

How returns from debt mutual funds are taxed

1. Mutual funds that invest less than 65% of their corpus in equity and equity related securities at all times are treated as debt mutual funds for taxation.
2. Gains on debt mutual funds held for less than 36 months are treated as short term capital gains and taxed as per the income tax slab of the investor.
3. Gains on debt mutual funds held for 36 months or more are treated as long-term capital gains and taxed at the rate of 20% after indexation.
4. Dividends from debt mutual funds are taxfree in the hands of investors but they are liable for a dividend distribution tax of 25% (29.12% with surcharge and cess).
5. For income tax purposes, international funds and fund of funds are considered as debt funds and taxed accordingly.

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