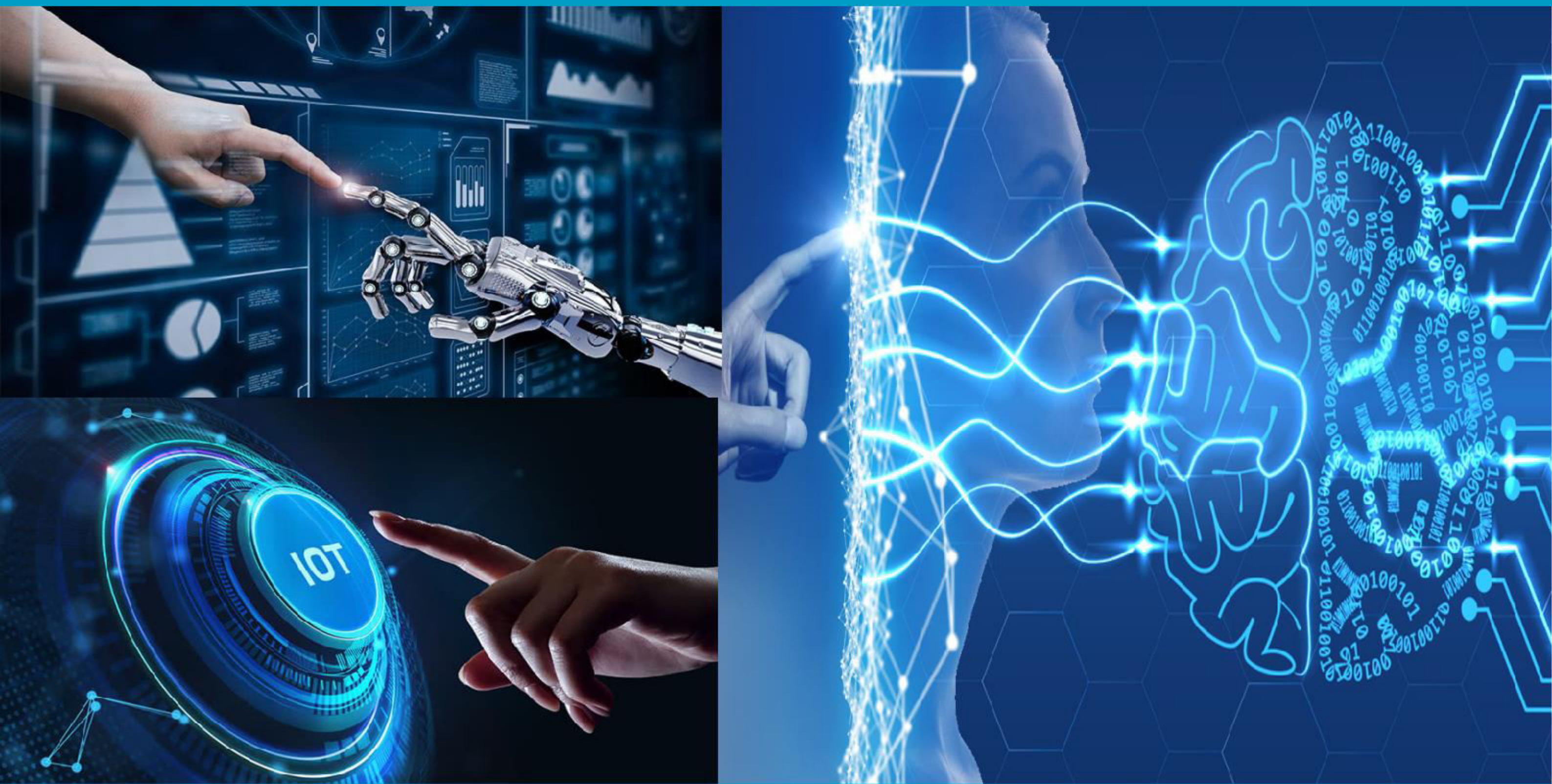
IJMRSETM

e-ISSN: 2395 - 7639



INTERNATIONAL JOURNAL OF MULTIDISCIPLINARY RESEARCH

IN SCIENCE, ENGINEERING, TECHNOLOGY AND MANAGEMENT

Volume 10, Issue 5, May 2023

INTERNATIONAL STANDARD SERIAL NUMBER INDIA

Impact Factor: 7.580

+91 99405 72462 +9163819 07438 ijmrsetm@gmail.com www.ijmrsetm.com

| ISSN: 2395-7639 | www.ijmrsetm.com | Impact Factor: 7.580| A Monthly Double-Blind Peer Reviewed Journal |

| Volume 10, Issue 5, May 2023 |

Invest and Grow Through Systematic Investment Plans

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ABSTRACT: To achieve one's life goals, one need to practice financial discipline. Regular savings and smart investments ensure wealth creation over a period of time. It becomes more important for people with fixed incomes to curtail their present consumption, save more and invest in right channels to have better returns that would ensure higher standards of living in future. One such option is investing in stock market but then it has its own share of risk and calls for expertise and knowledge. Instead of direct entry into stock market, there is an indirect mode of entry as well, i.e., mutual funds. Mutual funds are collective investment schemes that offer numerous benefits likes expert management of funds, minimisation of risk, better returns, etc. To invest in mutual funds, there are two modes, one is Lump-sum investment, and another is SIP-Systematic Investment Plan. This article explores the concept of SIP, its various benefits, forms, and related issues like taxation perspective of the same.

KEYWORDS: SIP, Systematic Investment Plan, Types of SIP, Taxation

MEANING AND CONCEPT OF SIP

Everyone has aspirations and goals, such as getting a new car, a larger home, taking a family vacation to a faraway place, and so on. However, you can only succeed in your dreams if you actively pursue them. Using a Systematic Investment Plan (SIP) to invest in mutual funds can be a quick and easy way to help you reach your objectives.

You can invest in mutual funds using ASystematic Investment Plan (SIP), which is a type of investment strategy. As the name suggests, it is a methodical way to invest set sums of money on a regular basis. This may occur every month, every quarter, every two years, etc. Investing steadily in this way can make it simpler to achieve your financial objectives.

When you make an investment through a SIP, you do so over a predetermined amount of time. You are able to buy a specific number of fund units with this amount. If you keep doing this over an extended period, you'll be able to invest in the fund both during the highs and lows. In other words, you can make investments without having to time the market. Investing at the wrong time can happen if one tries to time the market. SIP investments eliminate this element of uncertainty.

You can opt to automate your investments after deciding on the investment tenure and frequency. Give your bank a standing order to transfer the specified amount on a regular basis (e.g., once per month, once every three months) directly from your bank account into the mutual fund SIP of your choice.

Mutual Funds defined.

A mutual fund is a type of investment vehicle where a group of investors' money is gathered by an asset management company, or AMC. A fund manager oversees this pooled investment, which is then invested in a variety of securities, including stocks, bonds, money market instruments, etc. These fund managers are market experts who have a thorough understanding of the intricate nature of financial instruments and the mutual fund sector.

Advantages of SIP

1) Power of compounding

When your investment returns start earning more returns, this is known as compounding. Your returns are reinvested when you make consistent investments through SIPs. This creates a snowball effect over time, which could greatly boost your potential returns. Investing for a long time is the best way to maximise this gain. This also implies that investing as soon as possible may be advantageous.

2) Low initial investment

With just Rs. 500 per month, you can start a SIP to invest in mutual funds. This is a feasible way to make monthly investments without breaking the bank. Through the SIP step-up feature, you can increase your monthly investment amount as your income grows. Investors are able to regularly top up their SIPs through mutual fund houses. As a result, even if you begin by setting aside Rs. 500 or Rs. 1,000 each month, you can eventually invest more. You could use this method to accelerate the completion of your investment objectives.

3) Rupee cost averaging

With rupee cost averaging, you buy more units when the fund's Net Asset Value (NAV) is low and fewer units when the NAV is high. In essence, it averages your cost of purchases over the course of the investment period. When you invest through a SIP, you won't have to worry about trying to time the market.

4) Convenience

SIP is sometimes a practical way to invest. You might not have the time, like most investors, to conduct in-depth market research and analysis in order to modify or balance your portfolio. So, after selecting a quality fund, you can give the bank standing instructions and let the SIP handle your monthly investments.

Different kinds of SIPs

A method of investing in mutual funds is a systematic investment plan. One has two options when investing in mutual funds: either a lump sum or a systematic investment plan (SIP). Investors can make recurring investments in mutual funds through SIP. The best strategy for generating profitable returns is a SIP along with long-term investing. SIPs also aid in rupee cost averaging because the investor makes investments through all market cycles. There are numerous varieties of SIP on the market. Selecting the ideal SIP is essential for building wealth.

Types of SIPs:

With just a single mandate, SIPs give investors the opportunity to adopt a disciplined investing approach. One can invest through SIP on a monthly or quarterly basis. Long-term returns from SIP investments will be substantial for investors. The secret, though, is picking the proper kind of SIP. The different types of SIPs are:

1. Regular SIP
2. Top-up SIP
3. Flexible SIP
4. Perpetual SIP
5. Trigger SIP
6. SIP with Insurance
7. Multi SIP

1. **Regular SIP** - The simplest kind of investment plan is a regular SIP. In accordance with this SIP, the investor makes periodic fixed-amount investments. Monthly, bimonthly, quarterly, or half-yearly SIP frequency options are available. There are also SIPs that are daily and weekly. These, however, are not the ones that are highly advised. Investors can specify the SIP duration, instalment amount, and frequency when choosing a SIP. In a regular SIP, the investment amount cannot be changed during the investment period.

2. **Top-up SIP**- Step-up or Top-up SIP Investors can periodically increase their SIP amount through SIP. A clause to step up SIPs is present in many asset management firms. Selecting a step-up SIP gives recurring contributions more flexibility and enables investors to park larger sums. In other words, an investor can simultaneously increase their SIP contributions to save more money as their income rises. Thanks to the power of compounding, this will enable them to build their investment portfolio more quickly. It is therefore advisable to select SIP plans that provide this capability to increase the investment.

One can also increase their SIP plans in multiples of 500 INR. For instance, if an investor chooses to step up their investment by INR 1,000 every year and invests INR 10,000 in a mutual fund scheme. From the thirteenth month on, the SIP payment will be INR 11,000 per month. Investors can build their investment corpus more quickly by regularly topping off their mutual fund investments. Additionally, it aids in minimising the impact of inflation on the maturity corpus.

3. **Flexible SIP** – A flexible SIP, as the name implies, allows investors to change the amount they are investing. It also goes by the names Flexi SIP and Flex SIP. The fund house can be informed of any changes to the SIP amount or contributions. However, the notification must be given at least a week prior to the date on which the SIP instalment will be deducted. Depending on their financial situation or the state of the market, investors can change the size of their SIP. There is a predetermined formula for market conditions that enables investors to increase SIP investments when the markets are declining and decrease SIP investments when the markets are rising.

For instance, if a shareholder is in a tight spot financially, they can inform the fund house and ask them to halt SIP payments until further notice. The investors can do this without defaulting and skip their SIP installments. Similar to this, if a shareholder has extra money, they can increase their SIP amount for a set period of time. The fund house will therefore be able to modify the SIP amounts in accordance with the investor's instructions.

4. Perpetual SIP – The investor must choose the SIP tenure when completing the SIP application form. A perpetual SIP is created if no tenure is specified. In other words, until the investor instructs the fund house or the manager to stop the investments, the SIP will continue for the specified period of time. Additionally, investors have the option to voluntarily select the perpetual SIP option in the application form if they do not want to limit their contributions with a maturity tenure. This gives the investor the chance to watch the market while remaining invested for longer periods of time. Furthermore, they will always have the option to redeem.

5. **Trigger SIP –** Only investors who are confident in their understanding of the market dynamics and its movements should use trigger SIP. Knowing when to take buy and sell positions is crucial in this kind of systematic investment plan. Investors can choose the start date for their SIP under this type of SIP, or they can redeem or switch their SIP once the desired event occurs. Any event can be chosen as the trigger. An advantageous market event, an index level, the fund's NAV, or a capital gain or loss are a few examples. It's also important to remember that the trigger SIP is only advised for seasoned investors because it encourages speculation. To set appropriate triggers effectively, solid knowledge and experience are a necessity.

6. **SIP with Insurance** – A few asset management firms provide insurance coverage to investors who choose long-term investments. Typically, the initial insurance coverage is ten times the initial SIP contribution, and it gradually rises over time. Additionally, only equity mutual funds are eligible to use this feature. It is crucial to remember that term insurance is merely an optional extra and has no bearing on the performance of the fund.

7. **Multi SIP** – Through a single instrument, a multi-SIP enables investors to begin investing in various fund house schemes. This aids investors in diversifying their portfolio of investments. Additionally, it lessens the amount of paperwork. Investors can start their SIP plans by providing a single form and payment instruction.

Steps towards starting a SIP

1) Complete your KYC

Investors must complete the KYC documentation process before they can begin investing with any fund house. You must provide documentation of your identity, address, and photo. The e-KYC option is now also recognised. Without going to the AMC, the formalities can be finished online.

2) Set your investment goals

Understanding what you hope to achieve with SIP investments is the first step. Write down your financial objectives. Every mutual fund is created with a specific objective, so this is necessary. Decide on your objectives, then look for funding to support them.

3) Choose the SIP

Choose the SIP parameters after choosing a specific fund. Give specific answers to questions like:

1. Investment horizon
2. Investment frequency (e.g., monthly, quarterly, semi-annually, etc.)
3. The sum invested
4. Based on your objectives and financial situation, enter the pertinent information.

Why SIP - SIP vs Lump sum investment in Mutual Funds

SIPs and lump sums are the two ways to invest in mutual funds. You make a sizable investment in a mutual fund all at once when you make a lump sum investment.

So, which is preferable: a lump sum or a SIP? Here are some specific criteria that can aid in your decision-making.

1) Amount of money

If you only have a small amount to invest, SIPs are thought to be the best option. It makes no difference if you only have Rs.500 or Rs.1,000 to invest each month. Even with a small sum of Rs. 500, you can start investing in SIP.

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| Volume 10, Issue 5, May 2023 |

2) Experience
You put all your money into one investment when you make a lump sum. This means that to maximise your returns, you must invest at the right time. If the market does well, you can earn good yields. The drawback is that if the market suddenly declines, you might suffer a sizable loss. This can be a good strategy for seasoned investors with a lot of capital. However, sticking to SIP investments can help you avoid needless risks if you are a novice investor.

3) Investment discipline
SIP investments enable investors to better manage their finances over the long term. You can manage your money so that you can fulfil your investment when you invest a set sum of money each month. Although your progress might seem slow now, when you look back in the future, you will have invested a sizable sum of money. You can slowly and steadily build up a sizable corpus by using the SIP mode.Because most investors may not have a sizable sum of money to invest consistently, this kind of investment discipline doesn't occur for lump-sum investments.So, based on your investment amount, risk appetite and experience, you can choose between SIP and lump sum investments. But overall, experts generally recommend investors to invest through SIPs rather than a lump sum.

SIP And Mutual Funds – Taxation Aspect
Any investment's primary goal is to increase wealth. Mutual funds are effective financial products that help with this goal by increasing in value. Gains from mutual funds are taxable, just like gains from other investments.The type of asset the fund concentrates on and the length of time you hold your investment determine the tax you pay on mutual funds. The equity-linked savings scheme, or ELSS fund, is a unique type of mutual fund that can help you save taxes.

Asset categorization
For taxation purposes, any mutual fund that invests more than 65% of its corpus in domestic company shares is referred to as an equity-oriented fund. If the investment in the cash market satisfies the requirement of at least 65% investment in domestic company shares, arbitrage funds that invest to profit from the difference in prices in the cash and derivative markets are taxed as equity-oriented funds.
Investment in different fixed-income securities by debt funds (i.e., non-equity-oriented funds) are taxed differently than equity-oriented funds. International funds that invest in foreign stocks and fund-of-funds that profit from holdings in different mutual funds are taxed similarly to debt funds.
Only if hybrid funds have at least a 65% exposure to domestic company shares are they considered equity-oriented funds. They are regarded as debt funds if theydo not meet this criteria.
ELSS mutual funds are tax-saving mutual funds even though they invest primarily in the stock market. The three-year minimum lock-in period distinguishes ELSS from other equity-oriented funds.
If you choose the dividend option, dividends will be subject to taxation in the hands of the investors. Before payouts or reinvestment, the mutual fund will deduct TDS at a rate of 10% for resident investors and 20% (plus any applicable surcharge and cess) for non-resident investors. However, when filing their annual return, the Investor can claim a tax credit for the TDS that was deducted.

Holding periods
The holding period is the length of time that you keep your mutual fund investment. A different tax rate applies to short-term investments than to long-term ones.

Short-term taxation
Investments made for less than a year in any equity-oriented mutual fund are deemed short-term and are subject to a 15% short-term capital gains tax.A holding period of less than 36 months is regarded as a short-term investment for debt funds. Debt fund short-term capital gains are taxed based on assessee specific income tax bracket.

Long-term taxation
If the total long-term capital gains amount from equity oriented mutual funds/equity shares exceeds 1,00,000 in a year, gains from equity mutual funds held for more than 12 months are subject to long-term capital gains tax at a rate of 10%. Returns that fall below that amount are tax-free.Contrarily, if held for more than 36 months, gains from debt funds are taxed at a rate of 20% after the indexation benefit. Gains get adjusted for inflation when indexed. The tax on debt funds would be higher in the absence of indexation.

International Journal of Multidisciplinary Research in Science, Engineering, Technology & Management (IJMRSETM)

| ISSN: 2395-7639 | www.ijmrsetm.com | Impact Factor: 7.580| A Monthly Double-Blind Peer Reviewed Journal |

| Volume 10, Issue 5, May 2023 |

Tax saving mutual funds

You can claim deduction for your investment in an ELSS fund while computing your taxable income. According to Section 80C of the Income Tax Act of 1961, you can save up to 1,50,000. Despite being primarily an equity fund, it is one of the best tax-saving options available to investors due to the three-year lock-in period and high probability of return.

Taxation on mutual funds

Asset type	Details	Short-term capital gains	Long-term capital gains
Equity funds Arbitrage funds Balanced funds (65%+ in domestic equity shares)	Holding Period	Up to 12 months	Over 12 months
	Tax Rate	15%	10%*
Debt funds International funds Fund of funds	Holding Period	Up to 36 months	Over 36 months
	Tax Rate	Income Tax Slab Rate	20% after indexation

*Gains less than/up to₹1,00,000 p.a. are exempt from tax.

Securities transaction tax

All equity-oriented funds are subject to a securities transaction tax of 0.001% at redemption in addition to the aforementioned taxes. You do not need to pay STT separately because investors receive the fund after deduction for it.

SIP taxation

The tax on systematic investment plans is computed per unit. Whether it will be subject to short- or long-term capital gains tax depends on the holding period from the purchase date to the redemption date. The first-in, first-out rule, which states that the first units purchased are considered sold first, is applied if redemption is carried out in segments.

Take aways:

- The tax treatment of mutual funds depends on the type of assets used and the length of the investment.
- Mutual funds that are equity-oriented are subject to a 15% short-term capital gains tax for holding periods up to 12 months. Beyond that, gains (from equity-oriented mutual funds and equity shares) over Rs.100,000 are subject to a long-term capital gains tax of 10%.
- Debt mutual funds that are held for a maximum of 36 months are taxed according to your income tax bracket. If held beyond that, then after accounting for inflation, a long-term capital gains tax of 20% will be applicable.
- Tax deductions for equity-linked savings plans are allowed up to Rs.150,000 per annum.
- Dividends are taxable in the hands of investors.
- The mutual fund shall deduct TDS @10% for resident investors and @20% (plus applicable surcharge and cess) for non-resident investor from dividends distributed.

CONCLUSION

Mutual funds can, with careful planning, assist you in achieving your financial objectives despite taxes. Funds become more tax-efficient when they are held for a long time. When calculating your returns from mutual funds, you must take taxes into consideration.

Investors should choose the type of SIP that best fits their financial needs, level of knowledge, and objectives. A regular SIP enables investors to make regular SIP investments without pausing or topping up. A step-up SIP will increase the SIP's annual investment amount. A perpetual SIP is one that lasts forever. All of these SIPs are open to investors with steady income.

Flex SIPs are ideal for investors with erratic income. The flexibility to increase, decrease, pause, and restart the SIP makes it a good option for professionals, freelancers, and those without a secure job.

A Trigger SIP is most suitable for an investor who is familiar with the market's dynamics. A novice investor shouldn't choose a trigger SIP because they have no knowledge of the market or investing.

A Multi SIP enables investors to invest in multiple funds of a single fund house. However, not all of funds of a single fund house typically perform well. **Investors must therefore exercise caution when choosing this kind of systematic investment plan.**

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