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Investors may need more SIPs after new tax

BY PRASHANT MAHESH, ET BUREAU | UPDATED: FEB 02, 2018, 11.16 AM IST

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Equity **mutual fund** investors using systematic investment plans (SIP) as the primary tool to meet their long-term goals could face shortfalls after the introduction of a 10% long-term capital gains (LTCG) tax on such investments.

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Over the past couple of years, many financial planners and **wealth** managers were advocating **investors** to invest in SIPs to meet their long-term goals.

Many investors started SIPs to meet their life goals — retirement, children's education, funding a vacation, buying a house or a car, or any other major capital expenditure. Until now, reaching these goals was considered by investors without factoring in the tax element. However, now that an LTCG of 10% has been introduced in equity-oriented mutual fund schemes, when investors sell these SIPs to meet their goals, they could fall short of their targeted receipts.

An investor running an SIP of Rs 10,000 every month for five years for a vacation or for buying a car, could fall short by Rs 12,500, assuming a 12% return (see graphics).

"One way out is that the investor will have to book small gains every year and reinvest it, as an amount up to Rs 1 lakh in a financial year is exempt from longterm capital gains," said Vishal Dhawan, chief financial planner, Plan Ahead Wealth Advisors. Dhawan cautions that if the amount is large, such withdrawals may not be possible, and in such a scenario, the investor would have to add a lump sum every year or extend the time-frame of his goal.

SIPs in equity oriented mutual fund schemes have been very popular with retail investors, especially those entering the capital **markets** for the first time. Contributions to these SIPs have doubled in a short period of time — from Rs 3,122 crore per month in April 2016 to Rs 6,222 crore per month in December 2017.

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"Multiple things, including tax change, the fund going bad or markets not performing, could happen over five years. Investors need to step back and revisit their goals every six months to ensure they are on track," says Anup Bhaiya, MD, Money Honey Financial.

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IMPACT OF TAX ON A SAMPLE EQUITY MUTUAL FUND SIP

SIP amount (₹)	10,000
SIP frequency	Monthly
SIP tenure	5 Years
Total Investment over 5 years	₹6 Lakh
Expected return (annualised)	12%
Corpus at end of 5 years	₹8.25 lakh
Total gain	₹2.25 lakh
Approx tax liability @10% LTCG	₹12,500
Approx Goal shortfall	₹12,500

No tax on LTCG upto ₹1 lakh per annum

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