

INCOME-TAX ACT, 2025

F: Special provisions relating to pass-through entities

Section 224 - Tax on income of investment fund and its unit holders.

(1) Irrespective of anything contained in any other provision of this Act and subject to the provisions of this section, where a person, being a unit holder of an investment fund, out of investments made in the investment fund, receives any income or any income accrues or arises to him, such income shall be chargeable to income-tax in the same manner as if, it were the income accruing or arising to, or received by, such person, had the investments made by the investment fund been made directly by him.

(2) Where in any tax year, the net result of computation of total income of the investment fund, without giving effect to the provisions of Schedule V (Table: Sl. No. 1), is a loss under any head of income and such loss cannot be or is not wholly set off against income under any other head of income of the said tax year, then out of such loss,—

(a) the loss arising to the investment fund as a result of the computation under the head “Profits and gains of business or profession”, if any, shall be—

(i) allowed to be carried forward and it shall be set off by the investment fund as per the provisions of Chapter VII; and

(ii) ignored for the purposes of sub-section (1);

(b) the loss other than the loss referred to in clause (a), if any, shall also be ignored for the purposes of sub-section (1), if such loss has arisen in respect of a unit which has not been held by the unit holder for at least twelve months.

(3) The loss other than the loss under the head “Profits and gains of business or profession”, if any, accumulated at the level of investment fund as on the 31st March, 2019, shall be—

(a) deemed to be the loss of a unit holder who held the unit on the 31st March, 2019 in respect of the investments made by him in the investment fund, in the same manner as provided in sub-section (1); and

(b) allowed to be carried forward by such unit holder for the remaining period calculated from the year in which the loss had occurred for the first time taking that year as the first year and shall be set off by him in as per the provisions of Chapter VII.

(4) The loss so deemed under sub-section (3) shall not be available to the investment fund on or after the 1st April, 2019.

(5) The income paid or credited by the investment fund shall be deemed to be of the same nature and in the same proportion in the hands of the person referred to in sub-section (1), as if it had been received by, or had accrued or arisen to, the investment fund during the tax year subject to the provisions of sub-section (2).

(6) The total income of the investment fund shall be charged to tax—

(a) at the rate or rates as specified in the Finance Act of the relevant year, where such fund is a company or a firm; or

(b) at maximum marginal rate, in any other case.

(7) The income accruing or arising to, or received by, the investment fund, during a tax year, if not paid or credited to the person referred to in sub-section (1), shall subject to the provisions of sub-section (2),

be deemed to have been credited to the account of the said person on the last day of the tax year in the same proportion in which such person would have been entitled to receive the income had it been paid in the tax year.

(8) Any income, which has been included in total income of the person referred to in sub-section (1) in a tax year, on account of it having accrued or arisen in the said tax year, shall not be included in the total income of such person in the tax year in which such income is actually paid to him by the investment fund.

(9) The person responsible for crediting or making payment of the income on behalf of an investment fund and the investment fund shall furnish, within such time, as may be prescribed, to the person who is liable to tax in respect of such income and to the prescribed income-tax authority, a statement in the prescribed form and verified in such manner, giving details of the nature of the income paid or credited during the tax year and such other relevant details, as may be prescribed.

(10) For the purposes of this section,—

(a) “investment fund” means any fund established or incorporated in India in the form of a trust or a company or a limited liability partnership or a body corporate which has been granted a certificate of registration as a Category I or a Category II Alternative Investment Fund and is regulated under the—

(i) Securities and Exchange Board of India (Alternative Investment Funds) Regulations, 2012 made under Securities and Exchange Board of India Act, 1992; or

(ii) International Financial Services Centres Authority (Fund Management) Regulations, 2022 made under the International Financial Services Centres Authority Act, 2019;

(b) “trust” means a trust established under the Indian Trusts Act, 1882 or under any other law in force; and

(c) “unit” means beneficial interest of an investor in the investment fund or a scheme of the investment fund and shall include shares or partnership interests.