

# TAXATION OF INCOME ON UNITS

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Unit Trust of India is broken into:

- (i) Administrator of specified undertakings
- (ii) Specified Company

1. **Incomes of all Mutual funds are exempt** under section 10(23D). The income of specified company and administrator is also exempt.
2. Prior to the amendments made by Finance Act, 2020, income distributed on units to unitholders was subject to tax in the hands of the distributing Mutual Fund or Specified Company at rates specified in section 115R. Further, such income was exempt in the hands of unitholders under section 10(35). **However, Finance Act, 2020 has shifted the incidence of tax charge from such mutual funds and specified company to the hands of unitholders. Such distributed income shall be taxable in the hands of unitholders at the applicable tax rates.**
3. **As per proviso to Section 57, while computing income in respect of units of Mutual Fund or a Specified Company, a deduction on account of interest expense is allowed subject to a maximum limit of 20% of the income before such deduction. However, the proviso does not apply to the income received in respect of units from an "Administrator". Accordingly, all expenses incurred by an assessee towards earning such income shall be allowed as a deduction under section 57.**
4. **TDS on Income in respect of Units**

**Section 194K provides for a deduction of TDS at the rate of 10% on payment of any income in respect of units of a Mutual Fund or an Administrator or a Specified Company to a resident unitholder. Provided that no deduction shall be made where such income:**

- **does not exceed ₹ 5,000 OR**
- **is of the nature of capital gains.**

**Note:** The provisions of section 194K apply in respect of distributed income i.e., amount of income distributed by Mutual Fund or the Specified Company or Administrator. Therefore, on redemption of units or repurchase of units, capital gains shall arise which shall be taxable in the hands of unitholders and no TDS will be there.