

## TAX & LEGAL & GENERAL INFORMATION

### A. Taxation on investing in Mutual Funds

As per the taxation laws in force as at the date of this Scheme Information Document and the enactment of Finance Bill 2008, the tax benefits that are available to the investors investing in the Units of the Scheme are stated herein above. The information so stated is based on the Mutual Fund's understanding of the tax laws in force as of the date of this Offer Document.

#### As applicable for EQUITY SCHEMES.

##### (i) TO THE MUTUAL FUND

(A) The Fund is a Mutual Fund registered with the Securities and Exchange Board of India and hence, is eligible for the benefits of Section 10 (23D) of the Income-Tax Act, 1961. Accordingly, the entire income of the Fund is exempt from income tax.

1. As per section 196(iv) of the Income-tax Act, the income received by the Fund is not liable for deduction of tax at source under the provisions of Section 196 (iv), of the Act.
2. On income distribution, if any, made by the Mutual Fund, additional income tax is not payable under Section 115R of the Act, in the case of open ended equity oriented funds (i.e. where more than 65% of total proceeds of the mutual fund are invested in equity shares of domestic companies as defined in Section 115T of the Act)

##### a. Securities Transaction Tax (STT)

The Mutual Fund is liable to pay securities transaction tax (STT) at prescribed rates on the value of transactions of purchase or sale of specified securities. The rates of STT are:

Nature of transaction	Payable by	Value on which tax shall be levied	Existing tax Rate (%)
Delivery based purchase transaction in equity shares or units of equity oriented fund entered in a recognized stock exchange	Purchaser	Value at which shares / units are bought	0.125
Delivery based sale transaction in equity shares or units of equity oriented fund entered in a recognized stock exchange	Seller	Value at which shares / units are sold	0.125
Non -Delivery based sale transaction in equity shares or units of equity oriented fund entered in a recognized stock exchange	Seller	Value at which shares / units are sold	0.025
Transaction for Derivatives entered in a recognized stock exchange (Futures and options).	Seller	Futures: Value at which futures are traded Options: Aggregate value of strike price and premium.	0.017
Sale of units of an equity oriented fund to the Seller	Seller	Value at which units are sold	0.25

For this purpose, an equity oriented fund is defined to mean:

- a fund that invests at least 65 per cent of its investible funds in equity shares of domestic companies
- which has been set up under a scheme of mutual fund.

**b. Income Distribution Tax:** No income distribution tax is payable by the Fund, in respect of schemes in the nature of open equity oriented fund, in terms of section 115R of the Act, which deals with tax on income distributable to unitholders of mutual funds. The benefit of exemption from income distribution tax is extended to close ended equity oriented schemes.

Further, the above definition of an equity oriented fund would stand to mean a fund that invests at least 65 per cent of its investible funds in equity shares of domestic companies.

**c. Service tax:** The Mutual Fund is liable for payment of service tax (as per current applicable tax rates) as recipient of services on Business Auxiliary Service provided by distributors of mutual funds/ agents.

#### (ii) TO THE UNITHOLDERS

a. **Tax on Income:** In accordance with the provisions of section 10(35)(a) of the Act, income received by all categories of unit holders in respect of units of the Fund will be exempt from income-tax in their hands. Exemption from income tax under section 10(35) of the Act would, however, not apply to any income arising from the transfer of these units.

b. **Tax on capital gains:** As per the provisions of section 2(42A) of the Act, a unit of a Mutual Fund, held by the investor as a capital asset, is considered to be a short-term capital asset, if it is held for 12 months or less from the date of its acquisition by the unit holder. Accordingly, if the unit is held for a period of more than 12 months, it is treated as a long-term capital asset.

#### c. **Computation of Capital Gain**

Capital gains on transfer of units will be computed after taking into account the cost of their acquisition. While calculating long-term capital gains, such cost will be indexed by using the cost inflation index notified by the Government of India.

##### \* **Long-term capital gains**

As per Section 10(38) of the Act, long-term capital gains arising from the sale of unit of an equity oriented fund entered into in a recognised stock exchange or sale of such unit of an equity oriented fund to the mutual fund would be exempt from income-tax, provided such transaction of sale is chargeable to securities transaction tax.

However, companies would be required to include such long term capital gains in computing the book profits and minimum alternated tax liability under section 115JB of the Act.

##### \* **Short -term capital gains**

As per Section 111A of the Act, short-term capital gains from the sale of unit of an equity oriented fund entered into in a recognised stock exchange or sale of such unit of an equity oriented fund to the mutual fund would be taxed at 15 per cent ( plus applicable surcharge and Education Cess 3%), provided such transaction of sale is chargeable to securities transaction tax.

##### \* **Capital Loss:**

- As per the provisions of section 94(7) of the Act, loss arising on transfer of units, which are acquired within a period of three months prior to the record date (date fixed by the Fund for the purposes of entitlement of the unit holder to receive the income from units) and sold within a period of nine months after the record date, shall not be allowed to the extent of income distributed by the Fund in respect of such units. As per the provisions of section 94(8) of the Act, where any units (.original units.) are acquired within a period of three months prior to the record

date (date fixed by the Fund for the purposes of entitlement of the unitholder to receive bonus units) and any bonus units are allotted (free of cost) based on the holding of the original units, the loss, if any, on sale of the original units within a period of nine months after the record date, shall be ignored in the computation of the unit holder's taxable income. Such loss will however, be deemed to be the cost of acquisition of the bonus units.

**Tax Deduction at source on capital gains:**

- (i) No tax is required to be deducted at source on capital gains arising to any resident unit holder.
  - (ii) Under section 195 of I T Act, tax shall be deducted at source in respect of capital gains as under (A) In case of a non resident other than a company- (i) Long term capital gains on units of equity oriented funds : Nil; (ii) Long term capital gains on units of funds other than equity oriented funds -20% plus surcharge (iii) short term capital gains on units of equity oriented fund – 15 % plus surcharge (iv) short term capital gains on units funds other than equity oriented funds : 30% plus surcharge (B) In case of a foreign company (i) Long term capital gains on units of equity oriented funds :Nil (ii) Long term capital gains on units of funds other than equity oriented funds :20% plus surcharge (iii) Short term capital gains on units of equity oriented funds :15% plus surcharge (iv) Short term capital gains on units of funds other than equity oriented funds : 40% plus surcharge. In all these said cases, tax deducted at source on short term and long term capital gains will be further increased by the education cess % 3% on tax plus surcharge as per the Finance Bill, 2008.
  - (iii) Under Section 196B of the Act, tax @10% plus surcharge and Education Cess @ 3% on tax plus surcharge as per the Finance Bill 2008 shall be deducted at source from long term capital gains on units other than the units of equity oriented funds earned by Overseas Corporate Bodies.
- Each Unit holder is advised to consult his / her or its own professional tax advisor before claiming set off of long-term capital loss arising on sale / repurchase of units of an equity oriented fund referred to above, against long-term capital gains arising on sale of other assets.
  - Short-term capital loss suffered on sale / repurchase of units shall be available for set off against both long-term and short-term capital gains arising on sale of other assets and balance short-term capital loss shall be carried forward for set off against capital gains in subsequent years.
  - Carry forward of losses is admissible maximum upto eight assessment years.

**Tax withholding on capital gains**

Capital gains arising to a unit holder on repurchase of units by the Fund should attract tax withholding as under:

- No tax needs to be withheld from capital gains arising to a FII on the basis of the provisions of section 196D of the Act.
- In case of non-resident unit holder who is a resident of a country with which India has signed a double taxation avoidance agreement (which is in force) the tax should be deducted at source under section 195 of the Act at the rate provided in the Finance Act of the relevant year or the rate provided in the said agreement, whichever is beneficial to such non-resident unit holder. However, such a non-resident unit holder will be required to provide appropriate documents to the Fund, to be entitled to the beneficial rate provided under such agreement.
- No tax needs to be withheld from capital gains arising to a resident unit holder on the basis of the Circular no. 715 dated 8 August 1995 issued by the CBDT.

Subject to the above, the provisions relating to tax with holding in respect of gains arising from the sale of units of the various schemes of the fund are as under:

- No tax is required is to be withheld from long term capital gains arising from sale of units in equity oriented fund schemes, that are subject to securities transaction tax.

## Securities Transaction Tax

Nature of transaction	Existing tax rate
Delivery based purchase transaction in equity shares or units of equity oriented fund entered in a recognized stock exchange	0.125
Delivery based sale transaction in equity shares or units of equity oriented fund entered in a recognized stock exchange	0.125
Non -Delivery based sale transaction in equity shares or units of equity oriented fund entered in a recognized stock exchange	0.025
Sale of units of an equity oriented fund to the Mutual Fund	0.25

Value of taxable securities transaction in case of units shall be the price at which such units are purchased or sold.

A deduction in respect of securities transaction tax paid is not permitted for the purpose of computation of business income or capital gains.

However, if the total income of an assessee includes any business income arising from taxable securities transactions, he shall be entitled to a rebate (Sec 88E of the Act) from income-tax of an amount equal to the securities transaction tax paid by him in respect of the taxable securities transactions entered during the course of his business.

### Wealth Tax

Units held under the Schemes of the Fund are not treated as assets within the meaning of section 2(ea) of the Wealth Tax Act, 1957 and therefore, not liable to wealth-tax.

**Gift Tax Act:** The Gift Tax Act, 1958, has ceased to apply to gifts made on or after 1st October 1998. Gifts of Units, purchased under the Plan, would therefore, be exempt from gift-tax.

## As applicable for DEBT SCHEMES

### i. TO THE MUTUAL FUND

1. Sahara Mutual Fund is a Mutual Fund registered with SEBI and as such is eligible for benefits under Section 10(23D) of the Act. Accordingly, its entire income is exempt from tax.
2. Mutual Funds are required to pay distribution tax on income distributed by it at the rate of 14.1625% (including 10% surcharge, 2% education cess and 1% secondary and higher education cess) in the case of distributions to Individuals and HUFs. An increased rate of 22.66% (including 10% surcharge, 2% education cess and 1% secondary and higher education cess) is applicable for distributions made to persons other than an Individual or a HUF.

### ii. TO THE UNIT HOLDERS

#### 1. Income-tax

All Unit holders: Income received in respect of units of a mutual fund, is exempt from tax under Section 10(35) of the Act. Exemption from income-tax under section 10(35) of the Act shall however not apply to any income arising from the transfer of these units.

#### 3. Tax Deduction at Source on income distributed

##### All Unit holders

In view of the exemption of income in the hands of the Unit holders, no income-tax is deductible at source, on income distribution by the Mutual Fund.

**Capital Gains Tax:** As per the provisions of section 2(42A) of the Act, a unit of a Mutual Fund, held by the investor as a capital asset, is considered to be a short-term capital asset, if

it is held for 12 months or less from the date of its acquisition by the unit holder. Accordingly, if the unit of a Mutual Fund is held for a period of more than 12 months, it is treated as a long-term capital asset.

**Foreign Institutional Investors:** Long-term capital gains arising on sale / repurchase of such units shall be taxed at the rate of 10 per cent under Section 115AD of the Act. The said tax rate shall be increased by applicable surcharge of 10 per cent in case of non-corporate Unit holders, where the total income exceeds Rs.1,000,000/- and 2.5 per cent surcharge in case of corporate Unit holders, where the total income exceeds Rs.10,000,000/-. Further, an additional surcharge of 3 per cent by way of education cess shall be charged on amount of tax inclusive of surcharge. Such gains shall be calculated without inflation index and currency fluctuations.

**Short –Term capital gains :** Short-term capital gains arising on sale / repurchase of such units shall be taxed at 30 per cent. The said tax rate shall be increased by applicable surcharge of 10 per cent in case of, non-corporate Unit holders, where the total income exceeds Rs.1,000,000/- and 2.5 per cent surcharge in case of corporate Unit holders where the total income exceeds Rs.10,000,000/-. Further, an additional surcharge of 3 per cent by way of education cess shall be charged on amount of tax inclusive of surcharge. However, in case of FII unit holder who is a resident of a country with which India has signed a Double Taxation Avoidance Agreement (which is in force) income tax is payable at the rate provided in the Act or the rate provided in the said agreement, whichever is more beneficial to such FII unit holder.

#### **Other Unit holders**

**Long-term capital Gains:** Long-term capital gains arising on sale / repurchase of such units shall be chargeable under Section 112 of the Act, at concessional rate of tax, at 20 per cent. The said tax rate shall be increased by applicable surcharge of 10 per cent in case of individuals, HUF, association of person, body of individuals Unit holders, where the total income exceeds Rs.1,000,000/-, and 10 per cent surcharge in case of firm and corporate Unit holders (being resident) and 2.5 per cent surcharge in case of firm and corporate Unit holders (being non-resident), where the total income exceeds Rs.10,000,000/-. Further, an additional surcharge of 3 per cent by way of education cess shall be charged on amount of tax inclusive of surcharge.

The following amounts shall be deductible from the full value of consideration, to arrive at the amount of capital gains:

Cost of acquisition of Units as adjusted by Cost Inflation Index notified by the Central Government, and Expenditure incurred wholly and exclusively in connection with such transfer.

However, where the tax payable on such long-term capital gains, computed before indexation, exceeds 10 per cent, (as increased by the applicable surcharge and education cess), of the amount of capital gains, such excess tax shall not be payable by the Unit holder.

In case of Individuals and HUF (being a resident), where taxable income as reduced by long-term capital gains arising on sale of units (other than unit of an equity oriented fund) is upto / below the basic exemption limit, the long-term capital gains shall be reduced to the extent of the shortfall and only the balance long-term capital gains shall be subjected to the flat rate of income-tax.

3. **Short-term capital gains:** Short-term capital gains arising to a unit holder will be taxed at the normal rate applicable to that unit holder (assesse) as per the provisions of the Act.

#### 4. **Set off of Capital losses**

All Unit Holders: The long-term capital loss suffered on sale / repurchase of units shall be available for set off against long-term capital gains arising on sale of other assets and balance unabsorbed long-term capital loss shall be carried forward for set off only against long-term capital gains in subsequent years.

Short-term capital loss suffered on sale / repurchase of units shall be available for set off against both long-term and short-term capital gains arising on sale of other assets and balance unabsorbed short-term capital loss shall be carried forward for set off against capital gains in subsequent years.

Such carry forward is admissible maximum upto eight assessment years.

Each Unit holder is advised to consult his / her or its own professional tax advisor before claiming set off of long-term capital loss arising on sale / repurchase of units of an equity oriented fund referred to above, against long-term capital gains arising on sale of other assets.

#### **Domestic Unit holders**

No income-tax is deductible at source from income by way of capital gains under the provisions of the Act and as per Circular no. 715 dated August 8, 1995 issued by the CBDT.

#### **Foreign Institutional Investors**

Under Section 196D of the Act, no deduction shall be made from any income by way of capital gains, in respect of transfer of units referred to in Section 115AD of the Act.

**Other Benefits:** Investments in Units of the Mutual Fund will rank as an eligible form of investment under Section 11 (5) of the Act read with Rule 17C of the Income-tax Rules, 1962, for Religious and Charitable Trusts.

#### **Wealth Tax**

Units held under the Schemes of the Fund are not treated as assets as defined under Section 2(ea) of the Wealth Tax Act, 1957 and therefore would not be liable to wealth tax.

**Gift Tax:** The Gift Tax Act, 1958, has ceased to apply to gifts made on or after 1st October 1998. Gifts of Units, purchased under the Plan, would therefore, be exempt from gift-tax. Further subject to certain exceptions, gifts from persons exceeding Rs.25000/- are taxable as income in the hands of donee on or after 1st September 2004 pursuant to section 2(24) (xiii) of the Act read with section 56(2) (v) of the Act.

The information stated below is only for the purposes of providing general information to the investors and is neither designed nor intended to be a substitute for professional tax advice. In view, of the individual nature of the tax consequences and the changing tax laws, each investor is advised to consult his or her own tax consultant with respect to the specific tax implications arising out of their participation in the Scheme.