

# ***NRI INVESTMENT***

IN MUTUAL FUNDS IN INDIA

## **#YoursTruly #Thursday Knowledge Series**

### **6**

Processes  
Regulations  
Tax  
Other Points



## **Can NRIs invest in mutual funds in India**

NRIs are allowed to invest in mutual funds in India – as long as they adhere to the rules of the Foreign Exchange Management Act (FEMA). However, some AMCs do not accept mutual fund applications from NRIs in Canada and the USA. You may start with equity funds, debt funds, or hybrid funds depending on your investment objectives and risk tolerance. Moreover, you have a plethora of options and you may choose the right mutual funds depending on your investment horizon.

## **How can NRIs benefit from mutual fund investments**

Easy to manage funds online from anywhere

Scope for more profits from rupee appreciation

# What is the investment procedure for NRIs in India

Asset management companies in India are not allowed to accept investments in foreign currencies. Hence, the first step to investing in the Indian mutual funds is to open an NRO account, NRE account, or a Foreign Currency Non-Resident (FCNR) account with an Indian bank. You can invest by any of the below methods.

## Self/Direct

Your mutual fund application with the required KYC details must indicate that the investment is on a repatriable or non-repatriable basis. KYC documents include the latest photograph, attested copies of PAN card, passport, residence proof (outside India), and bank statement. The bank may require an in-person verification, which you can comply with by visiting the Indian Embassy in your resident country.

## Power of Attorney

Another popular method is to have someone else invest on your behalf. AMCs allow the power of attorney (PoA) holders to invest on your behalf and also make investment decisions. However, signatures of both the NRI investor and PoA holder must be present on the KYC documents if you seek to invest in mutual funds in India.



## *Mutual fund regulations for NRIs*

### KYC for NRIs

To complete the KYC process, you must submit a copy of your passport – relevant pages with name, date of birth, photo, and address. Providing the current residential proof is a must, whether temporary or permanent. Some fund houses may insist on in-person verification. FIRC (Remittance Certificate)

If you have made the payment via a cheque or a demand draft, then you must attach a foreign inward remittance certificate (FIRC). In case that is not possible, then a letter from the bank would also be accepted. This confirms the source of funds.

### Redemption

The AMC will credit the corpus (investment + gains) you get when you redeem your mutual fund units to your bank account after deducting applicable taxes if any.

Some banks allow crediting of the redemption amount directly to the NRO/NRE account. If you have opted for non-repatriable investment, then they can credit the proceeds only to an NRO account.

# How are NRI mutual fund investors taxed

NRI investors often worry that they will have to pay double tax when they invest in India. Well, that is certainly not the case if India has signed the Double Taxation Avoidance Treaty (DTAA) with the country of your residence.

The gains from equity mutual funds are taxable based on the holding period. Short-term capital gains on equity-oriented funds attract tax at the rate of 15%. However, Long-Term Capital Gains (LTCG), exceeding Rs 1 lakh a year, are taxable at the rate of 10% without the indexation benefit.

In the case of debt-oriented funds, short-term capital gains are taxable as per your income tax bracket. Holding the fund for more than three years will result in a 20% tax on the long term capital gains with indexation benefit. You have LTCG on un-listed mutual funds taxed at the rate of 10% without the indexation benefit.



## *Points to remember when investing in India*

- Your investment carries the right of repatriation of the amount invested and amount earned, only until you remain an NRI.
- Submitting proof of residence in the current country is mandatory. Hence, you must also attach an attested proof along with the application.
- The compliance requirement in the United States of America and Canada are more stringent as compared to other nations. According to FATCA guidelines, all financial institutions must share the details of financial transactions involving a US person with the US Government.
- Are you a resident of any of the 90 countries that have signed the Common Reporting Standard? CRS is a global reporting system to combat tax evasion.
- In short, NRIs can choose to invest in his/her home country. The process may have some initial hassles. However, in the long run, the return on investment would be worth it.
- Currently, only eight fund houses accept mutual fund investment from NRIs residing in the US and Canada. So, there is certainly no reason for you to be left out of investing in one of the fastest-growing economies.