



WHAT ARE INDEX FUND AND ITS TAXABILITY

INTRODUCTION

An index fund is a mutual fund. Many Investors try to diversify their portfolio into various classes to minimize their risk. In search of a variety of portfolios, investors found Index funds. Several times Warren buffet, a famous investor, suggests that every investor should invest in an index fund. In this article, We will explore index funds and their taxability in India.

WHAT IS INDEX FUND

Every Investor in India has heard Sensex and Nifty. Sensex and Nifty are the market index which represents BSE & NSE respectively,

so by an Index fund, we mean those funds which invest in the stock of Companies which underlines the market index like Nifty 50 (Nifty 50 is a group of top 50 performing companies of the country). Index funds are passively managed funds which means that the fund manager invests in the same securities in the same proportion.

For Example, TCS has a 4.97 per cent stake in the index, the 4.97 percent of your corpus will be invested in TCS.

HOW INDEX FUND WORKS

Index funds are passively managed funds which means that the fund manager invests in the same securities in the same proportion. They track the particular market index and try to exactly match the returns performed by the particular market index. However, there is the possibility that there can be a small difference between fund performance and the Market index

BENEFITS OF INVESTING IN INDEX FUNDS

Predictable Returns

An index fund is best for those Investors who prefer predictable returns and want to invest in the equity markets without taking a lot of risks. These funds give you predictable returns.

Low Cost of Investment

Index funds are passively managed funds that have an expense ratio of 0.5% or even less. In comparison, actively managed funds have an expense ratio of 1% to 2.5%. Generally, The fund, which has a lower expense ratio will generate comparatively higher returns on investment

Investment in Varieties of Stocks

Index funds are invested according to the market index and the market index includes stocks of various sectors like the financial sector, IT sector, telecom sectors.

No Need to do Research

Index funds are passively managed funds, and the fund manager plans funds according to a market index and generally, all the index funds generate similar returns. So there is no need to do any research on index fund

Less Volatile

As index funds follow the market index and are passively managed, they are less volatile than actively managed equity funds. Hence, the risks are lower than actively managed equity funds.

TAXABILITY OF INDEX FUND

An index fund is a mutual fund and it attracts capital Gain tax depending on the period of holding of an index fund.

If the Period of holding is not more than 1 year

When the period of holding is not more than 1 year It will be taxed as Short term Capital gain(STCG) at the rate of 15% under section 111A of the Income-tax Act

If the Period of holding is more than 1 year

When the period of holding is more than 1 year It will be taxed as long term Capital gain (LTCCG) and LTCCG upto Rs 1,00,000 is exempt. LTCCG Exceeding Rs 1,00,000 taxed at the rate of 10% under section 112A of the Income-tax Act

COMPLIANCE CALENDER SEPTEMBER 2022

GST	GSTR 3B AUG 2022(Turnover in the previous financial year more than Five Crores)	20-09-2022
	GSTR 3B AUG 2022 (Others)	22-09-2022
	GSTR 1 AUG (Turnover more than Rs. 1.5 Crores)	11-09-2022
Income Tax	Deposit of TDS	07-09-2022
ESI	Payment for the month of AUG 2022	15-09-2022
PF	Payment for the month of AUG 2022	15-09-2022
	Return Filing for the month of AUG 2022	25-09-2022