**URL:** https://www.bajajamc.com/knowledge-centre/gilt-mutual-fund-taxation

**Meta Title:** Gilt Mutual Fund Taxation: A Complete Guide | Bajaj Finserv AMC

**Meta Description:** Learn everything about gilt mutual fund taxation, including short-term and long-term capital gains tax, indexation benefits, and how gilt funds fit into your tax planning strategy.

**Breadcrumb:** [Home](https://www.bajajamc.com/) >[Knowledge Centre](https://www.bajajamc.com/knowledge-centre)> How are gilt mutual funds taxed? A detailed guide

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# **How are gilt mutual funds taxed?** ==================================================================================

Gilt mutual funds, primarily investing in government securities, have long been favoured by risk-averse investors seeking relatively stable return potential. However, the tax treatment of these funds plays a significant role in deciding the inclusion of gilt funds in your portfolio.

The union budgets of 2023 and 2024 brought significant changes to the taxation of capital gains from gilt mutual funds, impacting both existing and prospective investors. This article will give you an overview of the tax implications of gilt mutual funds in India.

We will explore the taxation on capital gains and income from gilt funds, along with the available tax benefits and exemptions. Additionally, we will discuss strategies for tax-efficient investment in [gilt mutual funds](https://www.bajajamc.com/knowledge-centre/what-are-gilt-funds), helping you make informed decisions and optimise your return potential.

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## **Understanding gilt mutual funds**

Before delving into the tax implications, let's understand some basis of gilt mutual funds.

Gilt mutual funds are a type of debt mutual fund that invests primarily in government securities (G-Secs) issued by the central and state governments. These securities are considered to be a relatively stable investment option as they carry the sovereign guarantee of the government, implying minimal credit risk or risk of default.

## **Key features of gilt mutual funds**

**Investment objective**: The primary objective of gilt funds is to generate income and capital appreciation by investing in G-Secs.

**Portfolio composition**: The portfolio of gilt funds comprises predominantly of G-Secs with varying maturities.

**Risk and return profile**: Gilt funds are considered relatively low-risk investments compared to equity funds. However, they are not entirely risk-free as their [NAVs (Net Asset Values)](https://www.bajajamc.com/glossary/what-is-nav-meaning-in-mutual-fund) can fluctuate due to changes in interest rates.

**Suitable for**: Gilt funds are suitable for conservative investors seeking stable returns and limited impact on capital invested. They are also ideal for investors looking to diversify their portfolios and reduce overall risk.

## **Taxation of capital gains from gilt mutual funds**

Gilt mutual funds, being a category of debt mutual funds, have witnessed a change in their tax treatment following the Union Budgets of 2023 and 2024. Let's understand the tax implications.

**<H3> Pre-2023 Rules (Applicable to investments made before April 1, 2023) <H3>**

Short-Term Capital Gains (STCG): Gains realized on units redeemed within 36 months were considered STCG and taxed as per the investor's income tax slab rate.

Long-Term Capital Gains (LTCG): Gains on units held for over 36 months qualified as LTCG and were taxed at a concessional rate of 20% with indexation benefits.

**<H3> Post-2023 Rules (Applicable to investments made on or after April 1, 2023) <H3>**

No LTCG Benefit: The distinction between STCG and LTCG was removed in the 2023 Union budget. Gains on all units purchased after April 1, 2023, are now treated as STCG, irrespective of the holding period.

Taxation as per income tax slab: Gains are added to the investor's taxable income and taxed according to their applicable income tax slab rate.

No indexation benefit: The indexation benefit is no longer available for gilt mutual funds.

Remember, the holding period is calculated from the date of purchase to the date of redemption or transfer.

**<H3> Post-2024 Rules <H3>**

The 2024 budget kept rules unchanged for [debt mutual fund investments](https://www.bajajamc.com/mutual-fund/debt) made after April 1, 2023.

However, for units purchased before April 1, 2023, the holding period to qualify for long-term capital gains tax was reduced from 36 months to 24 years. Long-term capital gains tax will now be levied at 12.5%, with no indexation benefit. STCG will continue to be taxed at the investor’s applicable tax rates.

Do note that this distinction between LTCG and STCG will only be applicable to units purchased before April 1, 2023. For units purchased after April 1, 2023, all capital gains will be added to the investor’s income and taxed as per their tax slab, regardless of the holding period.

**<H3> Tax treatment of Income Distribution cum Capital Withdrawal (IDCW) <H3>**

IDCW payout received from gilt mutual funds (and other mutual fund categories) are taxable in the hands of investors as per their applicable income tax slab rate.

## **Strategies for tax-efficient investment**

While the tax landscape for gilt mutual funds has evolved, strategic planning can help investors optimize their tax outgo and enhance their overall returns. Here are some effective strategies:

**1. Invest through a Systematic Investment Plan (SIP)**

SIPs enable investors to invest in gilt mutual funds regularly in smaller amounts. This strategy helps in averaging out the purchase cost and mitigating the impact of market volatility.

**2. Consider investing in Tax-Saving Mutual Funds (ELSS)**

Although ELSS funds primarily invest in equities, they offer tax deductions under Section 80C of the Income Tax Act, 1961. Investors can therefore allocate a portion of their investment portfolio to [ELSS funds](https://www.bajajamc.com/knowledge-centre/elss-mutual-funds) to avail of tax benefits. Additionally, ELSS funds also provide exposure to the long-term growth potential of the equity market.

**3. Consult with a tax advisor**

Tax regulations are complex and subject to change. Seeking professional advice from a qualified tax advisor can help investors understand the specific tax implications of their gilt mutual fund investments and devise personalised tax-efficient strategies.

## **Conclusion**

Understanding the tax implications is vital when making an investment decision. While the changes introduced in the 2023 union budget have impacted the long-term capital gains benefits, gilt funds continue to hold appeal for investors seeking tax-efficient income generation.

By adopting strategic approaches such as long-term holding and tax-loss harvesting investors can optimize their tax outgo and enhance their overall returns. It's advisable to consult with a qualified tax advisor for personalized guidance.