**No extra tax on redemption of bonus shares by Mutual Fund investors, clarifies I-T dept**

The income-tax department on Thursday clarified that the 25-30% additional tax charged to income distributed by mutual funds is not applicable to the money received by unitholders at the time of redemption, repurchase or receipt of bonus shares. At present, income distributed by mutual funds to individuals is taxed at the rate of 25%, while the same received by others such as companies is taxed at 30%.

The ministry said in a statement that field officials were taking a view that funds paid by MFs at the time of redemption and repurchase as well as issue of bonus shares to existing unitholders were chargeable to additional income-tax under Section 115R.

The department clarified that since these are not in the nature of “distributed income”, they will not be subjected to levy of additional income-tax under Section 115R.

In a separate circular, the department addressed another controversy over whether tax officials could disallow any expenditure incurred for earning tax-exempt income while calculating the taxable income when no tax-exempt income has been earned in that year.

The department said that expenditure relating to earning tax-exempt income will be disallowed while calculating taxable income even if no exempt income has been earned in a particular year.

Source : Financial Express

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