# Stamp Duty

Applicability & Impact of Stamp Duty on Mutual Fund Units

*June 29, 2020*

MATA

# Reason for the impact

**Finance Act 2019** have made several amendments to the Indian Stamp Act 1899; this includes change in the definition of "securities" as the following - ***Securities" includes (i) Securities, as defined in clause (h) of section 2 of the Securities Contracts (Regulation) Act, 1956;***

**Thus as per the above, stamp duty is applicable on the mutual fund units**

Thus as per the Securities Contracts (Regulation) Act, 1956;

(h) "securities"— include (i) shares, scrips, stocks, bonds, debentures, debenture stock or other marketable securities of a like nature in or of any incorporated company or other body corporate;

[(ia) derivative;

(ib) units or any other instrument issued by any collective investment scheme to the investors in such schemes;]

[(ic) security receipt as defined in clause (zg) of section 2 of the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002;]

[(id) units or any other such instrument issued to the investors under any mutual fund scheme;]

[Explanation.—For the removal of doubts, it is hereby declared that "securities" shall not include any unit linked insurance policy or scrips or any such instrument or unit, by whatever name called, which provides a combined benefit risk on the life of the persons and investment by such persons and issued by an insurer referred to in clause (9) of section 2 of the Insurance Act, 1938 (4 of 1938);]

[(ie) any certificate or instrument (by whatever name called), issued to an investor by any issuer being a special purpose distinct entity which possesses any debt or receivable, including mortgage debt, assigned to such entity, and acknowledging beneficial interest of such investor in such debt or receivable, including mortgage debt, as the case may be;]

[(ii) Government securities;

(iia) such other instruments as may be declared by the Central Government to be securities; and]

(iii) rights or interest in securities;

**Finance Act 2019** has also consolidated the stamp duty provisions relating to the issue, sale or transfer of securities under the newly inserted sections 9A and 9B of the Act.

Thus rate of stamp duty on mutual fund unit is 0.005% as under

| | |
|---|---|
| (a) issue of security other than debenture; | 0.005% |
| (b) transfer of security other than debenture on delivery basis; | 0.015% |
| (c) transfer of security other than debenture on non-delivery basis; | 0.003% |
| (d) derivatives–– | |
| (i) futures (equity and commodity) | 0.002% |
| (ii) options (equity and commodity) | 0.003% |
| (iii) currency and interest rate derivatives | 0.000% |
| (iv) other derivatives | 0.002% |
| (e) Government securities | 0.000% |
| (f) repo on corporate bonds | 0.00001%"; |

Thus when a client buys Mutual Fund unit, stamp duty at 0.005% will be charged on buy leg of the transaction. Since it is applicable on creation of new units it will be applicable on every dividend reinvest & switch in apart from purchase.

# Scenario Analysis

Please note that SEBI in its letter dated 29th June 2020 has notified the implementation of stamp duty on securities to be effective from **1st July 2020**. Following is the scenario analysis of the impact of the stamp duty on the mutual fund returns over tenors ranging from 1 day to 365 days. *(Growth option assumed)*

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Rate of return | 4.00% | | | | | | | |
| Stamp Duty | 0.005% | 0.005% | 0.005% | 0.005% | 0.005% | 0.005% | 0.005% | 0.005% |
| Amount Invested | 10,000,000 | 10,000,000 | 10,000,000 | 10,000,000 | 10,000,000 | 10,000,000 | 10,000,000 | 10,000,000 |
| No of Days Invested | 1 | 7 | 15 | 30 | 60 | 90 | 180 | 365 |
| Stamp Duty in amount | 500 | | | | | | | |
| Net amount invested | 9,999,500 | 9,999,500 | 9,999,500 | 9,999,500 | 9,999,500 | 9,999,500 | 9,999,500 | 9,999,500 |
| Return in Amount | 10,000,596 | 10,007,171 | 10,015,938 | 10,032,375 | 10,065,250 | 10,098,125 | 10,196,750 | 10,399,480 |
| Net rate of Return | 2.17% | 3.74% | 3.88% | 3.94% | 3.97% | 3.98% | 3.99% | 3.99% |
| Impact of Stamp Duty on Returns | 1.83% | 0.26% | 0.12% | 0.06% | 0.03% | 0.02% | 0.01% | 0.01% |

As can be seen from the above illustration, **the impact of stamp duty is highest for an overnight tenor and starts reducing as the investment horizon increases. Thus an investment in overnight funds is rendered unattractive. Investment in liquid fund with a horizon of at least 30 days would minimize the impact of stamp duty on returns.**

# Thank you.

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