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Investment Avenues for retailers-Equity Fund and Debt Fund

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Abstract:

Saving and Investment both are important for any person in order to fulfil his future needs. Now-a-days Investors look in all avenues while investing their funds. Some investments are risky and some are not. Investors have wide range of investment options, but now people would mostly prefer mutual funds for its good returns and less risky nature. Mutual fund schemes are attractive tosmall investors. But many people are unaware about mutual funds tax, cess, and surcharges. Thus, unaware people purchase wrong mutual funds. In present study, this researcher has compared equity and debt funds in terms of tax criteria, capital gain. Comparison between ICICI Pru Blue-chip Fund (equity) with ICICI Pru Saving fund (debt) and also evaluated SIP and lumpsum investment option. For this research, Researcher has used secondary data for comparison. Researcher concludes that Equity Fund is better option to invest. Investors overcome the risk of huge tax in long term and how it is helps to reduce retail investors' risk.

Keywords*: Mutual Fund, Equity Fund, Debt Fund*

Introduction:

In an India huge number of investors invest in mutual funds so they can get maximum returns in minimum risk. But most of the people unaware from the tax, surcharge, cess etc. and they make huge loss. To avoid this loss retail investor, need to get proper study of Equity fund and Debt funds. And detail study about each funds tax scheme. In this research we will see what is equity fund and debt fund, as well as their tax criteria and Short-Term Capital Gain Vs. Long Term Capital Gain. After that we will Compare ICICI Pru Blue-chip Fund (equity) with ICICI Pru Saving fund (debt). For taking detailed difference in long term returns. And then We will see Which Investment gives more returns with both SIP and lumpsum investment criteria.

Problems faced by retail investors are:

1. Retail investors were unaware from exact difference between Equity fund and Debt fund's Advantages and disadvantages.
2. Retail investors was unaware from exact tax in equity funds and debt funds.
3. Retail investors was unaware from which is better equity fund or debt fund.
4. Retail investors unable to earn huge Profit.
5. Retailers always pay huge tax because they are unaware from tax

Objectives of the study:

The overall objective of the research is known as 'Equity fund Vs. Debt fund which is better as an investment avenue'.

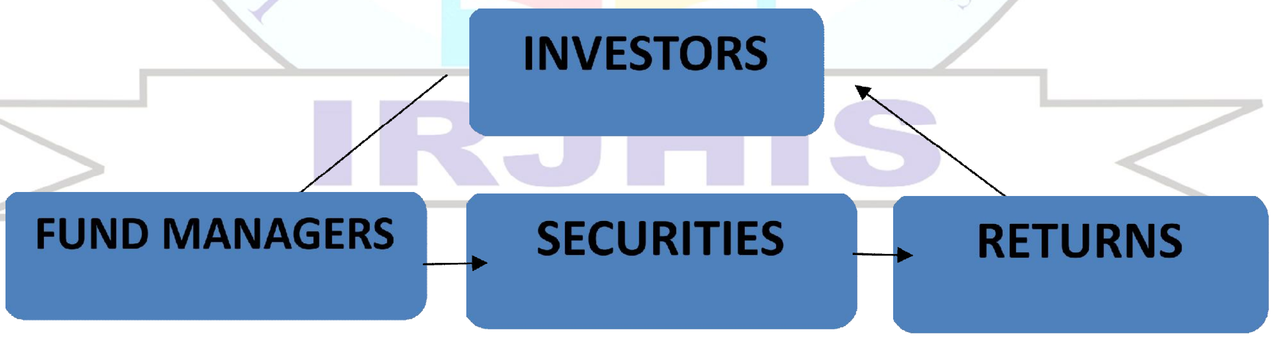
1. To study the distinction between Equity fund with Debt fund.
2. To study the tax ratio between Equity fund is to debt fund.
3. Comparing 'ICICI Pru Blue-chip fund (Equity) And 'ICICI Pru Saving fund (Debt) for overall study.
4. Study about LTCG and STCG.

Research methodology:

The nature of the research is Empirical one. Basically, paper highlights on difference between equity fund and debt fund tax ratios. After that Researchers have compared 'ICICI Pru Blue-chip fund (Equity) and 'ICICI Pru Saving fund (Debt) for overall study.

What is Mutual fund ?

Mutual fund is collecting money from common investors. And this money is professionally involved by the Asset Management Company's, in the bonds, equities, etc.



What is Equity Fund

The fund which has portfolio's equity exposure exceeds 65%.

What is Debt Fund?

The fund which has portfolio's debt exposure exceeds 65%.

What is Long Term Capital Gain (LTCG)

The rate of tax which depends the period of investment holding. If you sell the units of fund after one year, from the date of allotment, such holding said to be long capital gain.

What is short term capital gain (STCG)

The rate of tax made on the sell of units of fund within one year from the date of allotment is called as short-term capital gain.

Taxation of capital gains in equity funds:

In equity funds, short term capital gain's tax rate is 15%. In equity funds, long term capital gain from Rs.0 to Rs.1 lakh per year are tax less. If any long-term capital gain is greater than Rs. 1 lakh then it is eligible for LTCG at rate 10% and there is no benefit of indexation.

Taxation of capital gains in debt funds:

In debt funds, STCG is taxed at investors tax slab on the taxable amount.

In debt funds, LTCG taxed at 20% after indexation, and there is cess and surcharge on tax also.

Difference between LTCG and STCG in Equity and Debt fund:

Fund type	**Equity fund**	**Debt Fund**
Short term capital gain	Shorter than 12 months.	Shorter than 36 months.
Long term capital gain	After 12 months and longer.	After 36 months and longer.

Taxation in equity fund and Debt fund:

Fund type	**Equity fund**	**Debt fund**
Short term capital gain	15% + Cess +Surcharge.	Tax at the investor's income tax slab.
Long term capital gain	Up to Rs. 1 lakh per year is tax less. Gain above 1 lakh tax is calculated like, 10% + Cess + Surcharge.	20% + Cess + Surcharge.

Interpretation:

Going in long term capital gain in equity funds is easier. (After 12 months = LTCG in equity funds)

Going in long term capital gain in debt funds is harder than equity fund. (After 36 months = LTCG in debt funds)

Securities and Transaction Tax (STT)

After all the taxes, there is another tax known as 'Securities Transaction Tax' (STT). STT is taxed at 0.001%.

And this tax charged by the ministry of finance.

1. It is applicable for Equity fund, Hybrid fund, Equity- oriented Fund.
2. It is not applicable for debt funds.

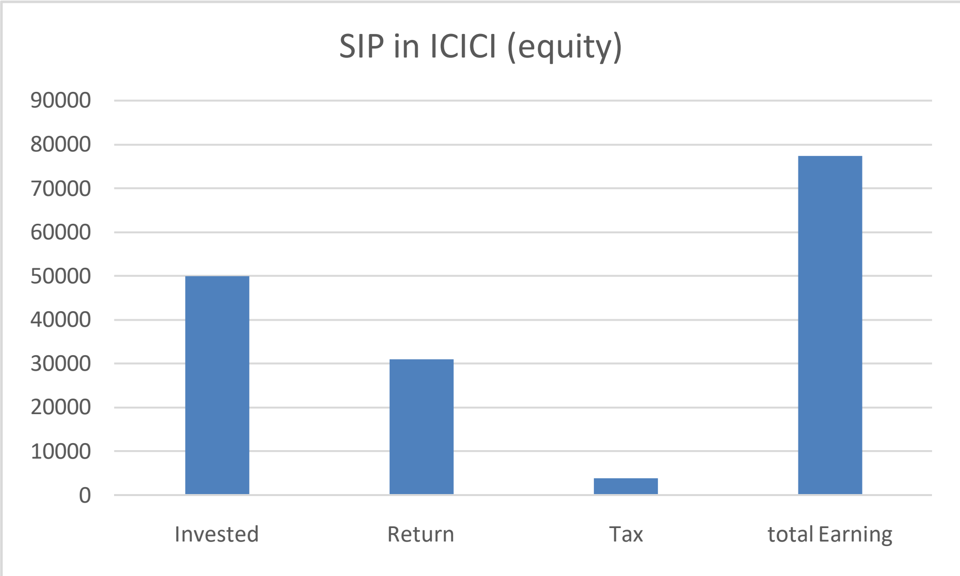
ICICI Pru Blue-chip Fund (equity) Vs. ICICI Pru Saving Fund (debt) In terms of SIP

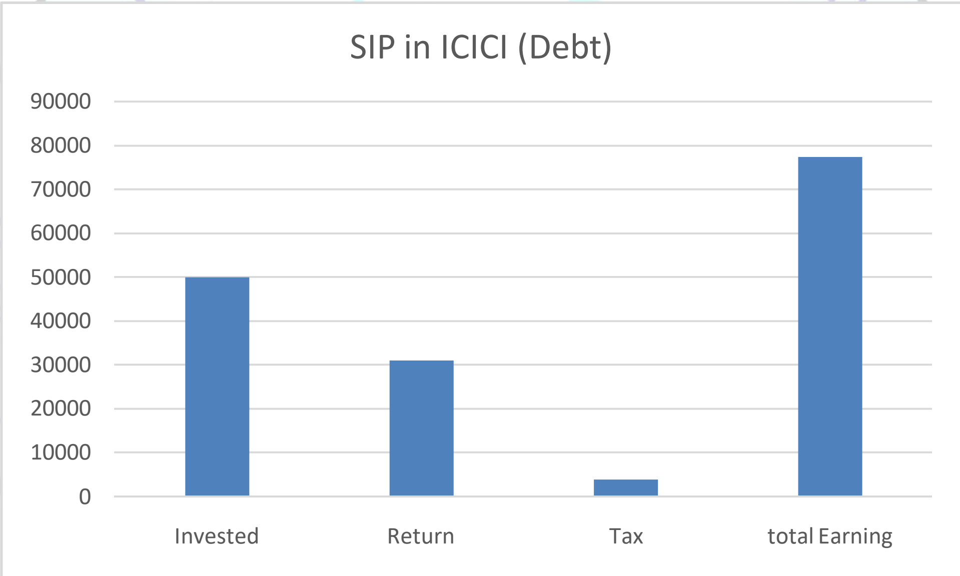
ICICI Pru blue-chip (equity)	Rupees/Percentage	**ICICI Pru Saving Fund (debt)**	Rupees/Percentage
Monthly SIP	Rs.5000	Monthly SIP	Rs.5000
Invested years	7 years	Invested years	7 years
CAGR	13.38% (Historical)	CAGR	7.15 % (Historical)
Annual income of investor (for tax Slab)	7.50 lakh to 10 lakh	Annual income of investor (for tax Slab)	7.50 lakh to 10 lakh
Total invested	Rs.4,20,000	Total invested	Rs.4,20,000
Total Return	Rs.2,49,453 Rs. (59.39%)	Total Return	Rs.1,18,587 (28.24%)
Total Tax	Rs.15,543 (10%)	Total Tax	Rs.1,625 (20%)
Total Earning	Rs.6,53,910	Total Earning	Rs.5,36,961

ICICI Pru Blue-chip fund (equity) Vs. ICICI Pru Saving Fund (Debt) In terms of One Time Investment

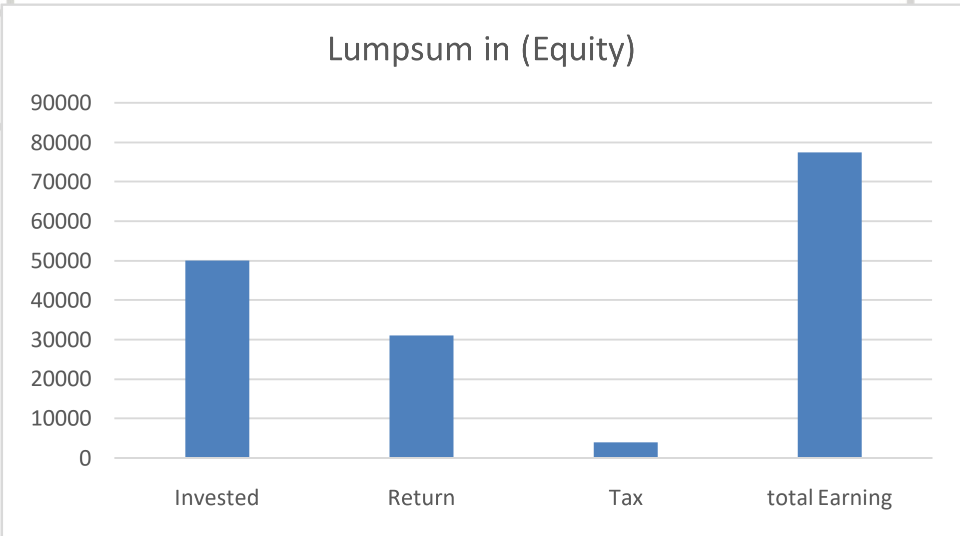
ICICI Pru blue-chip (equity)	Rupees/Percentage	**ICICI Pru Saving Fund (debt)**	Rupees/Percentage
One Time Investment	Rs.50,000	One Time Investment	Rs.50,000
Invested years	7 years	Invested years	7 years
CAGR	13.38% (Historical)	CAGR	7.15 % (Historical)
Annual income of investor (for tax Slab)	7.50 lakh to 10 lakh	Annual income of investor (for tax Slab)	7.50 lakh to 10 lakh
Total invested	Rs.50,000	Total invested	Rs.50,000
Total Return	Rs.70,415.140%)	Total Return	Rs.31,102 (61.21%)
Total Tax	Rs.0 Rs. (0%)	Total Tax	Rs.3,950 (20%)
Total Earning	Rs.1,20,415	Total Earning	Rs.77,512

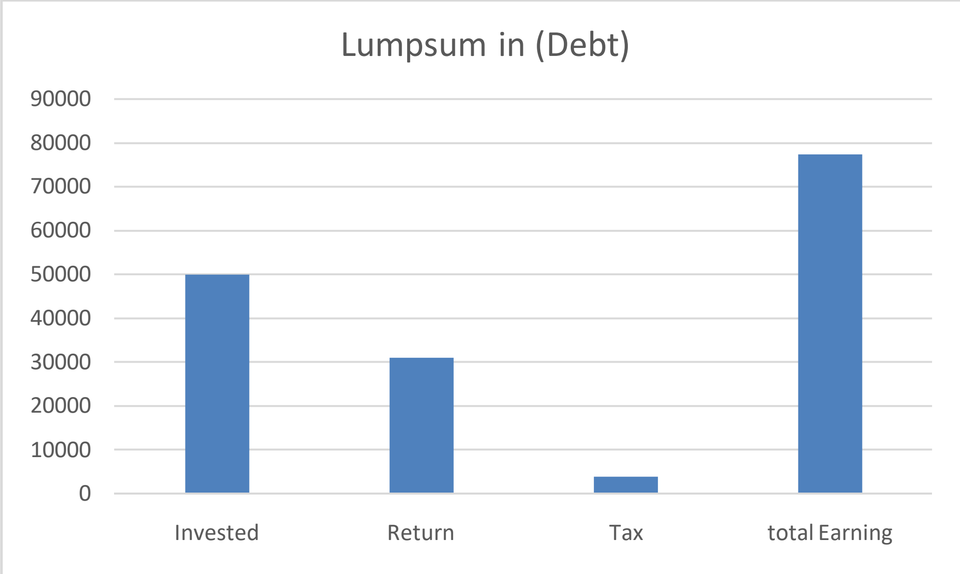
Graph for SIP investment in Equity and Debt funds





Graph For Lumpsum investment In Equity and Debt funds





Interpretation:

1. Returns are higher in equity fund than the debt funds.
2. Tax is higher in debt funds than the equity funds.
3. SIP investment is gives higher returns comparatively One time investment.
4. Equity funds are tax efficient funds.

There is one Important Mutual Fund Type is Present in an India.

The Funds which invest more than one asset classes is nothing but hybrid mutual fund. Asset classes like Equity, Debt and other classes. It is all decided by the Fund Manager depending on the objective of the Scheme. Mostly there are Two main types of Hybrid Mutual Funds are as follows:

1) Equity Oriented Hybrid Fund - The fund which has portfolio's equity exposure exceeds 65%.
2) Debt Oriented Hybrid Fund - The fund which has portfolio's debt exposure exceeds 65%.

Taxation of capital gains in equity Oriented Hybrid funds:

In this funds, short term capital gain's tax rate is 15%, long term capital gain from Rs.0 to Rs.1 lakh per year are tax less. If any long-term capital gain is greater than Rs. 1 lakh then it is eligible for LTCG at rate 10% and there is no benefit of indexation.

Taxation of capital gains in debt Oriented Debt funds:

In these funds, STCG is taxed at investors tax slab on the taxable amount, LTCG taxed at 20% after indexation, and there is cess and surcharge on tax also.

Note:- Hybrid Funds may be different from equity and debt funds, as Scheme changes Taxation changes.

Suggestions:

1. Get complete understanding of fund schemes before making an investment decision.
2. Avoid frequent buying and selling of units of the equity fund.

3. Don't select funds only on the track record basis.
4. Invest in equity funds from an overall financial planning point of view.
5. Get complete knowledge of tax in the scheme where you going to invest.

Conclusion:

- Retail investors needs to get proper study before investing.
- Equity finds is always better than debt funds for long term investment.
- SIP gives higher returns than the Lumpsum investment.
- As much longer you hold your funds that much tax efficient, they become.
- The tax in long term investment is lower than short term investment.
- Proper study of scheme helps to identify minor but important terms in investing.
- Equity funds reduce retail investors risk.

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