate of service tax is 12.24 percent (tax rate of 12 percent plus education cess at 2 percent of the tax).

**(ii) TO THE UNITHOLDERS**

a. **Tax on Income:** In accordance with the provisions of section 10(35)(a) of the Act, income received by all categories of unit holders in respect of units of the Fund will be exempt from income-tax in their hands. Exemption from income tax under section 10(35) of the Act would, however, not apply to any income arising from the transfer of these units.

b. **Tax on capital gains:** As per the provisions of section 2(42A) of the Act, a unit of a Mutual Fund, held by the investor as a capital asset, is considered to be a short-term capital asset, if it is held for 12 months or less from the date of its acquisition by the unit holder. Accordingly, if the unit is held for a period of more than 12 months, it is treated as a long-term capital asset.

**Computation of capital gain**

Capital gains on transfer of units will be computed after taking into account the cost of their acquisition. While calculating long-term capital gains, such cost will be indexed by using the cost inflation index notified by the Government of India.

Individuals and HUFs, are granted a deduction from total income, under section 80C of the Act upto Rs. 1,00,000/-, in respect of specified investments made during the year.

**Long-term capital gains**

As per Section 10(38) of the Act, long-term capital gains arising from the sale of unit of an equity oriented fund entered into in a recognised stock exchange or sale of such unit of an equity oriented fund to the mutual fund would be exempt from income-tax, provided such transaction of sale is chargeable to securities transaction tax.

However, companies would be required to include such long term capital gains in computing the book profits and minimum alternated tax liability under section 115JB of the Act.

**Short -term capital gains**

As per Section 111A of the Act, short-term capital gains from the sale of unit of an equity oriented fund entered into in a recognised stock exchange or sale of such unit of an equity oriented fund to the mutual fund would be taxed at 10 per cent, provided such transaction of sale is chargeable to securities transaction tax.

The said tax rate would be increased by a surcharge of:

- 10 per cent in case of non-corporate Unit holders, where the total income exceeds Rs.1,00,000,
- 10 per cent in case of resident corporate Unit holders, and
- 2.5 per cent in case of non-resident corporate unit holders irrespective of the amount of taxable income.

However, surcharge is leviable on companies and firms if their total income is in excess of Rs.1,00,00,000/-

Further, an additional surcharge of 2 per cent by way of education cess would be charged on amount of tax inclusive of surcharge.

In case of resident individual, if the income from short term capital gains is less than the maximum amount not chargeable to tax, then there will be no tax payable.

Further, in case of individuals/HUFs, being residents, where the total income excluding short-term capital gains is below the maximum amount not chargeable to tax (for assessee women Rs.1,35,000 /-, for assessee senior citizens Rs.1,85,000 /- for other individuals and HUFs, Rs.1,00,000 /-) then the difference between the current maximum amount not chargeable to tax and total income excluding short-term capital gains, shall be adjusted from short-term capital gains. Therefore only the balance short term capital gains will be liable to income tax at the rate of 10 percent plus surcharge, if applicable and education cess.

**Non-residents:** In case of non-resident unit holder who is a resident of a country with which India has signed a Double Taxation Avoidance Agreement (which is in force) income tax is payable at the rates provided in the Act, as discussed above, or the rates provided in the such agreement, if any, whichever is more beneficial to such non-resident unit holder.

**Investment by Minors:** Where sale / repurchase is made during the minority of the child, tax will be levied on either of the parents, whose income is greater, where the said income is not covered by the exception in the proviso to section 64(1A) of the Act. When the child attains majority, such tax liability will be on the child.

**Losses arising from sale of units**

- As per the provisions of section 94(7) of the Act, loss arising on transfer of units, which are acquired within a period of three months prior to the record date (date fixed by the Fund for the purposes of entitlement of the unit holder to receive the income from units) and sold within a period of nine months after the record date, shall not be allowed to the extent of income distributed by the Fund in respect of such units. As per the provisions of section 94(8) of the Act, where any units (.original units.) are acquired within a period of three months prior to the record date (date fixed by the Fund for the purposes of entitlement of the unitholder to receive bonus units) and any bonus units are allotted (free of cost) based on the holding of the original units, the loss, if any, on sale of the original units within a period of nine months after the record date, shall be ignored in the computation of the unit holder's taxable income. Such loss will however, be deemed to be the cost of acquisition of the bonus units.
- Each Unit holder is advised to consult his / her or its own professional tax advisor before claiming set off of long-term capital loss arising on sale / repurchase of units of an equity oriented fund referred to above, against long-term capital gains arising on sale of other assets.
- Short-term capital loss suffered on sale / repurchase of units shall be available for set off against both long-term and short-term capital gains arising on sale of other assets and balance short-term capital loss shall be carried forward for set off against capital gains in subsequent years.
- Carry forward of losses is admissible maximum upto eight assessment years.

**c. Tax withholding on capital gains**

Capital gains arising to a unit holder on repurchase of units by the Fund should attract tax withholding as under:

- No tax needs to be withheld from capital gains arising to a FII on the basis of the provisions of section 196D of the Act.
- In case of non-resident unit holder who is a resident of a country with which India has signed a double taxation avoidance agreement (which is in force) the tax should be deducted at source under section 195 of the Act at the rate provided in the Finance Act of the relevant year or the rate provided in the said agreement, whichever is beneficial to such non-resident unit holder. However, such a non-resident unit holder will be required to provide appropriate documents to the Fund, to be entitled to the beneficial rate provided under such agreement.
- No tax needs to be withheld from capital gains arising to a resident unit holder on the basis of the Circular no. 715 dated 8 August 1995 issued by the CBDT.

Subject to the above, the provisions relating to tax with holding in respect of gains arising from the sale of units of the various schemes of the fund are as under:

- No tax is required is to be withheld from long term capital gains arising from sale of units in equity oriented fund schemes, that are subject to securities transaction tax.
- In respect of short-term capital gains arising to foreign companies (including Overseas Corporate Bodies), the Fund is required to deduct tax at source at the rate of 10.46 per cent (10 per cent tax plus 2.5 per cent surcharge thereon plus additional surcharge of 2 per cent by way of education cess on the tax plus surcharge). In respect of short-term capital gains arising to non-resident individual unit holders, the Fund is required to deduct tax at source at the rate of 11.22 per cent (10 per cent tax plus 10 per cent surcharge thereon (assuming total income of the unit holder exceeding Rs. 10 lakhs in a year) plus additional surcharge of 2 per cent by way of education cess on the tax plus surcharge).

**d. Wealth Tax**

Units held under the Schemes of the Fund are not treated as assets within the meaning of section 2(ea) of the Wealth Tax Act, 1957 and therefore, not liable to wealth-tax.

**e. Securities Transaction Tax**

Nature of transaction	Existing tax rate
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Delivery based purchase transaction in equity shares or units of equity oriented fund entered in a recognized stock exchange	0.125
Delivery based sale transaction in equity shares or units of equity oriented fund entered in a recognized stock exchange	0.125
Non -Delivery based sale transaction in equity shares or units of equity oriented fund entered in a recognized stock exchange	0.025
Sale of units of an equity oriented fund to the Mutual Fund	0.25

Value of taxable securities transaction in case of units shall be the price at which such units are purchased or sold.

A deduction in respect of securities transaction tax paid is not permitted for the purpose of computation of business income or capital gains.

However, if the total income of an assessee includes any business income arising from taxable securities transactions, he shall be entitled to a rebate (Sec 88E of the Act) from income-tax of an amount equal to the securities transaction tax paid by him in respect of the taxable securities transactions entered during the course of his business.

**f. Gift Tax Act:** The Gift Tax Act, 1958, has ceased to apply to gifts made on or after 1st October 1998. Gifts of Units, purchased under the Plan, would therefore, be exempt from gift-tax.

a. As per the Budget proposals 2007, the maximum amount not chargeable to tax is proposed to be increased to Rs. 1,10,000 in case of all individuals, Rs. 1,45,000 in case of women and to Rs.1,95,000 in case of senior citizens;

b . As per the Budget proposals 2007, the rate of an additional cess for Secondary and Higher Education at the rate of 1% is proposed to be levied.

As per the taxation laws in force as at the date of this Offer Document, the tax benefits that are available to the investors investing in the Units of the Scheme are stated herein above. The information so stated is based on the Mutual Fund's understanding of the tax laws in force as of the date of this Offer Document.

The information stated below is only for the purposes of providing general information to the investors and is neither designed nor intended to be a substitute for professional tax advice. In view, of the individual nature of the tax consequences and the changing tax laws, each investor is advised to consult his or her own tax consultant with respect to the specific tax implications arising out of their participation in the Scheme.