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**Meta Title:** Short-Term Capital Gains Tax: STCG Tax Rate in 2024 | Bajaj Finserv AMC

**Meta Description:** Understand short-term capital gain tax, STCG tax rates for mutual funds and assets after Budget 2024, and discover strategies to reduce your tax liability on short-term gains.

**Breadcrumb:** [Home](https://www.bajajamc.com/) >[Knowledge Centre](https://www.bajajamc.com/knowledge-centre)> Short-term capital gains tax on mutual funds after Budget 2024: A comprehensive guide

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## **Short-term capital gains tax on mutual funds** ==================================================================================

Capital gains tax is levied on the sale of capital assets, such as stocks, mutual funds, and real estate. Understanding how this tax works can help you manage your investments better and minimise your tax liability. There are two types of capital gains tax – short-term and long-term – based on the period for which the asset or investment was held. Short-term capital gain (STCG) is particularly relevant in the context of frequent trading or short-term investments, where gains are realised within a brief period.

By knowing the specific holding periods and applicable tax rates for different types of assets, you can make informed decisions that optimise your after-tax returns. More importantly, effective tax planning strategies can further reduce the burden of short-term capital gains tax, ensuring more efficient wealth accumulation over time. Let’s take a closer look at the essentials of STCG in a simple way, making it easy for even new investors to understand the basics.short-term capital gains tax.

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## **What are short-term capital gains (STCG)?**

Short-term capital gains (STCG) are the profit earned from selling a capital asset within a short holding period. In India, the duration for which an asset must be held to qualify as short-term varies by asset type:

* Equity shares and [equity-oriented mutual funds](https://www.bajajamc.com/mutual-fund/equity): Held for less than 12 months.
* Other assets: Held for less than 24 months.

The gain is calculated as the difference between the sale price and the purchase price, after accounting for any improvement costs and transfer expenses. Understanding the classification of assets and their respective holding periods is important because it determines the applicable tax rate.

Short-term capital gains are typically taxed at higher rates compared to long-term capital gains, emphasising the importance of strategic investment planning. Moreover, different rules apply for various asset classes, making it essential to stay informed about current tax laws and regulations to optimise your tax liabilities effectively.

## **What are capital gains in mutual funds?**

Gains from mutual funds can be classified as either short-term or long-term, depending on the holding period. For equity-oriented mutual funds, if you sell your units within 12 months of purchase, the gains are considered short-term. These are taxed at 20%.

For [debt mutual funds](https://www.bajajamc.com/mutual-fund/debt) capital gains on all units acquired after April 1, 2023, will be added to the investor’s annual income and taxed as per their prevailing tax slab, regardless of the holding period. This change was introduced in the 2023 Union Budget, which did away with the distinction between short-term and long-term capital gains tax for debt mutual fund units acquired after April 1, 2023.

## **Short-term capital gains tax rate for mutual funds in 2024**

The tax rate on short-term capital gains from mutual funds depends on the type of mutual fund:

| **Asset type** | **Short-term holding period** | **Tax rate (As on 31st July’24)\*** |
| --- | --- | --- |
| **Equity shares** | Up to 12 months | 20% |
| **Equity-oriented mutual funds** | Up to 12 months | 20% |
| **Debt-oriented mutual funds** | N/A | Added to income and taxed at applicable slab rate |
| **Hybrid mutual funds with >35% but <65% investment in Indian equity** | Up to 24 months | Applicable slab rate |

In summary, the following is how the two types of mutual funds are taxed:

**Equity-oriented mutual funds:** Gains are taxed at a flat rate of 20%.

**Debt-oriented mutual funds:** Gains are added to your total income and taxed according to your income tax slab.

**Hybrid mutual funds with >35% but <65% investment in Indian equity:** Gains are added to your total income and taxed according to your income tax slab.

*\*The tax rates given here exclude applicable surcharge and education cess.*

Understanding the type of mutual fund and its holding period helps in effective tax planning and maximising returns. It's always a good idea to keep track of your investment timelines and plan the sale of your mutual fund units accordingly to optimise tax efficiency and achieve better financial outcomes. Regularly reviewing your portfolio and staying updated with tax laws can further enhance your investment strategy.

## **Short-term capital gains on other assets**

Other assets, such as immovable property, held for less than 24 months are eligible for short-term capital gains tax. The gains will be treated as part of your total income for the year and taxed according to your income tax bracket (5%, 20%, 30% etc.).

It’s important to note that these rates are subject to change based on the government’s tax policies, so staying updated with the latest tax regulations is important. Additionally, as a taxpayer, you should consider the impact of deductions and exemptions available under the current tax laws to effectively plan and minimise your tax liabilities on short-term capital gains.

## **STCG tax on mutual funds: An example**

Let's take an example to better understand STCG on [mutual funds](https://www.bajajamc.com/mutual-fund). Suppose you invest in an equity mutual fund and buy units worth Rs.1,00,000. Within six months, the value of these units rises to Rs.1,20,000, and you decide to sell. Your short-term capital gain would be Rs. 20,000.

Purchase value: Rs.1,00,000

* Sale value: Rs.1,20,000
* Short-term capital gain: Rs.1,20,000 - Rs.1,00,000 = Rs.20,000

As this is an equity-oriented mutual fund, the STCG tax rate is 20%.

* STCG tax: 20% of Rs.20,000 = Rs.4,000

Therefore, you need to pay Rs.4,000\* as short-term capital gains tax.

\* *The calculation given here excludes applicable surcharge and education cess.*

## **Tips for reducing taxes on short term capital gains**

While paying taxes is inevitable, there are some effective strategies to reduce your short-term capital gains tax liability:

* **Hold investments longer:** By holding investments beyond the short-term period, you can benefit from lower long-term capital gains tax rates.
* **Utilise losses:** You can offset your gains by selling other assets at a loss to reduce your taxable income.
* **Tax-advantaged accounts:** Use accounts like PPF or EPF where applicable, as they offer tax benefits.
* **Reinvest gains:** Invest in tax-saving instruments under Section 80C, such as ELSS funds.

Making use of these strategies can significantly reduce the amount of taxes you owe on short-term capital gains, allowing you to retain more of your investment profits.

## **Conclusion**

Understanding short-term capital gains tax is essential for making informed investment decisions. By knowing how STCG is calculated and taxed, you can strategically plan your investments to minimise tax liabilities. Remember, while taxes are an important consideration, they should not be the sole factor in your investment decisions. Always aim for a balanced approach that aligns with your financial goals. Staying updated with the latest tax laws and regulations can provide an edge in planning. Finally, consulting with a tax advisor or financial planner can further enhance your strategy, ensuring compliance as well as optimisation of your investment portfolio. This holistic approach not only helps in reducing tax burdens but also in achieving long-term financial stability and growth.

## **FAQs**

**What is the tax rate on short-term capital gains?**

The tax rate on short-term capital gains for equity-oriented mutual funds and listed equity shares is 20%. For other assets, such as debt-oriented mutual funds, unlisted shares, and real estate, short-term gains are added to your total income and taxed according to your applicable income tax slab rate.

**What is the exemption of capital gains tax?**

There are specific exemptions available for long-term capital gains under sections such as 54, 54EC, and 54F of the Income Tax Act. These exemptions can apply when the gains are reinvested in specified assets like residential properties or certain bonds. However, short-term capital gains typically do not qualify for such exemptions and are fully taxable. This means that any profit earned from the sale of assets held for a short period will be subject to the applicable short-term capital gains tax rate without any deductions or exemptions.

**How do you avoid short term capital gain tax?**

To minimise short-term capital gains tax, consider holding investments for a longer period to qualify for lower long-term capital gains tax rates. You can also use capital losses to offset gains, reducing your taxable income. Investing in tax-saving avenues listed under Section 80C of the old regime of the Income Tax Act, 1961, can also reduce your net taxable income.

**What is the time period for short-term capital gains?**

The holding period for short-term capital gains varies by asset type. For equity shares and equity-oriented mutual funds, the holding period is less than 12 months. For other assets, it is less than 24 months. Meanwhile, capital gains on debt-oriented mutual funds qualify as short-term capital gains, regardless of the holding period.