

LTCG tax

and its impact on your investments

Long term capital gains tax on equity investments

- A long-term capital gains tax of 10% is applicable to equity investments for returns exceeding Rs. 1 lakh.
- This is applicable only from March 31, 2018. Additionally, gains accrued till January 31st, 2018 will be grandfathered, which basically means that gains made up until that point will be exempt from LTCG.

How does this work?

Investment (Equity) cost one year ago	100000
Value of investment on 31st January, 2018	110000
Investment sold on 1st April, 2018	125000
Total gains	25000
Gains for the purpose of calculating LTCG tax	15000
Tax at the rate of 10%	1500

Above table is only for illustration purpose

LTCG – Impact on Returns

Illustration of the impact of LTCG on an equity investment of Rs.200000 which grows at a 15% CAGR

Holding Period	Value of equity investment on redemption (INR)	LTCG (INR)	Tax @ 10%	Post Tax Returns (CAGR)
1 year	230000	30000	Nil	15.00%
5 years	402271	202271	10227	14.41%
7 years	532004	332004	23200	14.27%
10 years	809112	609112	50911	14.26%
15 years	1627412	1427412	132741	14.35%
20 years	3273307	3073307	297331	14.45%
25 years	6583791	6383791	628379	14.54%

The difference between 5 years and 1 year returns is:

0.59%

The difference between 25 years and 1 year returns is:

0.46%

As we can see from the above illustration, in most cases, the impact of Long-term capital gains (LTCG) tax on equity returns is marginal. As the holding period increases from 10 years to longer duration, the impact becomes minimal.

Dividend distribution tax on equity mutual funds

Dividends in equity mutual funds now attract a Dividend Distribution Tax of 10%, which is relatively lower than the 25% tax that dividends from debt funds attract.

To harness the true value of equities, one must stay invested for the long-term and let the investment grow. Withdrawing cash in the form of dividends might not necessarily serve that purpose. Hence, for investors in equity mutual funds who are looking to capitalise on the long term value of equity investments, the introduction of these taxes will have little or no impact.

Please consult your tax advisors for more details and before making investment.



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