Tax saving options in 2023 for mutual fund/stock investors

Introduction

Tax is something that we all have to deal with but that most of us would rather avoid if we could. However, you do not always have to look at it grudgingly. The Government of India offers various tax-saving investment options that help you kill two birds with one stone. You get to save tax and create wealth by investing in the right type of products. As the financial year slowly inches to its end, the search for tax-saving strategies is at its peak. Most of us are also awaiting Budget 2023 announcements with anticipated glee.

Let's look at some things you can expect from the soon-to-be-announced Budget and how you can save tax in 2023.

What to expect from Budget 2023?

You can expect some changes in your investing routine in 2023. The most important one is that you need to link your Permanent Account Number (PAN) or PAN-Exempt KYC Reference Number (PEKRN) to your mutual fund folios by March 31, 2023. If not, you will not be able to invest from April 2023. This notification was passed by the Association of Mutual Funds in India (AMFI) and is applicable to Systematic Investment Plans (SIPs) and lumpsum investments.

The AMFI also recently shared a pre-budget wishlist that included the following:

o Similar tax treatment for capital gains from mutual fund investments and Unit-Linked Insurance Plans (ULIPs): At present, there is no tax parity between mutual fund schemes and ULIPs. Long-term capital gains from equity mutual funds are taxed at 10% if they exceed Rs 1 lakh in a year. However, gains earned from a ULIP are tax-exempt if the plan's sum assured is at least ten times the premium. Likewise, ULIPs allow you to switch from one fund to another. These switches are not considered capital gains and, therefore, not taxed. However, switching between mutual fund schemes, such as from a regular to a direct plan, is subjected to capital gains tax. AMFI wants uniformity between both products with respect to tax.

o Similar tax treatment for mutual fund schemes and listed bonds: Gains on listed debentures are taxed as long-term capital gains at 10% when held for more than 12 months. However, long-term gains from debt mutual funds are taxed at 20% when held for more than 36 months. Since both products are debt instruments, AMFI wants the government to apply the same taxation policy.

Whether or not these suggestions will be implemented is unclear right now. However, while the whole country waits for the finance minister to announce the Budget, here are some things you can adopt in your tax routine to lower your tax liabilities.

Tax saving strategies that stock and mutual fund investors can use in 2023

o Plan your redemptions well: Long-term capital gains of up to Rs 1 lakh/year from equity mutual funds are tax-exempt. You can plan to sell your units in a way that you do not earn more than Rs 1 lakh profit in a year to completely avoid capital gains tax.

o Invest in ELSS funds: Equity-Linked Savings Schemes are the only type of mutual funds that qualify for a tax deduction of up to Rs 1.5 lakh/year under Section 80 C of the Income Tax Act, 1961. ELSS funds are equity mutual fund schemes that primarily invest in equity and equity-related securities. They are ideal for long-term wealth creation while helping you save tax on your investments every year you invest in them.

o Tax loss harvesting: You can offset your capital losses against your capital gains. For example, if you earn a profit of Rs 10,000 from one mutual fund scheme or stock and suffer a loss of Rs 5,000 on another, your total gain for the year will be (Rs 10,000 - Rs 5,000) Rs 5,000. Hence, the tax will be levied on Rs 5,000 and not Rs 10,000.

o Take incidental deductions: When trading in shares or Futures and Options, you can deduct incidental expenses, such as electricity bills or data charges and lower your tax liabilities.

In addition to the above, it is also important to distinguish between your investment and trading portfolios. Gains from the investment portfolio are treated as capital gains, whereas the trading portfolio generates business profit. The taxation for both differs.

Conclusion

Tax-saving investments can be a great way to reduce your taxable income while also building your wealth. However, it is always good to review your tax-saving investment options and strategies every year and make adjustments as per the prevailing tax laws.