

## EXPERT TAKE

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# Why Monthly Income Plans Are Better Than FDs

**Y**OU may have heard a lot about monthly income plans or MIPs. Here are a few facts that you must know as an investor about what these plans are and how they can add value to your portfolio.

An MIP, as the name suggests, provides investors with a monthly income. Well, almost. MIP is similar to your bank deposit with a monthly interest option, but unlike a fixed deposit where interest rate is known before you invest and the capital is repaid to you when you close it, neither the returns nor the capital is guaranteed in an MIP.

**Who Should Invest?:** MIPs are typically suitable for investors who want to largely play it safe. They are for conservative investors who might be investing for the first time and are eyeing marginal exposure to the equity market. These investors don't mind taking a little risk in order to increase the potential returns that pure income/debt funds or fixed instruments will provide. Also, MIPs are better for investors who are nearing retirement, do not have any other substantial source of regular in-

come and do not mind a marginal additional equity risk. In MIPs, typically a large portion (75-100%) of the fund is invested in debt and money market instruments and the rest (0-25% approximately) in equity. The equity portfolio of an MIP can provide additional returns when the market is bullish.

**Performance:** With the Sensex touching 20000, the equity market seems to be on a strong wicket. MIPs, on an average, have managed to deliver over 7% returns over the past one year, partly aided by a decent rally in the equity market. Crisil MIP blended index over the past one year have shown returns of around 7%. HDFC MIP Long-Term plan and Reliance MIP are among the top performing funds with one-year returns of 9.6% and 7.9%, respectively and five-year return of 11.88% and 12.42%, respectively, which is quite high compared to your bank fixed deposit. It is important to note that the dividends earned are free of tax, unlike interest income.

Though MIPs offer liquidity, unlike a bank deposit and you can redeem

your funds anytime, but it is always advisable to look at MIPs more as a long-term product instead of an investment that yields monthly income.

**Tax Benefits:** MIP dividend schemes give out regular dividends. These dividends are not taxable in the hands of the investor since the MF house issuing the scheme pays a dividend distribution tax of 14% on the payouts.

The capital gain at the time of redemption though, would be subject to tax like any other debt fund. The tax treatment for MIP growth scheme is different.

Growth MIP, if redeemed in the first year, will attract short-term capital gain (STCG) tax which will be as per the individual's income-tax slab. For redemptions in subsequent years, the scheme will draw long-term capital gain (LTCG) tax which will be 10% without indexation or 20% with indexation whichever is lower. Indexation is a process in which the purchase price of an asset is adjusted for inflationary changes.

Always remember to know your investment instrument well before investing. Happy Investing!

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