NRI money in mutual funds rising

It's not just that Indians are only relying on India growth story; even others do, like our foreign partners so called NRI, FII, etc. As per latest data form central bank, foreigners, major chunk of investments has seen good amount of rising trend in the Indian mutual funds industry, since 2003. They hold around Rs 1,028 crore worth of units of Indian mutual funds in 2003. The figure has increased sharply to Rs 2,663 crore in 2004 and Rs 4,966 crore in 2005, as per central bank data. It is not clear which country contributed the most to the MF industry as most funds doesn't disclosed country wise list, As a result, unspecified countries account for over 70%.

NRIs - reason to invest

The ever growing economy, with robust growth & well diversified industry, India seems to be a desired destination for NRI's. It's assumed that Indian external sector performance will continue to be good, thus one needs to look at the outsourcing revolutions that is taking place across the globe, in not only the services but also the manufacturing and research sectors. On the investment side, moderate rules and better and well regulated markets, with looking at investors sentiments which are drawing in capital to fund India's growth.

1. **Dynamic policy by government**
   It has been close to 2 decades since the reforms process has started, with the main push coming with the twin devaluations in 1991. During this period numerous developments have taken places that have contributed to the flexibility of the Indian economy. Key amongst these are the opening up of the Indian economy to foreign investment, strengthening of the domestic financial system, liberalization of imports, rationalization of interest and exchange rates, a more conducive environment for investing in industry, and of course, the people-intensive services sector.

   This resilience is clearly reflected in the fact that average economic growth rates have moved up and India has emerged as one of the fastest growing economies in the world.

2. **Priority focusing agriculture, infrastructure**
   In recent times there has been a renewed vision on two key but long ignored segments of the Indian economy − agriculture and infrastructure. The focus on agriculture and related activities, which supports approximately 65% of the Indian population, should provide a new thrust area for economic growth.

3. **The global outsourcing boom**
   Indian had become a major hub for business process outsourcing companies, but there is much more to this outsourcing boom than is commonly understood. Fortunately, India stands to benefit from it in a great measure.

4. **Well equipped & regulated capital markets**
   The Indian stock and debt markets, including banks and mutual funds are well regulated by the Securities and Exchange Board of India and the RBI, various measures are taken to protect investors' sentiments & interest. In terms of infrastructure the Indian institutional framework is improving rapidly, backed by a strong financial system.

NRI Guide Book for mutual funds **1. Who is a Non Resident Indian?**
A Non Resident Indian (NRI) is an Indian citizen or a person of Indian origin who stays abroad for employment/carrying on business or vocation outside India or stays abroad under circumstances indicating an uncertain duration of stay abroad. A person shall be deemed to be of Indian origin if he/she or either of his/her parents or grandparents were born in undivided India.

2. **What is an Overseas Corporate Body (OCB)?** An Overseas Corporate Body (OCB) includes overseas companies, partnership firms, societies and other corporate bodies owned predominantly by non-resident persons of Indian nationality or origin outside India. **3. Who is a Foriegn Institutional Investor (FII)?** A Foreign Institutional Investor (FII) is a corporate registered by Securities and Exchange Board of India. **4. Can NRI invest in mutual fund schemes?** Yes, NRIs can invest in any mutual fund schemes. **5. How will an NRI invest in Indian MFs?**
To invest in Indian Mutual Funds, the NRI has to open any one of the following three kinds of accounts. He can open any of these accounts through the banks who provide the facility. The three types of accounts are as follows:

- Non-Resident (External) Rupee (NRE) accounts are Rupee accounts on a repatriable basis. They can be opened with either funds remitted from abroad or local funds, which can be remitted abroad.
- Ordinary Non-resident Rupee (NRO) accounts are Rupee accounts and can be opened with funds either remitted from abroad or generated in India. The amount in such accounts is non-repatriable.

Fully Convertible Non-Rupee (FCNR) accounts are similar to the NRE account except that the funds are held in foreign currency like USD, GBP, etc.

6. Does NRI need any approvals from the Reserve Bank of India to invest in mutual fund schemes?

- Yes. Specific approval has to be taken from RBI. However, most of the AMCs have taken the permission for NRI investments in their schemes; hence no permission is required for investing in the schemes of those AMCs.
- Only OCBs and FIIs require prior approvals before investing in our schemes.

7. Can NRI invest in foreign currency? No. All investments have to be in Indian Rupees. A convenient way to invest would be through NRE account. **8.**

How to redeem funds?

- In case of open-ended mutual fund schemes, simply fill up the redemption slip and send it to our offices or Investor Service Centres of AMCs. The cheques are normally mailed to within 3 to 5 business days from the day of receipt of the redemption request.
- In case of close-ended mutual fund schemes, the redemption slip has to be sold at the stock exchange where the scheme is listed through a registered stock exchange member.

9. How will the redemption proceeds be paid?

- The redemption proceeds will be paid by means of a Rupee cheque payable to the NRE account of the investor, or else by a US dollar draft drawn at the then current rates of exchange subject to RBI procedures, where investments have been made on a repatriation basis.
- Where investments have been made on non-repatriation basis, redemption proceeds will be paid by means of a Rupee cheque payable to the investor's NRO account.

Accompanying the redemption proceeds is an updated account statement, a TDS certificate and a covering letter that mentions whether the funds were invested out of NRE/FCNR/NRO accounts. The tax on capital gain is deducted **(as explained below**) after taking into consideration indexation benefits wherever applicable.

10. Can NRI repatriate their earnings on redeeming from mutual fund schemes?

- If the investment is made on a repatriation basis, the net income or capital gains (after tax) arising out of investment are eligible for repatriation subject to some compliance.
- If the investment is made on a non-repatriation basis, only the net income, that is, dividend (after tax), arising out of investment is eligible for repatriation.

11. **Can NRI enroll in Systematic Investment Plan (SIP)?** Yes.

12. **How to get updated on the performance of the schemes?** NAVs of all schemes are updated on AMFI web site every day

Tax slab on capital gain

1. **Can NRI gift units of mutual fund schemes to their relatives in India?** Yes

2. **Is the indexation benefit available to NRIs?** Yes, in case units are held for more than twelve months

3. **What is the tax rate on short-term capital gain?**

- In case of non-resident non-corporates - 30% plus
- In case of foreign companies - 40% plus

4. **Tax slab on capital gain**

		Tax Rates* under the Act			TDS Rate* under the Act		
		Residents	**NRIs / PIOs**	**FIIs**	**Residents**	**NRIs / PIOs / other Non FII non-residents**	**FIIs**
Short Term Capital Gain	Units of a non equity oriented fund	Taxable at normal rates of tax applicable to the assessee		30% without indexation benefit (u/s 115AD)	NIL	30% for non residents non corporate, 40% for non resident corporate, (u/s 195)	NIL
	units of an equity oriented fund	10% on redemption of units where STT is payable on redemption (u/s 111A)					Nil
Long Term Capital Gain **	units of a non equity oriented fund	10% without indexation, or 20% with indexation, whichever is lower (u/s 112)		10% with no indexation benefit (u/s 115AD)	NIL	20% for non residents (u/s 195)	NIL
	units of an equity oriented fund	Exempt in case of redemption of units where STT is payable on redemption [u/s 10(38)]				Nil	Nil

*Plus surcharge as applicable: corporate, co-operative societies, firms and local authorities: 10%; Individuals/HUFs/BOIs/AOPs, with total income exceeding Rs.10, 00,000: 10%; Artificial juridical person: 10%.

** Capital Gains on redemption of units held for a period of more than 12 months from the date of allotment.

*** As per section 111A of the Act, effective from 1/10/2004 short-term capital gains on equity oriented fund is chargeable to tax at a Lower rate of 10 percent.

- Long Term Capital Gains arising from redemption of unit of a non equity oriented

fund are exempt from tax, if gains are invested in specified bonds within 6 months from the date of redemption, under Section 54EC of the Act or if gains are invested in eligible equity issues within 6 months from the date of redemption, under Section 54ED of the Act. In order for the unit holder to obtain the benefit of a lower rate under the DTAA, an eligibility certificate from unit holder's Assessing Officer should be provided to the Fund.