FAQ on Stamp Duty

SMIFS LIMITED
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1. What are the amendments in the Indian Stamp Act pertaining to mutual funds?
Ans: Pursuant to Notification No. S.O. 1226(E) and G.S.R. 226(E) dated March 30, 2020 issued by Department of Revenue, Ministry of Finance, Government of India, read with Part I of Chapter IV of Notification dated February 21, 2019 issued by Legislative Department, Ministry of Law and Justice, Government of India on the Finance Act, 2019, stamp duty will be levied on mutual fund transaction, with effect from July 1, 2020, as per the rates provided in the table below.

Sl. No.	Description	Applicable New Rate
1	Issue of security	0.005%
2	Transfer of security	0.015%

2. What is the effective date for implementation of above mentioned amendment?
Ans: Effective date is July 01, 2020.

3. How much percentage stamp duty is levied on mutual fund transactions?
Ans: 0.005% of the net investment value i.e., gross investment amount less any other deduction like transaction charge.

4. Which all transactions would be covered under stamp duty?
Ans:
- Stamp duty applicability will be on Purchases (including triggers from past SIP registrations), Switch-in (including triggers from past STP registrations) and Dividend reinvestment transactions. The same is applicable for both physical and demat.
- Transfer of Units from one demat account to another including market / off-market transfers attract stamp duty.

5. Which all categories of mutual fund schemes would be covered under the stamp duty charges?
Ans: All categories of mutual fund schemes would be covered under stamp duty charges.

6. Will stamp duty be applicable for units held in physical mode?
Ans: Yes

7. Will stamp duty be applicable during redemption?
Ans: No

8. Will stamp duty be applicable on transfer of units from broker to investor account?
Ans: No, as no consideration is involved and stamp duty is already deducted during unit issuance.

9. Is stamp duty applicable on ETF transaction?
Ans: Yes

10. What would be the impact on units under dividend reinvestment?
Ans: For units under dividend reinvestment, stamp duty will be deducted from the dividend amount (less TDS if any) and units will be created for the balance amount.

11. Will stamp duty be applicable for subsequent conversion of units held in physical mode to demat mode (Statement of Accounts to Demat)?
Ans: No, as no consideration is involved and stamp duty is already deducted during unit issuance.

12. How would stamp duty be levied to the investors?
Ans: For units issued in demat or non-demat form – purchase, dividend reinvestment, switch – stamp duty will be deducted from the net investment amount i.e., gross investment amount less any other deduction like transaction charge. Units will be created only for the balance amount (Net investment amount – stamp duty deducted). Stamp duty will be computed @0.005% on an inclusive method using the formula - ((Investment amount – transaction charge, if any) / 100.005) * 0.005.

Illustration:
Transaction Amount: INR. 1,00,100
Transaction Charges: 100
Stamp Duty: INR. 5 ((Transaction Amount - Transaction Charges)*0.005/100.005)
NAV: 10
Units: 9,999.50 ({Transaction Amount – Transaction Charges – Stamp Duty}/NAV)

13. What would be the impact of stamp duty on mutual fund schemes?
Ans: Investors with short indicative investment horizon of less than 30 days will get impacted more because the stamp duty is being charged as a onetime charge. Please refer below table for illustration purpose.

		Return Impact	
Stamp duty	**No. of days**	**Impact in % terms (absolute/day)**	**Impact in % terms (annualised)**
0.0050%	1	0.0050%	1.825000%
	2	0.0025%	0.912500%
	3	0.0017%	0.608333%
	4	0.0013%	0.456250%
	5	0.0010%	0.365000%
	6	0.0008%	0.304167%
	7	0.0007%	0.260714%
	30	0.0002%	0.060833%
	60	0.0001%	0.030417%
	90	0.0001%	0.020278%
	180	0.0000%	0.010139%
	270	0.0000%	0.006759%
	365	0.0000%	0.005000%

The above table clearly captures that as the holding period increases impact of stamp duty reduces from ~1.82% in 1 day to ~0.06% in 30 days.