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Wary of LTCG tax on equity funds? Try international schemes

BY [PRASHANT MAHESH](#) & [RAJESH MASCARENHAS](#), ET BUREAU | UPDATED: FEB 03, 2018, 10.30 AM IST

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MUMBAI: The 10 per cent long-term capital gains (LTCG) tax on equity funds will make investment in international equity funds and fund-of-funds (which invest in equity funds) more attractive since they are treated as **debt funds** for taxation even though their **underlying asset** class is equity, say experts.

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"For an investment horizon of three years and above, effective debt taxation could be more attractive due to indexation benefits," said Kalpen Parekh, president, **DSP BlackRock Mutual Fund**. For an investment in an international fund, assuming an **inflation** of 5 per cent and return of 10 per cent per annum for a period of three years, the effective tax with indexation will be approximately 3 per cent. This compares favourably against the 10 per cent LTCG tax for domestic equity funds proposed from April 1.

Despite financial planners advocating the need for geographical diversification, investors have shied away from such funds due to tax differential vis-a-vis domestic equity funds. While equity funds have been exempt from long-term capital gains till now, gains on international and fund-of-funds schemes are taxed like debt funds — holding period of less than three years is treated as shortterm, with gains added to your income and taxed as per your applicable tax slab; for a holding period of more than three years, capital gains are taxed at 20 per cent.

Riding Global Growth

International Funds	3-Month Return (%)	1-Year Return (%)	3-Year Return (%)
HSBC Brazil	14.13	16.31	8.82
Kotak Global EM	13.75	30.85	9.10
Reliance ETF Hang Seng BeES	12.70	34.83	13.50
DSP BlackRock World Mining	12.51	12.32	10.02
HSBC Emerging Markets	11.21	30.46	10.84
Edelweiss ASEAN Equity	10.50	23.86	8.85
Principal Global Opportunities	10.29	33.20	12.13
Edelweiss Greater China	10.06	47.26	16.44
ICICI Prudential US Bluechip Equity	9.94	17.21	13.34
Aditya Birla Sun Life Intl Equity	9.83	18.29	5.50
Aditya Birla Global Commodities	9.57	4.89	5.73
Edelweiss Emerging Markets	9.45	34.01	10.36
Motilal Oswal NASDAQ - 100 ETF	8.95	26.16	18.90
HSBC Asla Pacific (Ex Japan)	8.64	24.28	11.86
Franklin US Opportunities	7.77	21.03	11.94
Reliance Japan Equity	7.71	20.19	10.40

SOURCE: Value Research

In the past month, mutual fund schemes betting on international equities have fetched better returns than domestic equity schemes because of the outperformance of overseas markets. HSBC Brazil Fund has gained 13 per cent in the last one month. Principal Global Opportunities Fund has risen 10 per cent in the past month and 13 per cent in three months, while **Reliance ETF Hang Seng BeES** has given a return of 10 per cent and 13 per cent in the past one month and three months, respectively.

The NAVs of HSBC Emerging Market Fund, Reliance Japan Equity Fund, Edelweiss Emerging Markets Opportunities Equity Offshore Fund and HSBC Asia Pacific have also risen between 8 per cent and 11 per cent in the past month.



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In comparison, domestic largecap funds have delivered an average return of 4 per cent in a month, while midcap and smallcap funds have given a negative 1 per cent return. The [Sensex](#) has risen 6 per cent in the past month, while both the BSE Midcap and Smallcap indices have given negative returns. "Both developed and emerging markets have rallied sharply in the last few weeks on strong economic outlook, that has been reflected in the performance of India's international funds," said Taher Badshah, CIO - Equities, Invesco Mutual Fund.

Investment advisors believe this is a good time for investors to diversify geographically. "From a longer term horizon, asset allocation in the international market is recommended as investors can tap interesting global growth ideas of disruptive innovation," said Amit Shah, CEO, IIFL Asset Management [Vishal Dhawan](#), chief financial planner at Plan Ahead Financial Planners, said, "As part of geographical diversification, investors should invest 10 per cent of their portfolio in international funds." He recommends US-focused international funds given that the US is the largest economy.

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