

Suggestions/ recommendations for the Union Budget for FY 2026-27			
Sr. No.	Background / Issue	Specific Budget Proposal in Clear & Simple Language	Justification / Rationale
Direct tax proposals			
A. Debt/ Fixed income related proposals			
1	Request to restore the Long-Term Indexation benefit for Debt Schemes of Mutual Funds which was withdrawn in the Budget 2024		
	Post Finance Act 2023, most Debt MF gains are taxed at slab rates regardless of holding period basis section 50AA of the Income-tax Act, 1961 (the Act) [section 76 of the Income tax(No. 2) Bill, 2025 ('the Bill')], materially reducing long-term fixed-income participation and affecting corporate bond market depth. This has led to sharp reduction of net inflows into the Debt Mutual Funds over the last 3 years.	Restore long-term capital gains (LTCG) with indexation for Debt Mutual Funds held > 36 months by amending Sections 2, 48, 50AA and 112 of the Act (Section 2, 72, 76 and 197 of the Bill). Tax rate: 12.5% (or 20% with indexation).	It incentivize long-horizon fixed-income saving; restores parity with other long-term assets; channels household savings to the corporate bond market. Debt remains a vital investment class for conservative investors who depend on it for income and relative stability eg. senior citizens. Channelling Retirement savings into fixed income is key to ensure senior citizens' and retirees' investment requirements can be suitably met. Similarly, a vibrant and growing debt market gives corporates and the government increased funding flexibility and efficiently utilizes India's deep savings pool. This in turn will promote the increased financialization of India's savings and support the country's long-term growth. Rationalization of tax treatment for Debt Mutual Funds can help accelerate the development of the corporate bond market.
2	Request to introduce Debt Linked Savings Scheme (DLSS) to help expand the Indian Bond Market		
	Retail penetration in corporate bonds is low. The Section 80C of the Act (section 123 of the Bill) basket is crowded and does not specifically incentivise long-term fixed-income saving beyond EPF/PPF.	Introduce a Debt-Linked Savings Scheme (DLSS) with a 5-year lock-in and a separate deduction under the Act (outside Section 80C of the Act i.e. section 123 of the Bill). Scheme portfolio to invest ≥ 80% in high-quality debt; notify an annual investment limit for deduction in the new tax regime	Creates a retail-friendly, tax-efficient fixed-income rail; deepens the corporate bond market; complements restoration of Debt MF LTCG and provides a non-overlapping incentive outside 80C of the Act (section 123 of the Bill)

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B. Equity and Equity related proposals			
3	Request to amend the definition of Equity Oriented Funds to include Fund of Funds investing in Equity Oriented Funds		
	A Fund of Funds (FOF) scheme of a Mutual Fund scheme which invests in the units of other mutual fund schemes. Under current Income Tax regime, a FOF scheme is treated as an Equity Oriented Fund (EOF) only if (i) a minimum of 90% of the total proceeds of such fund is invested in the units of EOFs; and (ii) such EOFs also invest a minimum of 90% of their total proceeds in the equity shares of domestic companies listed on a recognised stock exchange. While FOFs that invest predominantly in units of EOF meet the first criteria above, they may fall short on the second criteria as the underlying EOFs <u>by mandate have the flexibility to invest between 65% to 100% in listed stocks of domestic companies</u>. Thus, while technically EOFs do not need to invest a minimum of 90% of total proceeds in listed stocks, in practice, most of the EOFs do invest at least 90% in listed stocks. Consequently, despite FOFs investing in equity securities of domestic companies via EOFs, short term and long-term gains from these funds <u>get taxed as non-equity oriented mutual fund schemes</u>.	It is requested that the definition of “Equity Oriented Funds” be revised to include investment in Fund of Funds schemes which invests a minimum of 90% of the corpus in units of Equity Oriented Mutual Fund Schemes, which in turn invest minimum 65% in equity shares of domestic companies listed on a recognised stock exchange. Consequently, Redemption of units in FOF schemes investing 90% or more in EOF should be subjected to the same capital gains tax, as applicable to sale of listed equity securities or units of Equity Oriented Mutual Fund Schemes.	The current definition of Equity Oriented Funds in respect of a FoF is restricted to investments in an Exchange Traded Fund (ETF) investing 90 % of its proceeds in equity shares of domestic companies. While an equity-oriented fund includes a fund investing a minimum of 65% per cent of its total proceeds in the equity shares of domestic companies. Consequently, despite a FoF investing in equity securities of domestic companies via Equity Oriented Funds, they do not get the same tax treatment as applicable to equity-oriented funds. Thus, there is a strong case for parity in taxation between investments in direct equity, Equity Oriented Funds, and FoFs investing in Equity Oriented Mutual Fund Schemes. Therefore, the treatment of equity oriented FoF should be brought at par with equity-oriented funds in line with the intent of the law.
	Regulation 2(ma) of SEBI (Mutual Funds) Regulations, 1996 defines “fund of fund scheme” as follows: <i>“2 (ma) Fund of funds scheme means a mutual fund scheme that invests primarily in other schemes of the same mutual fund or other mutual funds.”</i> Thus, the SEBI regulations allow FoFs to invest in multiple mutual fund schemes. However, the definition of equity-oriented fund in case of Fund of Fund scheme under Section 112A of the Income Tax Act refers to <i>“another fund”</i> instead of <i>“other funds”</i> and hence is not clear as to investments in multiple mutual fund schemes.	It is requested that the words “another fund” provided in the Explanation (a) to section 112A of the Income Tax Act (Section 198 of the Bill) should be replaced with the words “other funds” retrospectively, effective from the date of insertion of the Explanation.	It is expedient for CBDT to clarify that an equity oriented “Fund of Funds” may invest in more than one equity oriented fund schemes (rather than “another fund”) to avoid any ambiguity.
4	Request for amendment to ELSS Rule 3A to permit any amount to be invested in the scheme, instead of in multiples of ₹500		
	Rule 3(a) of the Equity Linked Savings Scheme (ELSS), 2005, requires investments to be in multiples of ₹500, with a minimum of ₹500. However, investors often invest amounts not in multiples of ₹500 because other mutual fund schemes accept any amount above the minimum. Additionally, when investors use the inter-scheme switch facility to move funds from other schemes to ELSS, the redemption proceeds may not be in multiples of ₹500. Due to this rule, mutual funds are compelled to reject such applications or partially refund the excess amount, causing inconvenience to investors, potential loss of investment opportunities and tax benefits, and increased operational work for mutual funds.	It is requested to amend Rule 3 of Equity Linked Savings Scheme, 2005, deleting the stipulation that investments in ELSS should be multiples of ₹500 and permit investments of any amount, subject to a minimum of ₹500.	ELSS was introduced in 1992, offering tax rebates under Section 88 of the Income Tax Act, with subscriptions mainly collected in cash at bank branches. Rule 3, requiring investments in multiples of ₹500, helped manage cash collections and reconciliations then. However, in today’s digital payment era, this rule is outdated. Moreover, ELSS values fluctuate and NAVs are rounded to two decimals, so redemption amounts are rarely exact multiples of ₹500. Removing this requirement will reduce difficulties for investors and mutual funds without causing any revenue loss.

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5	Taxability of long-term capital gains under section 112A of the Act (Section 198 of the Bill)		
	As per the current provisions of section 112A of the Act (Section 198 of the Bill), LTCG arising from transfer of long-term capital assets in the nature of equity shares or units of equity-oriented fund or units of a business trust are subject to capital gains tax @ 12.5% (plus applicable surcharge and cess). The income tax is applicable/payable on LTCG exceeding ₹1.25 lakh in a financial year.	It is requested that the LTCG on listed equity shares or units of equity-oriented fund schemes – (i) held for more than one year and upto three years be subjected to LTCG tax @ 12.5% (plus applicable surcharge and cess) on the capital gains exceeding ₹2 lakh in a financial year. (ii) held more than three years be exempted from Capital Gains tax years by suitable amendments to section 112A of the Act (Section 198 of the Bill). or It can be proposed that tax on long term capital gains from units of equity oriented mutual funds and other than specified mutual funds held for more than 5 years should be granted exemption from income tax.	The existing threshold limit of ₹1,25,000 in a financial year is very low. Currently due to the standard rate of tax post holding period of 12 months / 24 months as the case may be, most investors redeem their investments after the said period. This leads to substantial capital being pulled out of the mutual fund industry. In order to encourage stable long term capital in the mutual fund industry, exemption from long term capital gains on units held for more than 5 years is recommended. This would ensure investors remain invested for longer periods.
6	Provide a separate deduction for investment in ELSS under new regime		
	Under the new personal tax regime, ELSS currently lacks a distinct tax incentive, diminishing its role as an equity on-ramp for first-time investors.	Provide a separate deduction (on the lines of Section 80CCD(1B) of the Act (Section 124 of the Bill)) exclusively for ELSS investments under the new tax regime, with a notified cap.	Preserves ELSS as a simple, low-ticket equity entry vehicle; sustains retail participation in equities
C. Social security related proposals			
7	All Mutual Funds should be allowed to launch pension-oriented MF schemes (MFLRS) with Uniform Tax Treatment as NPS		
	Mutual funds lack a dedicated, retirement-linked tax-incentivised vehicle comparable to NPS/EPF, limiting long-horizon allocation through MF products.	Notify a Mutual Fund Linked Retirement Scheme (MFLRS) with EEE tax treatment. Permit employee and employer contributions with deductions under a new/parallel provision akin to Section 80CCD of the Act (section 124 of the Bill), with notified caps; specify vesting and withdrawal rules tailored to retirement.	- Expands formal retirement choices using mutual fund vehicles; lengthens investor horizons - Mutual funds are projected as one of the best modes of retirement savings or corpus building. The monthly inflows to MFs have steadily increased in the last few years and have scaled all-time highs. - However, currently tax benefits are only provided to investment made to National Pension System (NPS). Hence, in order to boost and reward taxpayer savings, this would be a welcome move from the government.

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8	Introduction of a Mutual Fund – Voluntary Retirement Account ('MF-VRA') which (similar to a 401(k) plan in the US)	To create a conducive environment for the MF-VRA scheme, CBDT should introduce a specific tax deduction section for the MF-VRA scheme under the old as well as new regime. Contributions to MF-VRA accounts can be eligible for tax deductions under Section 80C of the Income Tax Act, similar to other retirement savings instruments like the National Pension System (NPS). Additional tax deductions or exemptions can be considered to incentivize individuals to contribute to their MF-VRA accounts. This will help increase the attractiveness of the scheme and encourage individuals to save for their retirement.	The MF-VRA scheme would build on the long-term policy laid out by SEBI, enhancing the reach and promoting financial inclusion, and would ride on the growth of mutual funds in India, which has crossed Rs 75 lakh crore of assets as of July 2025. The success of the MF-VRA scheme depends on the collaborative efforts of regulatory enablers, operational design stakeholders, and other key players. The benefits of the MF-VRA scheme would be multifaceted, enhancing pension penetration and coverage in the country, having a positive impact on economic growth, and reducing the burden of social security on the exchequer. The scheme would also channel household financial savings into the financial markets, providing long-term stability and depth, and increasing the scale and efficiency of the mutual fund industry. To make the MF-VRA scheme a success, stakeholders must work together to define the product structure, introduce tax deductions, establish portability provisions, create retirement lifecycle funds, and design user-friendly onboarding and goal-tracking tools. By doing so, India can develop a robust pension system, supplementing retirement planning and providing individuals with a secure and sustainable financial future.
D. Other miscellaneous operation related proposals			
9	Request for parity in tax treatment in respect of Intra-scheme Switching of Units under MF Schemes	Under SEBI Mutual Fund Regulations, investors can invest in a scheme either through a Direct Plan (no distributor, lower expense ratio) or a Regular Plan (via distributor, includes commission). Both plans share the same portfolio but differ in costs. Mutual funds also offer two payout options: Growth, where income remains invested and reflects in NAV appreciation, and IDCW (Income Distribution cum Capital Withdrawal), where income is distributed to investors. However, switching within a mutual fund scheme—such as from Growth to IDCW or Regular to Direct—is considered a transfer under the Income Tax Act and attracts capital gains tax, even though the underlying portfolio remains unchanged. Thus, there is disparity between tax treatment on switching of investment within a Mutual Fund scheme and within a ULIP of Insurance companies, although both MF schemes and ULIPs invest in securities, and are investment products.	It is proposed that Intra-Scheme Switches, i.e., switching of investment within the same mutual fund scheme is not regarded as a “Transfer” under section 47 of the Act (Section 70 of the Bill) and the same should be exempt from payment of capital gains tax. Switching between Growth and IDCW options within the same mutual fund scheme does not result in any realized gain, as the investment and underlying portfolio remain unchanged. It may be added here that in the “Long Term Policy for Mutual Funds”, SEBI has emphasized the principle that similar products should get similar tax treatment, and the need to eliminate tax arbitrage that results in launching similar products under supervision of different regulators. Thus, there is need to have uniformity in the tax treatment for “Switch” transaction in respect of ULIPs and Mutual Fund Products to have a level playing field.

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10	Need to provide tax parity for consolidation of Options of Schemes similar consolidation of Scheme and Plan		
	Mutual Funds offer various category of Schemes. Each Scheme offers 'Direct' Plan and 'Regular' Plan to the investors to invest directly (by themselves) or through a distributor. Further, each such Plan has "Options" such as Growth Option & Dividend Option depending on whether the investor wants capital appreciation or dividend income (and within Dividend Options, there may be Daily Dividend Option, Monthly Dividend Options, and so on). Currently, Consolidation of Schemes {70(1)(zj), 73 (1) [Table: S.No.8], and section 2(101)(c)(B)(VII)) of the Bill} and Consolidation of plans –{70(1)(zk), 73(1) [Table: S.No.10] and and section 2(101)(c)(B)(IX) of the Bill} dealing with transaction not regarded as a transfer, cost of acquisition and period of holding respectively are specifically covered. However, Consolidation of "Options" within the same MF scheme are not covered, thus leaving ambiguity in taxation in case where Options were to be consolidated.	It is proposed to provide similar clarity for Consolidation of <u>Options</u> within a Mutual Fund Scheme as well.	This would bring parity in cases where a mutual fund intends to consolidate the '<u>Options</u>' within a Mutual Fund Scheme and reduce the tax burden on unitholders.
11	Request to prescribe a uniform rate for deduction of Surcharge on TDS in respect of NRIs		
	As per section 195 / 196A of the Act/ Section 393(2)[Table: S.No.17], 393(2)[Table: S.No. 10] of the Bill, Mutual Funds are required to deduct tax at source ('TDS') from amount paid/credited to NRI investors. In addition to TDS, surcharge need to be deducted at the applicable rates based on the applicable slab rates. Challenges faced by Mutual Funds Unlike companies or bond issuers, mutual funds face unique challenges: - Dividends are uncertain and may be paid multiple times a year. - Redemptions occur through multiple transactions, making aggregate income and applicable surcharge rates unpredictable. - Mutual funds cannot determine an NRI investor's income slab in advance, creating risk of being treated as "assessee in default" for shortfall in TDS or surcharge. To mitigate risk, some mutual funds apply the maximum surcharge rate (37%), while others apply rates based on transaction value, leading to inconsistency. In short, there is a lack of uniformity in the rate of Surcharge on the TDS applied by various Mutual Fund houses. Consequently, there have been numerous complaints from NRI taxpayers who are demanding for a uniform rate of Surcharge on TDS to be applied across all mutual funds.	It is proposed that the existing provisions w.r.t. surcharge on TDS in respect of NRIs be amended and prescribe a uniform rate of surcharge @10% under section 195 / 196A of the Act (Section 393(2)[Table: S.No.17], 393(2)[Table: S.No. 10] of the Bill) on TDS in respect of dividend from mutual fund units to NRIs as well as the capital gains arising upon redemption of mutual fund units in respect of NRIs, instead of slab-wise rate specified.	This will mitigate the hardship faced by NRI investors, eliminate the lack of uniformity amongst mutual funds in compliance of the TDS obligation and will also ease the TDS compliance burden for the mutual funds. It is pertinent to mention here that, in any case, the actual / final applicable rate of surcharge on tax payable by a NRI assessee would depend entirely upon the final aggregate income of the NRI taxpayer under the heads 'Income from Capital gains' & 'Income from Other sources' (for dividend) in the income tax return. Hence, rationalizing the rate of Surcharge on TDS by prescribing a flat rate (just like the flat rate for TDS itself) will facilitate ease of tax administration, without any loss of revenue to the Government. At the same time, it would also mitigate the hardship currently being faced by the mutual funds and the NRIs

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12	Increase in threshold limit of withholding tax (TDS) on Income distribution by Mutual Fund scheme		
	As per provision of section 194K of the Act / Section 393(1)[Table: S.No. 4(i)] of the Bill, withholding tax (TDS) is applicable on income distribution by Mutual fund scheme to resident investors, where the aggregate of the amounts of such income distribution exceeds ₹10,000. This has been causing hardship to retail investors especially for individuals in lower income bracket.	It is requested that the threshold limit for withholding tax (TDS) on income distribution (dividend) on mutual fund units be increased from ₹10,000 to ₹50,000 p.a. under section 194K of the Act (Section 393(1)[Table: S.No. 4(i)] of the Bill).	The threshold limit of ₹10,000 for TDS on income (dividend) distribution on mutual fund units is too meagre and very low especially for individuals in lower income bracket. Increasing the threshold limit to ₹50,000 would mitigate the hardship faced retail investors, who will have to claim the refund of TDS in the next AY.
13	Parity in tax treatment in respect of hiving off passive schemes from an existing mutual fund to a mutual fund Lite belonging to a group entity		
	As per SEBI (Mutual Fund) Regulations, 1996 and circular dated 31 December 2024 on “Introduction of a Mutual Fund Lite (MF Lite) framework for passively managed schemes of Mutual Funds”, existing mutual funds having both active and passive schemes have been given an option to hive off the passive schemes covered under the MF Lite framework to a different group entity. The aforementioned hive off would result in switching of units between the existing mutual fund and mutual fund Lite with an intention to separate the passive schemes. However, switching of units between existing mutual fund and mutual fund lite may be considered as a “Transfer” under Sec. 47 of the Income Tax Act, 1961 (‘the Act’) / Section 70 of the Income-tax Bill, 2025 (‘the Bill’) and is liable to capital gains tax.	Introduce a new sub-section under Section 47 (Section 70 of the Bill) to ensure that exchange of mutual fund units during hive-off of a passive scheme within the same group is not treated as a transfer and is exempt from capital gains tax. Insert a new sub-section under Section 49 (Section 73 of the Bill), similar to Sections 49(2AD) and 49(2AF), to deem the cost of acquisition of units in the new mutual fund as the same as that of the original fund. Add a new clause under Section 2(42A) (Section 2(101)(c) of the Bill) so that the holding period of the original units is included when computing capital gains on the new units.	The introduction of the MF Lite framework by SEBI aims to promote ease of entry, reduce compliance requirements, and foster innovation in the mutual fund sector. Allowing tax exemptions on the exchange of units during the hive-off process will encourage mutual funds to adopt the MF Lite framework, thereby enhancing market liquidity and investment diversification. · Exempting such exchanges from capital gains tax will protect investors from unexpected tax liabilities, thereby maintaining their confidence in the mutual fund industry. This will also ensure that investors are not penalized for decisions made by fund managers aimed at improving fund management and compliance. · Implementing this recommendation will simplify the administrative process for both the tax authorities and mutual funds. It will reduce the need for complex tax calculations and compliance requirements associated with capital gains tax on such exchanges.

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14	Mutual Fund Units should be notified as 'Specified Long-Term Assets' qualifying for exemption on LTCG under Sec. 54 EC	Mutual Fund Units should be notified as 'Specified Long-Term Assets' qualifying for exemption on LTCG under Sec. 54 EC	
	• In 1996, Govt. had introduced Sections 54 EA and 54 EB in the Income Tax Act, 1961 to channelise investment into priority sectors of the economy and to give impetus to the capital markets, by allowing capital gains tax exemption for investments in specified assets, including mutual fund units. In 2001, Sections 54EA & 54EB were withdrawn and subsequently Section 54EC was introduced. • Under Sec. 54EC of the Act (Section 85 of the Bill), Long Term Capital Gains tax exemption is available only for investments in specified long-term assets, i.e., bonds issued by National Highway Authority of India and Rural Electrification Corporation that are redeemable after three years.	• It is therefore proposed that mutual fund units, wherein the underlying investments are made in specified infrastructure sub-sector (as may be specified by the Government of India), be included in the list of the specified long-term assets qualifying for tax exemption on Long-Term Capital Gains under Sec. 54EC of the Act (Section 85 of the Bill). • The underlying investments of the mutual funds could be made into 'infrastructure assets' as defined by RBI, in line with 'Master List of Infrastructure sub-sectors' notified by the Government of India. • The mutual fund units in the specified schemes can have a 3-year lock-in period to be eligible for exemption under Sec. 54EC of the Act (Section 85 of the Bill).	• The Government's plans to significantly increase investment in the infrastructure space will require massive funding. However, the bonds issued by REC or NHAI may be inadequate for this and/or may not be preferred by taxpayers as they provide low returns, and the banking sector may not be equipped to fund such mega infrastructure projects. • Investment in specified mutual fund schemes with Sec. 54EC of the Act (Section 85 of the Bill) benefit can provide an alternative investment avenue in addition to existing options to the investors and also provide investors an option to earn market related returns. This could also help ease the burden cost of borrowing for infrastructure funding on the Government. • Tax benefit under Sec. 54 EC of the Act (Section 85 of the Bill) for investment in the specified mutual fund scheme will help channelize the gains from sale of immovable property into capital markets through mutual fund route and increase investment in the infrastructure space supplementing the Government's efforts in boosting the nation's infrastructure.
15	Rebate under section 87A of the Act (section 156 of the Bill) should be extended to income taxable under special rates (such as i.e. section 111A, 112 or 112A of the Act)	Rebate under section 87A of the Act (section 156 of the Bill) should be extended to income taxable under special rates (such as i.e. section 111A, 112 or 112A of the Act)	
	In the Union Budget 2025, the Finance Minister announced a significant enhancement to rebate under the new tax regime (Section 115BAC(1A)), exempting income up to ₹12 lakh from tax liability. During the speech, Finance Minister stated that <i>"Democracy, Demography and Demand are the key support pillars in our journey towards Viksit Bharat. The middle class provides strength for India's growth. This Government under the leadership of Prime Minister Modi has always believed in the admirable energy and ability of the middle class in nation building. The new structure will substantially reduce the taxes of the middle class and leave more money in their hands, boosting household consumption, savings and investment."</i> However, the accompanying memorandum clarified that this rebate does not apply to income taxed at special rates—such as capital gains under Sections 111A, 112, and 112A of the Act. A new proviso was added to Section 87A of the Act stating that the rebate "shall not exceed the amount of income-tax payable as per the rates provided in sub-section (1A) of section 115BAC". This creates a disparity: a salaried middle-class individual earning below ₹12 lakh but also earning capital gains from equity-oriented mutual funds ends up paying tax at 12.5% or 20% on such gains, with no benefit of the ₹60,000 rebate. This undermines the stated goal of boosting savings and investments among the middle class.	Amend Section 87A of the Act (section 156 of the Bill) to allow the rebate of ₹60,000 to be applied after computing tax on special rate incomes (such as capital gains), provided the total income (including such gains) does not exceed ₹12 lakh.	Mutual fund investments are increasingly popular among salaried individuals. Disallowing the rebate on capital gains discourages participation in capital markets, contrary to the government's financial inclusion goals. Further, it discourages middle-class taxpayers who diversify their income through capital market investments. Allowing the rebate on capital gains ensures equitable treatment across income sources.

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16	Relax safe harbour conditions for Fund management activity carried out from IFSC		
	India remains a key destination for global funds, many of which operate with offshore investment managers supported by Indian advisers. To promote onshore fund management, Section 9A (Section 9(12) of the Bill) introduced a safe harbour in 2015, ensuring that the presence of a fund manager in India does not create a business connection, PE, or tax residency for offshore funds, subject to conditions. However, some of the conditions were quite onerous in nature, the Indian fund management industry has not been able to take advantage of the safe harbour provisions in section 9A of the Act (Section 9(12) of the Bill) due to the requirements still being too onerous or generally impractical for investment funds. Consequently, only a handful of offshore funds have availed the safe harbour benefit.	Tax law should expressly provide that a fund manager in IFSC managing an offshore fund will not constitute a business connection of the offshore fund nor will the offshore fund be treated to be a tax resident of India on account of the fund manager being in IFSC.	The safe harbour provisions have several conditions that the offshore fund and the fund manager are required to satisfy. There are conditions on investment and investor diversification, condition that bars investment in associate entities as well as conditions that bars the fund from carrying out any other business in India. Ideally, such conditions should be, if required, imposed by the regulation rather than the tax law. Due to the onerous nature of the provisions, there have been only a handful of fund managers who have qualified for the exemption. Further, the objective of IFSC is to relocate offshore fund and/or their fund managers to IFSC. However, in the absence of a simple safe harbour regime, even willing fund managers may find it difficult to relocate to India. Tax laws in popular fund management jurisdictions like Singapore do not contain such onerous provisions. Thus, Fund managers managing an offshore fund from Singapore that invests into India are also not required to satisfy these conditions. However, if they choose to relocate the fund management to IFSC, they need to satisfy these conditions. To attract these fund managers, the tax law should treat them at par.
	Alternatively, some of the conditions under section 9A can be relaxed / amended for offshore funds being managed by fund managers based out of IFSC.		
	Offshore Fund related Fees charged by Fund Managers abroad to their offshore Fund clients are commercially negotiated. They generally do not have any similar requirement of charging a minimum fee. IFSC in India is at a nascent stage. To encourage development of IFSC, it is imperative to avoid any such conditions which could impede or discourage offshore Funds from appointing Fund managers in IFSC.	This condition should be deleted for IFSC based Fund Managers.	In order to provide a competitive environment for Fund Managers based in IFSC, this condition could be deleted, and they should be allowed to charge a fee, as commercially expedient.
	Fund Manager related One of the conditions for the eligible fund manager restricts them and connected persons from earning more than 20% of the fund's profits from transactions carried out by the fund and managed by the fund managers. While it is intended to prevent profit shifting, this cap limits the commercial flexibility of fund managers operating from IFSC and reduces their global competitiveness.	The cap on fees that can be charged by a Fund Manager should be deleted for IFSC based Fund Managers.	The cap on fees that can be charged by a Fund Manager only limits fees, foreign exchange inflow and revenue collections thereto in India. There are no such restrictions on Fund Managers abroad who may be discouraged to relocate their operations to the IFSC.
	Participation of eligible fund managers in the Fund – Sec. 9A(3)(C) of the Act (Para (1)(1)(c) of Schedule I of the Bill) The condition with regard to direct aggregate participation or investment in the Fund, by persons resident in India to not exceed five percent of the corpus of the Fund. Further, the proviso to the section states that aggregate participation or investment by the eligible Fund manager in the Fund during the first three years of operation, not exceeding twenty-five crores' rupees, shall not be taken into account.	We recommend amending the proviso of section 9A(3)(c) of the Act (Para (1)(1)(c) of Schedule I of the Bill) to allow aggregate participation or investment by the eligible Fund manager in the Fund to up to one hundred crore rupees.	The seed capital is one of the important sources of finance for the Fund in the early stages of the Fund. Further, allowing higher amount of exemption for seed capital eases the fund to smoothly meet setup cost and operational expenses. Also, a high seed capital instils confidence in the prospective investors for making investments in the Fund.

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	Clarification on person acting on its behalf whose activities constitutes business connection in India – Section 9A(3)(l) of the Act (Schedule I of the Bill) For an offshore Fund to carry out its investment activities in India, the Fund is required to obtain services of various third-party service providers. As per SEBI regulations, the offshore fund is required to appoint a custodian or a broker to make portfolio investments in India. Further, the Fund may require to outsource a part of its back office / support functions of the fund managers (such as fund administration, fund accounting, etc) to an outsourcing entity in India (which is a group entity of the Fund manager).	We recommend providing a clarification that the outsourcing of back office / support activities or appointment of custodian or broker would not constitute business connection by a person acting on behalf of the Fund as per section 9A(3)(l) of the Act (Schedule I of the Bill).	Back office and support services, such as fund administration and fund accounting, along with the appointment of a broker or custodian for portfolio investments in India, are crucial for conducting investment activities in India. Clarifying that these services do not constitute a business connection would provide a much relief to the offshore funds with fund managers based in India availing the benefits of safe harbour provisions as per section 9A of the Act (section 9(12) read with Schedule I of the Bill).
	Section 9A(3)(e), 9A(3)(f) and Section 9A(3)(g) of the Act (Schedule I of the Bill): The existing stringent conditions, which are difficult to fulfil or are open to interpretation are as under: 1. minimum of twenty-five members who are, directly or indirectly, not connected persons 2. any member of the fund along with connected persons shall not have any participation interest, directly or indirectly, in the fund exceeding ten per cent; 3. the aggregate participation interest, directly or indirectly, of ten or less members along with their connected persons in the fund, shall be less than fifty per cent;	• The conditions mentioned in section 9A(3)(e), 9A(3)(f) and 9A(3)(g) of the Act (respective clauses in Schedule I of the Bill) should be deleted as it is not feasible to verify these conditions.	• Definition of connected persons is extremely wide and adapted out of context; when it is applied in the context of fund management regime – it is out of sync with commercial realities and may lead to unintended/ absurd consequences
17	Request to restore the earlier tax rates on Capital Gains Reduction in STT for Arbitrage Funds and Equity Savings Funds •STT has been increased in Futures from 0.0125% to 0.02%, for options it has been increased from 0.0625% to 0.1%.	We request that for Mutual Funds as an investor, the STT on Futures and Options should be reinstated to the earlier rates.	Arbitrage Funds and Equity Savings Funds mainly use Futures and Options for hedging as the underlying assets. The available arbitrage has now been reduced due to increase in short term capital gain tax. Further, the increased STT on futures will add to the cost of these funds.
18	Request for relaxation to the mutual funds in case of deduction of TDS for inoperative PAN cases In the context of a mutual fund, it is mandatory to deduct TDS while paying – (i)Income distribution dividend in respect of all category of unitholders and (ii)redemption proceeds in case of Non-Resident unitholders. Additionally, if the PAN of the investor is inactive/ inoperative, then TDS must be deducted at a higher rate in accordance with section 206AA of the Act (397(2) of the Bill).	It is requested that CBDT should clarify that mutual funds are not required to deduct TDS at higher rates in case PAN becomes inoperative <u>if the PAN was valid when the investor was onboarded by the mutual fund AMCs.</u>	There are instances in case of resident investors that at the time of onboarding the investor, the PAN is operative, however later it becomes inoperative, then the mutual fund is compelled to withhold additional tax at the time of payment of income distribution. Similarly, in case the residential status of the investor is “non- resident” at the time of onboarding and PAN is operative, however if later the status of such investor changes to “resident” and PAN becomes inoperative, then again mutual fund is compelled to withhold additional tax at the time of payment of income distribution / redemption or income. Hence, clarification in this regard from CBDT will mitigate the hardship for individual investors and also reduce compliance burden for mutual fund AMCs.

Sr. No.	Background / Issue	Specific Budget Proposal in Clear & Simple Language	Justification / Rationale
19	Issue in provisions of section 194R to be applied in case write-off of receivable from the investor/ creditors Section 194R of the Act (393(1)[Table: S.No. 8(iv)] of the Bill) 1. Finance Act, 2022 (FA 2022) has introduced provisions of Section 194R wherein tax deducted at source (TDS) at the rate of 10% would be applied on benefit/ perquisite provided to a resident carrying on business or profession in case value of benefit or perquisite provided to such resident exceeds INR 20,000 in a year. Further, this provision is applicable even in cases where benefit/ perquisite is provided in cash or in kind. 2. Further FAQs have been issued by the tax authorities, clarifying the applicability of section 194R of the Act (393(1)[Table: S.No. 8(iv)] of the Bill) in some of the cases.	1) In order to avoid undue hardship and loss that may arise to an investor, the write-off of any investment/receivable from the investee by the investor should be kept outside the purview of section 194R and suitable amendment should be made in section 194R of the Act (393(1)[Table: S.No. 8(iv)] of the Bill). 2) Clarification to be given for treatment of write off of debenture investment in investor's hands with respect to section 194R of the Act (393(1)[Table: S.No. 8(iv)] of the Bill).	1) The provision of section 194R of the Act (393(1)[Table: S.No. 8(iv)] of the Bill) or FAQs has not defined the term benefit/ perquisite. 2) In case the investor writes-off any investment/receivable from the investee, one may argue that the investor has provided benefit/ perquisite to the investee and therefore such write-off amount might be liable to TDS under section 194R of the Act (393(1)[Table: S.No. 8(iv)] of the Bill). For Example - Mutual Fund (MF)/ Asset Management Company (AMC) invested into debentures of any company (i.e. investee) which may turn insolvent/ bad and therefore MF/ AMC is not able to recover the money from the investee company. As investee company is already in default it will be difficult to recover the amount from it and therefore investor should not be required to pay TDS on investee's behalf. For banks, one time settlement with borrower or waiver of loan is not liable to provisions of TDS under section 194R of the Act (393(1)[Table: S.No. 8(iv)] of the Bill). The same principle should be made applicable to waiver/ writing off of other investments, such as investment in debentures.
20	Requirement of Form 15CA & 15CB for payment to Non-resident The Provision of Section 195 of the Act (Section 393(2)[Table: S.No.17] of the Bill) provides that form 15CA and 15CB is required to be submitted at the time of making payment to Non-Resident investors irrespective of taxability for such payment under The Act. Mutual Fund industry is making payment of redemptions/dividend to Non-resident investors in India. Due to the volume of transactions and stringent timelines for payments, MF industry is unable to comply with requirement of form 15CA and 15CB.	Notification/Clarification to be issued for non-applicability of provision of section 195(6) of the Act (Section 393(2)[Table: S.No.17] of the Bill) for the mutual fund Mutual Fund should be excluded from requirement of form 15 CA/CB	Mutual Funds at the time of dividend distribution or redemptions to nonresident investors deducts withholding tax. Therefore, Mutual Funds are already reporting the information for payment to nonresident investors through TDS returns on a quarterly basis. The industry has made multiple representations in the past through AMFI Operations and Compliance Committee to AMFI which have been further raised with SEBI and Finance Ministry. The representation was made to relax the requirement of compliance with the form 15CA and 15CB as the payments are being made in Indian Bank accounts of Non-resident investor only. Again, Mutual Fund industry is already complying with the requirement of withholding tax on capital gains for Non-Resident investors.

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21	Capital Gain Taxation in case of involuntary redemption of mutual fund units in winding up of scheme scenario		
	Winding up of a mutual fund scheme is involuntary for investors. When units are extinguished after selling performing securities, the distribution received ("original consideration") is taxed as capital gains, even though the event is involuntary. This can lead to higher short-term capital gains tax for long-term investors. Distribution to investors/unitholders is made post completion of winding up process i.e. payment on sale of underlying non performing securities post extinguishment of all units ("additional consideration"). The amount so distributed post winding up is in lieu of the units held by the investors in schemes under winding up process and accordingly, chargeable to tax under the head capital gains. As per the section 45(1) of the Act, any profits or gains arising from the transfer of a capital asset effected in the previous year shall be chargeable to income tax under the head capital gains and shall be deemed to be income of the previous year in which the transfer took place. Specific provisions like Section 45(5) and Section 46(2) allow capital gains tax on receipt basis in cases of compulsory acquisition or liquidation proceeds. However, no such provisions exist for mutual fund winding up post-unit extinguishment, so Section 45(1) applies, causing the tax charge to trigger in the year of extinguishment. This may force investors to file revised returns for additional consideration received later, but due to limited time for filing revisions, they may miss the deadline. The Finance Act 2022 introduced an "updated return" option within 24 months of the assessment year, but it requires paying extra tax and interest (25%-50% of the tax liability), which is burdensome since investors learn of the additional income only upon receipt. Thus, filing an updated return is generally not a practical solution for investors.	It is recommended to amend Section 45 of the Act (Section 67 of the Bill) to tax capital gains from involuntary winding up of mutual fund schemes on a receipt basis. A specific clause should be added to tax distributions made without unit extinguishment upon receipt, similar to Section 45(5) of the Act (Section 67(12) of the Bill), which covers compulsory acquisition with government-approved consideration and subsequent enhancements. Additionally, an explanation should be inserted in Section 2(42A) of the Act (Section 2(101) of the Bill) to include the holding period from the last unit extinguishment to the receipt of additional consideration, allowing unitholders to benefit from this period since winding up is involuntary, unlike voluntary redemptions.	The proposal will obviate undue hardships to tax payers, and ensure equitable and just treatment of proceeds for taxation while ensuring that there is no tax loss to the exchequer.

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22	Segregation of Mutual Fund Scheme should not be consider as transfer as per Section 47 of the Act (Section 70 of the Bill)	Provision should be inserted under section 47 of the Act (Section 70 of the Bill) i.e. "Transactions not regarded as transfer" on Segregation of Mutual Fund Scheme	Segregation of a mutual fund portfolio does not constitute a "transfer" since investors continue holding units in both the main and segregated portfolios; it is merely a scheme split. Similar exemptions from "transfer" under Section 47 include: (i) Clause (xviii) – consolidation of mutual fund schemes with allotment of units in the consolidated scheme, and (ii) Clause (vib) – transfer of assets during corporate demergers. Like mergers and demergers, portfolio segregation or side-pocketing should be tax-neutral, with allotment of segregated units not treated as a transfer under Section 47.
23	Including "Mutual Fund" in the drop down list of 'Sub Status' in Part A of the Income Tax Return	To eradicate the ambiguity of the nature of business of the assessee who select the sub status as- 'Any other AOP/BOI', 'Mutual Fund' should be included in the drop down list of the sub status.	Upon filing the income tax return, a notice is issued to the Mutual Fund to state its nature of business and why it's income is exempt from tax. With addition of 'Mutual Fund' in the list of drop down of sub status, the nature of business and reason of tax exemption can be clarified while filing the return itself. It may, thus, be possible that providing a separate clarification after issuing notice will be avoided.

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24	Removal of Securities Transaction Tax (STT) on purchase or sale transactions undertaken in financial markets including units of mutual fund		
	Removal of STT	It is suggested that going forward STT should be exempted on purchase or sale transactions undertaken in financial markets including units of mutual fund.	- STT was introduced to tax transactions of sale and purchase of securities in the financial market given that no capital gains tax was erstwhile charged on these transactions. - However, with the introduction of long-term capital gains tax on transfer of equity shares or units of an equity linked mutual funds, the government can do away from the levy of STT. Also, since the long-term capital gains tax has been increased in the last union budget, removal of STT can provide relief to investors. - This leads to double taxation in the hands of the investors as they have to pay STT on the transaction value and then again need to pay capital gains tax on the gain realized on the sale transaction. This also indirectly acts as a barrier for a new investor to invest in mutual funds.
25	Insights on Specified Financial Transaction (SFT) filing		
	Currently, a mutual fund is required to report specified data of specified non-resident investors investing in the units issued by the Mutual Fund.	- It is suggested that the reporting framework for SFT is simplified, or a monetary threshold is introduced to exempt SFT reporting for smaller mutual fund house. - Further, relaxation should be provided wrt reporting the tax Identification Number (TIN) for non-resident investors; - Additional insights should also be provided by the government to enable the Mutual Fund Industry to be compliant with this law/ requirement.	- Currently, there is no mandatory requirement for a non-resident investor to provide his TIN for making investment in Indian MFs. Hence, Indian MFs are facing issues in collecting TINs from non-resident investors as often, these investors tend to give out their PAN or choose to ignore this data requirement as it is not a mandatory requirement for their investment. - Also, MFs face issues in communicating/ co-ordinating with these investors for their TINs. - This reporting is emanating from the Common Reporting Standard (CRS) on Automatic Exchange of Information (AEOI) developed by the G20 and OECD countries and the Foreign Account Tax Compliance Act enacted by the USA to tackle offshore tax evasion. However, given that this reporting is coming out of global mandates and there isn't enough precedent on this reporting, the industry players are struggling to comply with the diligence procedures and the reporting framework.
26	Proposal to provide treatment for mutual funds investing in ReITs and InvITs similar the equity oriented mutual funds		
	Taxation treatment for Mutual Funds with ReITs and InvITs as underlying instruments	A Mutual Fund that has a minimum of 65% in ReITs or InvITs to be brought on par with the tax treatment as equity-oriented funds	ReITs and InvITs have the potential to provide significant amounts of stable long-term capital to fund the strategically important real estate and infrastructure sectors. An efficient tax structure can boost demand for the aforementioned instruments across a wide range of investors and efficiently channelize capital into future large-scale projects which are vital for the country's development. Furthermore, by investing in suitable Mutual Funds, investors can get access to ReITs and InvITs in a professionally managed manner.

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27	Capping of surcharge rate on income distribution by mutual funds – at par with dividend distribution		
	The Finance Act, 2025 provides for a surcharge rate ranging from 10% to 37% for individuals or HUF or AOP or BOI (old tax regime for individuals and HUF). However, in case of income by way of 'dividend', the surcharge rate is capped at 15%. In this regard, dividend includes distributions by a company but does not include income distribution by a mutual fund. Consequently, income distribution by a mutual fund may be subject to higher surcharge rate of 37% (where applicable based on the income slab).	It is proposed that the highest rate of surcharge should be capped at 15% on income distribution by equity oriented mutual funds.	This will bring a parity between the taxation of dividend distribution by companies and income distribution by mutual funds and consequently promote investments in mutual funds.