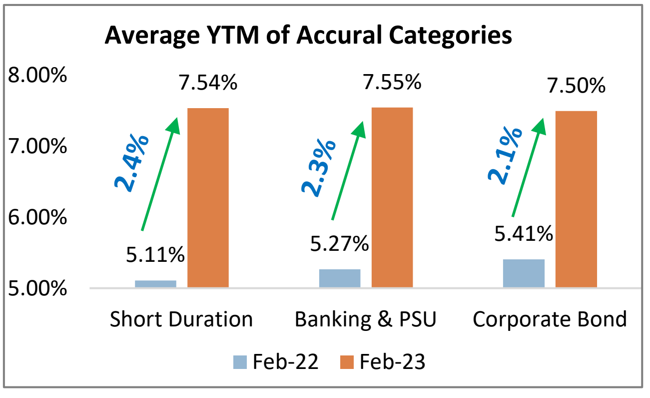
FAQs - Debt Investments Simplified

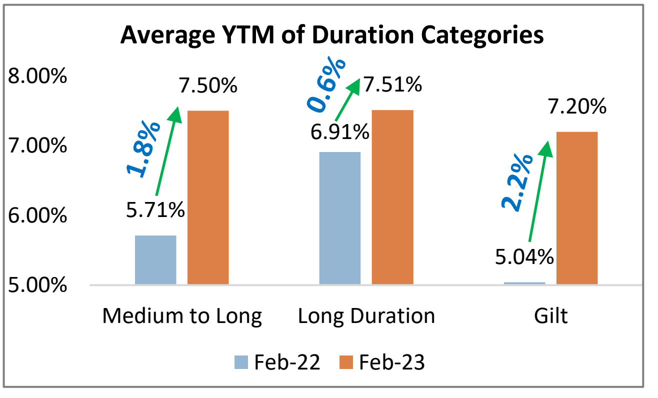
1. What were the key amendments in Finance Bill, 2023?

As per the Finance Bill 2023, taxation for investors in funds which have **equity exposure of less than or equal to 35% of total corpus in domestic equity shares will be treated as short-term capital assets irrespective of period of holding w.e.f. April 1, 2023.**

2. Why invest in Debt MFs now?

- **YTMs have improved across categories** in past one year
- **Current high yields** offer a good entry point





Category Average YTMs. Source: Morningstar Direct

3. Are Debt MFs still better than Bank FDs?

<u>Despite removal of tax benefit, Debt MFs are still attractive investments</u>.

Parameters	Debt MFs	Bank FDs
Deferral of Tax	Tax has to be paid only at the time of withdrawal	Tax has to be paid every financial year when the bank credits interest to the account
Flexibility of Withdrawal	Partial withdrawals available without attracting any penalties. Also, available on T+1 basis	Penalty is levied upon premature withdrawals
Diversification	Diversifies across instruments and reduces risks of the investment being concentrated in one basket	Has concentrated risk if invested in a single bank
Short term capital gains (STCG) can be set off against short term capital losses (STCL)	STCG can be set off against short term capital losses (STCL) from any other asset (equity, debt, gold, real estate, foreign stocks)	No set off available
In case interest rates falls	Investors benefit from debt MFs when the interest rates fall - bond prices start rising when they fall. As a result, debt MFs tend to deliver higher than the portfolio yield	Bank FDs rate of return stays the same throughout its tenure

4. What will be the taxation structure for Mutual Funds w.e.f. April 01, 2023?

<table>
<tr><td>Exposure of equity shares to domestic companies</td><td>0 - 35%</td><td>35 - 65%</td><td>>65%</td></tr>
<tr><td>STCG (Short term capital gains)</td><td rowspan="2">As per Individual's tax slab irrespective of the holding period</td><td>As per Individual's tax slab</td><td>15% if held less than 1 year</td></tr>
<tr><td>LTCG (Long term capital gains)</td><td>Holding Period > 3 years - 20% with Indexation</td><td>10% if held more than 1 year</td></tr>
<tr><td>MF category applicable to:</td><td>• All Open ended and close ended Debt oriented funds
• Target Maturity funds
• International funds
• FOFs (fund of funds)
• Gold funds/ETFs/FOFs
• Conservative Hybrid funds</td><td>• Balanced Hybrid funds#</td><td>• All domestic equity funds
• Equity Savings funds
• Arbitrage funds
• Balanced Advantage funds
• Aggressive Hybrid funds</td></tr>
</table>

This material has been prepared for informational purposes only. Tax rates mentioned are base rates, Surcharge and cess will be levied as applicable.

As per SEBI, Fund houses are permitted to offer either an Aggressive Hybrid fund or Balanced Hybrid fund. Currently, there are no funds under Balanced Hybrid category.

5. Suitable Investment horizon for Debt MF categories

Investors need to:

- **Match their investment horizon with the maturity profile of the fund** to reduce the volatility in the portfolio
- **Check the credit quality** of the schemes before investing

Indicative Investment Horizon	Suitable Debt Fund Category	Category Average Avg. Maturity
Upto 3 months	Overnight / Liquid	Upto 3 months
3 to 6 Months	Ultra Short Term	3 to 6 months
6 Months to 1 Year	Money Market	6 months to 1 year
1 to 2 Years	Low Duration / Floating Rate	1 to 3 years
2 to 3 Years	Short Duration / Banking & PSU / Corporate Bond	2 to 3 years
3 to 5 Years	Target Maturity Funds / Medium to Long Duration	3 to 5 Years
More than 5 Years	Target Maturity Funds /Long Duration / Gilt	5 to 15 Years

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