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GST influence on mutual funds Activity

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ABSTRACT

Before implementation of GST law Indian tax system was very complex it's covered various taxes such as service tax, value added tax, and other taxes. GST is a one single tax rate applicable in whole country. Indian government applied GST from 1st July 2017. GST rate of 18% imposed on all kind of financial services and mutual funds covered under the financial service so cover in 18% tax slab. Implementation of GST law effect the whole Indian economy including mutual fund industry, stock market, real estate, consumers goods and services and others. Past implementation of GST law 15% tax rate levied on financial services. 3% hike tax rate will affect mutual fund industry at marginal but its affect positive at long time. This research paper highlights impact of GST on mutual funds. GST affected the investors, mutual fund distributors, financial advisor and mutual fund houses.

Key words: Mutual fund, Goods and service tax

INTRODUCTION

Meaning of mutual funds

A mutual fund investment avenue gathers money from various investors and invests it on their behalf. For management of fund, the fund houses charges a small amount. It's one of the good investment vehicles for investors who do not have knowledge about primary market and secondary market. Mutual fund Investors can select an appropriate mutual fund schemes according to their financial capabilities, spending abilities and their profile. Investors must keep their investment aim in mind while picking a mutual fund schemes. In mutual fund industry huge number of mutual fund schemes available for the different investors. With the assistant of a good financial advisor investors can choose a mutual fund schemes that would suit their profile and will facilitate investors in getting handsome returns after a predetermined time. Mutual fund are proven instrument to generate good tax efficient return in long term. It will provide advantage to both mutual fund industry and investors.

Meaning of GST

The GST is a comprehensive indirect value added tax imposed on manufacture, most goods and services sold for domestic consumption. It's a single tax rate is applied throughout the country. The GST is paid by the consumers and it's provided revenue for the government. France was the first nation to execute the GST in 1954 and ever since then an anticipated 160 nations adopted GST system in some form or another. India is set to join the GST group on 1st July 2017. GST replaced all indirect taxes levies on goods and services by the central and state governments. Direct tax such as income tax, corporate tax and capital gain tax will not affect by GST. It substitutes for all indirect tax levied by state and central government. In GST tax system in form of dual GST which consisting central GST (CGST) which is imposed by centre, state GST (SGST) which is imposed by state and Integrated GST (IGST) which is imposed by central government on inter-state supply of goods and services. The Indian government has classified in to five major slabs such as 0%, 5%, 12%, 18% and 28%. Tax on financial service will hike from the 15% to 18% as the goods and service tax which make the financial services marginally costlier. Financial service covered banking transactions, mutual funds, insurance and stock markets.

Objectives of the study

1. To understand the concept of mutual funds and Goods and services tax.
2. To study the impact of GST on mutual funds.

Impact of GST on mutual fund according to opinion of experts

According to AMFI, "it is prayed of that rate of tax be made applicable to the mutual fund so as to ensure the investors or unit holders are not deterred from investing in the mutual fund sector due to high rate of GST and in favor of other avenues of investments where returns are not expected to be liable to GST.

As per Neil parikh, CEO, PPFAS mutual fund, "The impact will not be that big, but it surely will change something for the mutual fund investors."

Mukesh gupta, director, wealth care securities, "the distributors are going to face the heat of GST, but not all them. The smaller distributors, earning less than Rs. 20 lakh per year, will be exempt from the taxes."

Impact of GST on mutual funds

I. Hike cost of securities transaction

Before the execution of GST securities transaction excluded in service tax and value added tax. So, the execution of GST is change the genesis of security market and transaction of securities will be taxable.

II. Compliance load of mutual funds will go up significantly

GST rate hike at the location where a service is being delivered. In mutual fund asset management company and its branches are differ bodies. Basically the asset management activity held centrally by fund houses, even though the sales and marketing activities related to the schemes managed during different place. Hence the issue

occurred when head office and its branches at different place. Its create risk to treat transaction with branches and head office as supply of services.

III. Increase expenses ratio due to GST

GST increase the burden of tax on mutual fund industry. It's put tax on offer fund management services, its efforts, taking service such as custodians and brokerage houses. Investors will have to pay more premiums to invest in mutual funds. Due to tax, the expenses ratio of the scheme includes the service tax that the AMC's pay. Mutual fund houses so raise the expenses ratio of many schemes that investor will choose. It might maybe wound this class of financial professionals.

IV. Raise service tax

GST is negatively impact on mutual funds. As per GST law, service tax is increase from 15% to 18% which make mutual fund little expensive. Tax rate hike 3% will increase liabilities for the distributors. Slighter distributors those earn less than 20 lakh per year will be exempted from tax liabilities and distributors who earn more than 20 lakh per year necessary to pay GST, so the things may turn less favorable for the distributors. This exemption is afforded only to the locally operating distributors but those distributors functioning at multiple locations have to bear the consequences.

V. Financial advisors services become more costly

Implementation of GST law makes financial service pricier than past. Advice related service like mutual fund distributors, investment planner and financial guardian become more costly. At result investors takes helps from financial advisor will have to incur losses.

VI. Impact of GST on mutual fund industry is marginal and hike the service tax has being expected for long time, the market will train to handle it. Hence this minor increase is not affect huge changes to the portfolios of the investors.

VII. GST will not more impact on mutual fund Investment further than hike expenses ratio. Investor no need to change their schemes after GST implies. But indirect plan will facilitate to reduce cost of mutual fund investment.

CONCLUSION

Goods and service tax (GST) implementation creates earthquake in Indian economy. Its afford benefit to mutual fund industry after long time. GST hike the tax burden for investors, fund houses and mutual fund distributors. It makes financial service more expensive than before. It also affects investor by increasing expenses ratio, distributors by impose tax liabilities and fund houses by take services such as custodian, brokerage etc. As result of GST mutual fund increase service tax as result raised the expenses ratio. But mutual funds afford direct investment plan will help investors cut their expenses ratio of the mutual fund schemes.

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