

## **Addendum**

**This addendum set out changes to be made in the Statement of Additional Information (SAI) Of Tata Mutual Fund.**

**Effective Date: 6<sup>th</sup> November, 2009**

Schedule A – Section VI - Tax & Legal & General Information – Taxation on investing in Mutual Fund has been updated as per Financial Act, 2009 – 2010 as given below.

### **VI. TAX & LEGAL & GENERAL INFORMATION**

#### **A. Taxation on Investing in Mutual Funds**

#### **TAX TREATMENT OF INVESTMENTS IN EQUITY ORIENTED FUNDS**

Certain tax benefits as described below are available, under present taxation laws to the Unitholders holding Units of Equity Oriented Mutual Funds as an investment. The information set out below is included for general information purposes only and does not constitute legal or tax advice. In view of the individual nature of the tax consequences, each investor is advised to consult his or her own tax consultant with respect to specific tax implications arising out of their participation in the Scheme. Income Tax benefits to the mutual fund and to the unitholder is in accordance with the prevailing tax a law as certified by the mutual funds tax consultant.

##### **i. TAX BENEFITS TO THE MUTUAL FUND**

Tata Mutual Fund is a Mutual Fund registered with the Securities and Exchange Board of India and hence the entire income of the Fund will be exempt from income-tax in accordance with the provisions of Section 10(23D) of the Income-tax Act, 1961 (the Act). The Fund is entitled to receive all income without any deduction of tax at source under the provisions of Section 196(iv), of the Act.

The equity oriented Fund is not required to pay any Dividend Distribution Tax u/s 115R of the Act.

##### **ii. TAX BENEFITS TO THE UNITHOLDERS**

###### **Income Tax**

According to Section 10(35) of the Act, any income other than capital gain received in respect of units of a mutual fund specified under Section 10(23D) of the Act will be exempt from income-tax in the hands of the unitholders.

###### **Capital Gains Tax**

###### **Long Term Capital Gains On Transfer of Units**

Under Section 10(38) of the Act, long term capital gains arising on sale of units of equity oriented funds are exempt from income tax in the hands of Unit holders, provided STT is charged on such sale by the Mutual Fund.

###### **Short Term Capital Gains On Transfer Of Units**

Section 111A of the Act provides that short-term capital gains arising on sale of units of equity oriented funds are chargeable to income tax at a concessional rate of 15% plus applicable surcharge, education cess and secondary and higher education cess as applicable, provided STT is charged on such sale by the Mutual Fund. Further, Section 48 of the Act provides that no deduction shall be allowed in respect of STT paid for the purpose of computing Capital Gains. Also, no deduction under Chapter VI-A shall be allowed against the income charged to

tax under section 111A. In case of investors other than companies, w.e.f. 1<sup>st</sup> April 2009, the rate of tax shall not include surcharge.

### **Capital Losses**

Losses under the head "Capital Gains" cannot be setoff against income under any other head. Further within the head "Capital Gains", losses arising from the transfer of long-term capital assets cannot be adjusted against gains arising from the transfer of a short-term capital asset. However, losses arising from the transfer of short-term capital assets can be adjusted against gains arising from the transfer of either a long-term or a short-term capital asset.

Under Section 10(38) of the Act, long-term capital gains arising on sale of units of an equity oriented fund are exempt from Income Tax provided certain conditions are fulfilled. Hence, losses arising from such type of transaction of sale of units of Equity Oriented Fund would not be eligible for set-off against taxable capital gains, whether short term or long term.

Unabsorbed capital loss, short term as well as long term (other than the long term capital loss from units of equity oriented funds as mentioned above) can be carried forward and set off against the income under the head Capital Gains as stated above, in subsequent eight assessment years.

According to Section 94(7) of the Act, if any person buys or acquires units within a period of three months prior to the record date fixed for declaration of dividend or distribution of income and sells or transfers the same within a period of nine months from such record date, then losses arising from such sale to the extent of income (which is exempt under the Income Tax Act) received or receivable on such units, will be ignored for the purpose of computing his income chargeable to tax.

Further, Sub-section (8) of Section 94 of the Act provides that, if any person buys or acquires units within a period of three months prior to the record date fixed for declaration of bonus units and bonus Units have been issued to any person, on the basis of existing units held by such person and such person sells or transfers the original units within a period of nine months from such record date, then the loss on sale of such original units shall be ignored for the purpose of computing income chargeable to tax, However, the loss so ignored shall be considered as cost of acquisition of such bonus units held on the date of sale by such person.

### **TAX DEDUCTION AT SOURCE**

#### **For Income In Respect Of Units:**

As per the proviso to Section 196A(1) of the Act, no tax shall be deducted at source from any income credited or paid to non-resident unitholders in respect of units of a mutual fund specified under Section 10(23D) of the Act. Similarly as per the provisions of Section 194K of the Act no tax should be withheld or deducted at source where any income is credited or paid by a mutual fund to a resident unitholders.

#### **For Capital Gain**

##### **(a) In respect of Resident Unit holders :**

No tax is required to be deducted at source on capital gains arising to any resident Unit holder (under section 194K) vide circular no. 715 dated August 8, 1995 issued by the Central Board for Direct Taxes (CBDT).

##### **(b) In respect of Non- Resident Unit holders:**

As per the provisions of Section 195 of the Act, tax is required to be deducted at source from the redemption proceeds paid to investors; this withholding is in addition to the securities transaction tax payable, if any, by the investor. Under Section 195 of the Act, tax shall be deducted at source in respect of capital gains as under:

- **In case of non-resident unitholders:**

Short term capital gains	15% plus surcharge and cess
Long term capital gains	Nil

- **In case of foreign company:**

Short term capital gains	15% plus surcharge and cess
Long term capital gains	Nil

No tax would be deductible at source from the capital gains (whether long-term or short-term) arising to an FII on repurchase/redemption of units in view of the provisions of Section 196D (2) of the Act.

As per circular no. 728 dated October 1995 by CBDT, in the case of a remittance to a country with which a Double Taxation Avoidance Agreement (DTAA) is in force, the tax should be deducted at the rate provided in the Finance Act of the relevant year or at the rate provided in DTAA whichever is more beneficial to the assessee.

### **Securities Transaction Tax**

Securities Transaction Tax ("STT") is applicable on transactions of purchase or sale of units of an equity oriented fund entered into on a recognized stock exchange or on sale of units of an equity oriented fund to the Fund. The STT rates as applicable are given in the following table:

<b>Taxable Securities Transaction</b>	<b>Rates</b>	<b>Payable by</b>
Purchase of a unit of an equity oriented fund, where - The transaction of such purchase is entered into in a recognised stock exchange; and The contract for the purchase of such unit is settled by the actual delivery or transfer of such unit.	0.125%	Purchaser
Sale of a unit of an equity oriented fund, where - The transaction of such sale is entered into in a recognised stock exchange; and The contract for the sale of such unit is settled by the actual delivery or transfer of such unit.	0.125%	Seller
Sale of a unit of an equity oriented fund, where - The transaction of such sale is entered into in a recognised stock exchange; and The contract for the sale of such unit is settled otherwise than by the actual delivery or transfer of such unit.	0.025%	Seller
Sale of unit of an equity oriented fund to the Mutual Fund itself.	0.25%	Seller

The Fund is responsible for collecting the STT from every person who sells the Unit to it at the rate of 0.25%. The STT collected by the Fund during any month will have to be deposited with the Central Government by the seventh day of the month immediately following the said month.

### **Investments by Charitable and Religious Trusts**

Units of a Fund Scheme referred to in clause 23D of section 10 of the Act, constitute an eligible avenue for investment by charitable or religious trusts per rule 17C of the Income Tax Rules, 1962, read with clause (xii) of sub-section (5) of Section 11 of the Income Tax Act, 1961.

### **Wealth Tax**

Units held under the Schemes of the Fund are not treated as assets as defined under Section 2(ea) of the Wealth Tax Act, 1957 and therefore would not be liable to wealth tax.

## **Gift Tax**

The Gift-tax Act, 1958, has ceased to apply to gifts made on or after 1 October 1998. Gifts of Units, purchased under the Schemes, would therefore, be exempt from gift-tax. However, with effect from 1<sup>st</sup> October, 2009, if any individual or an Hindu Undivided Family receives a gift of units of any mutual fund whose market value exceeds Rs. 50,000 and such gift is received from a person other than a relative as defined in section 56 of the Act, then the value of such gift would be considered as the income of the recipient and would be added to the normal income of such person for income-tax purposes.

## **Deduction under section 80C [Applicable only for ELSS schemes currently (Tata Tax Saving Fund, Tata Tax Advantage Fund– 1 and Tata Infrastructure Tax Saving Fund)]**

As per the Act, section 80C is inserted from the financial year commencing on and from April 01, 2005. As per the section, subject to the provisions, an individual/HUF is entitled to a deduction from Gross Total Income upto Rs. 1,00,000/- (along with other prescribed investments) for amounts invested in any units of a mutual fund notified under section 10(23D) of the Act, under any plan formulated in accordance with such scheme as the Central Government may notify.

## **TAX TREATMENT OF INVESTMENTS IN DEBT FUNDS**

Certain tax benefits as described below are available, under present taxation laws to the Unitholders holding Unit of Debt Funds as an investment. The information set out below is included for general information purposes only and does not constitute legal or tax advice. In view of the individual nature of the tax consequences, each investor is advised to consult his or her own tax consultant with respect to specific tax implications arising out of their participation in the Scheme. Income Tax benefits to the mutual fund and to the unitholder is in accordance with the prevailing tax a law as certified by the mutual funds tax consultant.

### **(i) TAX BENEFITS TO THE MUTUAL FUND**

Tata Mutual Fund is a Mutual Fund registered with the Securities and Exchange Board of India and hence the entire income of the Fund will be exempt from income-tax in accordance with the provisions of Section 10(23D) of the Income-tax Act, 1961 (the Act). The Fund is entitled to receive all income without any deduction of tax at source under the provisions of Section 196(iv), of the Act.

On income distribution, if any, made by the Fund, on or after 1 April, 2004, to its Unitholders, being Individuals and Hindu Undivided Family, income distribution tax will be payable under Section 115R of the Act, at the rate of 14.1625 % (inclusive of surcharge and additional surcharges called Education Cess and Secondary and Higher Education Cess on income-tax), and to other Unitholders at the rate of 22.66% (inclusive of surcharge and additional surcharges called Education Cess and Secondary and Higher Education Cess on income-tax), except, inter alia, in the case of equity-oriented funds (including close ended equity funds)(i.e. such fund where the investible funds are invested by way of equity shares in domestic companies to the extent of more than 65% of the total proceeds of such Fund), where no such tax will be payable. In case of Liquid Funds and Money Market Funds, the rate of Dividend Distribution Tax is 28.325% (inclusive of surcharge and additional surcharges called Education Cess and Secondary and Higher Education Cess on income-tax).

### **(ii) TAX BENEFITS TO THE UNITHOLDERS**

#### **Income Tax**

According to Section 10(35) of the Act, any income other than capital gain received in respect of units of a mutual fund specified under Section 10(23D) of the Act will be exempt from income-tax in the hands of the unitholders.

## **Capital Gains Tax**

Long-term capital gains on sale of units of Mutual Funds other than equity oriented funds are not exempt from income tax under Section 10(38) of the Act in the hands of unit holders. The provisions for taxation of long-term capital gains for different categories of assessee are explained hereunder:

### **(i) For Individuals, HUFs, Partnership Firms, Non-residents, Indian Companies, Foreign Companies**

Long-term capital gains in respect of units of Mutual Funds held for a period of more than 12 months will be chargeable under Section 112 of the Act, at a rate of 20% plus surcharge, as applicable and Education Cess and Secondary and Higher Education Cess. Capital gains would be computed after taking into account cost of acquisition as adjusted by Cost Inflation Index notified by the Central Government and expenditure incurred wholly and exclusively in connection with such transfer. In the case where taxable income as reduced by long term capital gains is below the exemption limit, the long term capital gains will be reduced to the extent of the shortfall and only the balance long term capital gains will be charged at the flat rate of 20% plus surcharge, as may be applicable and Education Cess and Secondary and Higher Education Cess.

It is further provided that an assessee will have an option to apply concessional rate of 10% plus applicable surcharge and Education Cess and Secondary and Higher Education Cess, provided the long term capital gains are computed without substituting indexed cost in place of cost of acquisition.

### **(ii) For Non-resident Indians**

Under Section 115E of the Act for non-resident Indians, income by way of long-term capital gains in respect of units is chargeable at the rate of 20% plus applicable surcharge and Education Cess and Secondary and Higher Education Cess. Such long-term capital gains would be calculated after indexation of cost of acquisition.

It may be possible for non-resident Indians to opt for computation of long term capital gains as per Section 112, which provides for 10% tax on long term capital gain.

### **(iii) For Overseas Financial Organisations (Section 115AB) and Foreign Institutional Investors (115AD)**

Under Section 115AB of the Act, income earned by way of long-term capital gains in respect of units purchased in foreign currency held for a period of more than 12 months by Overseas Financial Organisation will be chargeable to tax at the rate of 10%, plus applicable surcharge and education cess and secondary and higher education cess. The rate of 10% will apply only if the units are purchased in foreign currency. Such gains would be calculated without indexation of cost of acquisition. Also, no benefit under Chapter VI-A shall be allowed against such long term capital gain. However, there is no concessional rate for a Foreign Institutional Investor as units of mutual fund are specifically excluded from the purview of section 115AD.

Exemption From Long Term capital gain:

Under Section 54EC of the Act and subject to the conditions specified therein, taxable capital gains, arising on transfer of a long term capital asset, shall not be chargeable to tax to the extent such capital gains are invested in certain notified bonds within six months from the date of transfer subject to an upper limit of Rs. 50 lakhs per year per tax payer. No deduction from the amount of income with reference to such investment shall be allowed under section 80C.

Under Section 54F of the Act and subject to the conditions specified therein, in the case of an individual or a HUF, capital gains (subject to the exemption of long-term capital gains provided for in section 10(38) of the Act, discussed elsewhere in this Statement) arising on transfer of a long term capital asset (not being a residential house) are not chargeable to tax if the entire net consideration received on such transfer is invested within the prescribed period in a residential house. If part of such net consideration is invested within the prescribed period in a residential

house, then such gains would not be chargeable to tax on a proportionate basis. For this purpose, net consideration means full value of the consideration received or accruing as a result of the transfer of the capital asset as reduced by any expenditure incurred wholly and exclusively in connection with such transfer.

### **C. SHORT TERM CAPITAL GAINS ON TRANSFER OF UNITS**

Short term capital gains in respect of Units held for a period of less than 12 months is added to the total income. Total income including short-term capital gains is chargeable to tax as per the relevant slab rates. However, in case of Foreign Institutional Investors, firms and companies, short term capital gain will be chargeable to tax at the rate of 30% plus applicable surcharge and education cess and secondary and higher education cess. Firms will not be liable to surcharge. In case of foreign companies the tax rate would be 40% plus applicable surcharge and education cess.

### **D. CAPITAL LOSSES**

Losses under the head "Capital Gains" cannot be setoff against income under any other head. Further within the head "Capital Gains", losses arising from the transfer of long-term capital assets cannot be adjusted against gains arising from the transfer of a short-term capital asset. However, losses arising from the transfer of short-term capital assets can be adjusted against gains arising from the transfer of either a long-term or a short-term capital asset.

Unabsorbed capital loss, short term as well as long term can be carried forward and set off against the income under the head Capital Gains in subsequent eight assessment years.

According to Section 94(7) of the Act, if any person buys or acquires units within a period of three months prior to the record date fixed for declaration of dividend or distribution of income and sells or transfers the same within a period of nine months from such record date, then losses arising from such sale to the extent of income received or receivable on such units, will be ignored for the purpose of computing his income chargeable to tax.

Further, Sub-section (8) of Section 94 provides that, if any person buys or acquires units within a period of three months prior to the record date fixed for declaration of dividend or distribution of income and bonus units have been issued to any person on the basis of existing units held by such person and such person sells or transfers the original units or bonus units within a period of nine months from such record date, then the loss on sale of original units shall be ignored for the purpose of computing income chargeable to tax, However, the loss so ignored shall be considered as cost of acquisition of such bonus units held on the date of sale by such person.

### **Tax Deduction at Source**

#### **For Income in Respect of Units:**

As per the proviso to Section 196A(1) of the Act, no tax shall be deducted at source from any income credited or paid to non-resident unitholders in respect of units of a mutual fund specified under Section 10(23D) of the Act. Similarly as per the provisions of Section 194K of the Act no tax should be withheld or deducted at source where any income is credited or paid by a mutual fund to a resident unitholders.

#### **For Capital Gain**

##### **(a) In respect of Resident Unit holders:**

No tax is required to be deducted at source on capital gains arising to any resident Unit holder (under section 194K) vide circular no. 715 dated August 8, 1995 issued by the Central Board for Direct Taxes (CBDT)..

##### **(b) In respect of Non- Resident Unit holders:**

As per the provisions of Section 195 of the Act, tax is required to be deducted at source from the redemption proceeds paid to investors; this withholding is in addition to the securities transaction tax payable, if any, by the investor. Under Section 195 of the Act, tax shall be deducted at source in respect of capital gains as under:

- **In case of non-resident unitholders:**

Short term capital gains	30% plus surcharge and cess
Long term capital gains	20% plus surcharge and cess

- **In case of foreign company:**

Short term capital gains	40% plus surcharge and cess
Long term capital gains	20% plus surcharge and cess

No tax would be deductible at source from the capital gains (whether long-term or short-term) arising to an FII on repurchase/redemption of units in view of the provisions of Section 196D (2) of the Act.

As per circular no. 728 dated October 1995 by CBDT, in the case of a remittance to a country with which a Double Taxation Avoidance Agreement (DTAA) is in force, the tax should be deducted at the rate provided in the Finance Act of the relevant year or at the rate provided in DTAA whichever is more beneficial to the assessee.

### **Investments by Charitable and Religious Trusts**

Units of a Fund Scheme referred to in clause 23D of section 10 of the Income Tax Act, 1961, constitute an eligible avenue for investment by charitable or religious trusts per rule 17C of the Income Tax Rules, 1962, read with clause (xii) of sub-section (5) of Section 11 of the Income Tax Act, 1961.

### **Wealth Tax**

Units held under the Schemes of the Fund are not treated as assets as defined under Section 2(ea) of the Wealth Tax Act, 1957 and therefore would not be liable to wealth tax.

### **Gift Tax**

The Gift-tax Act, 1958, has ceased to apply to gifts made on or after 1 October 1998. Gifts of Units, purchased under the Schemes, would therefore, be exempt from gift-tax. However, with effect from 1<sup>st</sup> October, 2009, if any individual or an Hindu Undivided Family receives a gift of units of any mutual fund whose market value exceeds Rs. 50,000 and such gift is received from a person other than a relative as defined in section 56 of the Act, then the value of such gift would be considered as the income of the recipient and would be added to the normal income of such person for income-tax purposes.

### **Notes -**

- The above revision will be implemented prospectively and shall remain in force till further notice.
- This addendum forms an integral part of the SAI.
- All other terms and conditions of the SAI read with other addendums, if any, remain unchanged.

### **Statutory Details:**

**Constitution:** Tata Mutual Fund (TMF) has been set up as a Trust under the Indian Trust Act 1882. **Sponsors:** Tata Sons Limited and Tata Investment Corporation Limited. **Trustee:** Tata Trustee Company Pvt. Ltd. **Investment Manager:** Tata Asset Management Ltd.

**Risk Factors:**

As with any investment in securities, the NAV of the units issued under the scheme can go up or down depending on the factors and forces affecting the capital markets. Mutual Fund and securities investments are subject to market risks and there can be no assurance and no guarantee that the scheme's objectives will be achieved. Past performance of the Sponsors/ AMC/ schemes of the Tata Mutual Fund does not indicate the future performance of the schemes of the Mutual Fund. The name of the schemes does not in any manner indicate either the quality of the scheme, its future prospects or the returns. The Sponsors are not responsible or liable for any loss resulting from the operations of the Mutual Fund beyond the contribution of an amount of Rs.1 lac made by them towards setting up of the Mutual Fund. Investments by the scheme in interest bearing securities are subject to interest rate risk, credit risk, floating rate risk and liquidity risk. For scheme specific risk factors and other details investors are urged to read the Scheme Information Document (SID) / Key Information Memorandum (KIM) / Statement of Additional Information (SAI) of the respective scheme carefully before investing.