Fixed Maturity Plan

A Fixed maturity Plan (FMP) is a closed-ended debt scheme for a fixed period of time, wherein the duration of debt papers is aligned with the tenure of the scheme.

Features of FMPs

1. FMPs generally invest in Certificate of deposits (CDs), Commercial Papers (CPs), money market instruments, and corporate bonds.

2. FMPs provide predictable return & are not subject to interest rate risk.

3. On tax adjusted basis, return on FMPs are better than bank FDs, as one year Plus FMPs qualifies LTCG Tax.

   Mutual fund investors have the option of paying capital gains tax at 10.3% (without indexation) or at 20.6% (with indexation).

Tax Advantages of FMP

Fixed Maturity Plans scores high on tax advantage when they are compared to similar instruments like Fixed Deposits (FDs). In FDs the interest earned is added to the investor's income and taxed at individual personal income tax rate. Interest from Fixed Deposits is categorized as 'Income from Other Sources' under the Income Tax laws. In the case of FMP, the tax implication depends upon the investment option chosen – Dividend or Growth

Which Option Should You Choose?

4. **Dividend Option**: Dividends in FMPs are tax free in hands of investors. However, Mutual Fund companies have to pay a Dividend Distribution Tax (DDT) of 25% plus surcharge and cess for Individuals and HUFs (28.325%) and 30% plus surcharge and cess for others (33.99%) before distributing it to investors.

5. **Growth Option:** If any investor opts for Growth option, he is subject to Capital Gains Tax.
   Short Term Capital Gains (if units are held for 12 months or less) are taxed as per the Tax Slab Rate. For Long Term Capital Gains (if units are held for more than 12 months) are taxed at 10% without indexation or 20% with indexation. The indexation benefit inflates the cost of purchase lowering long term gains tax liability, which is not the case of FDs

The length of the holding period matters, especially when one has to decide between growth and dividend options. Investors can go for the growth option if the holding period is more than a year and for the dividend option if the holding period is less than a year.

Comparative Return FD v/s FMP (Post tax): Single Indexation			
	Fixed Deposit	FMP (with indexation)	FMP (without indexation)
Investment Amt.	100,000	100,000	100,000
Return	9.00%**	9.00%	9.00%
Duration of investment in days	368	368	368
Maturity Value	109,074	109,074	109,074
Inflation rate of indexation *	N.A	10.05%	N.A
Indexed Cost (Single indexation)	N.A	110,050	N.A
Taxable Income	9,074	-976	9,074
Tax rate	30.90%	20.60%	10.30%
Tax	2,804	0	935
Post tax gain	6,270	9,074	8,139
Post tax Return (Annualized)	6.22%	9.00%	8.07%

Double Indexation Benefits

Double indexation simply means getting the benefit of two years of indexation when the holding period for investments has been substantially less than two years.

Concept of Double Indexation

A. If Mr. ABC had bought 10 units of mutual fund for Rs. 10,000 on 1st April 2011 and sold them for 11,000 on 1st April 2012. (Holding period- 1 year).

B. If Mr. ABC had bought 10 units of mutual fund for Rs. 10,000 on 31st March 2011 and sold them for 11,000 on 1st April 2012. (Holding period- 1 year and 1 day)

In the two examples given above, the information is same except the year of purchase, which differs by just one day. The difference in one day changes the financial year of purchase for Mr. ABC, which changes the CII numbers to be used for indexation.

Case A: Single indexation

Particulars	Amount (Rs.)
Cost of purchase	10,000
CII- year of purchase (2011-12)*	785
CII- year of sale (2012-13)*	852
Adjusted cost of purchase	10,854
Taxable return- with indexation (Rs 11,000- Rs 10,854)	146

***Source: Central Board of Direct Taxes (CBDT)**

Case B: Double Indexation

Particulars	Amount (Rs.)
Cost of purchase	10,000
CII- year of purchase (2010-11)*	711
CII- year of sale (2012-13)*	852
Adjusted cost of purchase	11,983
Taxable return- with indexation (Rs 11,000- Rs 11,983)	(983)

***Source: Central Board of Direct Taxes (CBDT)**

Here is a small comparison between Fixed Deposits & FMP with Double Indexation Benefits:

	Fixed Deposits (assumed for investor at highest tax bracket)	**P With Double Indexation**
Amount Invested	100,000	100,000
Tenor in Days	500	500
Assumed Returns	9.50%	9.50%
Maturity Value	113,014	113,014
Interest Gains	13,014	13,014
Indexed Cost *	Nil	119,831
Indexation Gain / Loss	Nil	(6,817)#
Tax Rate	30.90%	20.60%
Tax on Interest Income	4,021	
Tax on Capital Gains		-
Post Tax Income	8,993	13,014
Post Tax Return (Simple Interest)	**6.56%**	**9.50%**

* **CII in 2010-11 was 711 and CII in 2012-13 is 852. Source: Central Board of Direct Taxes (CBDT).**

#Investors can set of Long Term Losses with Long Term Gains

Disclaimer-Mutual fund investments are subject to market risks read all scheme related documents carefully.