



FINANCIAL ANALYSIS

Growth and IDCW options

Two ways a mutual fund scheme treats its gains: keep them in the unit price, or pay part of them out

Rules as on 12 October 2026

For training and education only. Not investment advice.

A payout from a mutual fund is not extra money. It comes out of the value of the investor's own units.

Both options of a scheme hold the same portfolio. The growth option leaves the gains in the unit price. The IDCW option pays part of the value out, and the unit price falls by what is paid.

Two options, one portfolio



Growth option

No payouts. Gains and income stay in the scheme and show in the NAV. The investor gets cash by redeeming units.



IDCW option

Income Distribution cum Capital Withdrawal. The scheme may pay out part of its distributable surplus per unit.



Two NAVs

One option pays out and the other does not, so each has its own NAV. The two drift apart with every payout.

IDCW is not assured. The trustees decide the amount and the date, and only if there is a surplus to pay.

Source: SEBI Master Circular for Mutual Funds, 20 March 2026, Chapter 12 (IDCW distribution procedure).

What a payout does to NAV and units

THE SET-UP

An investor holds 1,200 units in each option. Assume both NAVs are ₹25, so each holding is worth ₹30,000.

The scheme declares IDCW of ₹1 a unit. Assume markets do not move.

- 1 Growth option: nothing is paid. $1,200 \text{ units} \times ₹25 = ₹30,000$.
- 2 IDCW option: payout = $1,200 \text{ units} \times ₹1 = ₹1,200$.
- 3 The NAV falls by the payout: $₹25 - ₹1 = ₹24$. The units are now worth $1,200 \times ₹24 = ₹28,800$.
- 4 $₹28,800 \text{ in units} + ₹1,200 \text{ in the bank} = ₹30,000$, before tax on the ₹1,200.

The payout moved ₹1,200 from the units to the bank account. It did not add to the investor's wealth.

Illustration with assumed figures. In practice the two options of a scheme rarely have the same NAV.

Why 'dividend' became IDCW



The old name

The option was called 'dividend'. The word suggests a share of profit, as with a company. A fund payout need not be profit.



The change

By a circular of 5 October 2020, SEBI renamed the options with effect from 1 April 2021: IDCW Payout, Reinvestment and Transfer.



The disclosure

Offer documents must say that amounts can be paid out of the investor's capital. The account statement must show the split.

Sources: SEBI Master Circular for Mutual Funds, 20 March 2026, paras 12.1 to 12.3; SEBI circular SEBI/HO/IMD/DF3/CIR/P/2020/194 of 5 Oct 2020, paras 4 and 7.

How a payout can be your own capital

Assume a unit with a face value of ₹10 and an NAV of ₹25: ₹9 of realised gains and ₹6 of unrealised gains.

1

A new investor buys at ₹25

The price includes gains the scheme earned before this investor arrived.

2

Where the ₹25 is booked

₹10 to unit capital. ₹9, the realised-gains part, to the equalisation reserve. ₹6, the unrealised part, to the unit premium reserve.

3

What can be paid out

The equalisation reserve counts towards distributable surplus. The unit premium reserve does not.

4

What follows

A payout soon after can include part of that ₹9. The investor is getting back money they have just put in.

Source: SEBI Master Circular for Mutual Funds, 20 March 2026, paras 12.2 and 12.6.2. The ₹10, ₹9 and ₹6 are assumed figures.

How payouts are taxed

	The rule	Since
Who pays the tax	The investor. The payout is added to income and taxed at slab rates (for individuals). Earlier the scheme paid a dividend distribution tax.	1 April 2020
Tax deducted at source	10% for a resident, on the whole IDCW, if it is more than ₹10,000 in a financial year. The limit was ₹5,000 until 31 March 2025.	1 April 2025
No valid PAN; non-residents	Deduction at 20% in both cases.	
Growth option	No tax while the units are held. Capital gains rules apply when units are redeemed.	

Secondary sources: HSBC MF Tax Reckoner 2026-27; Tata Mutual Fund TDS note, 20 Jul 2026; Aditya Birla Sun Life AMC note on dividend distribution tax, 31 Jul 2023.

Three ways to take ₹1,200

	IDCW payout	IDCW reinvestment	Withdrawal from growth
What happens	₹1,200 is paid to the bank. NAV falls to ₹24.	₹1,200 buys 50 new units at ₹24.	48 units are redeemed at ₹25 to pay ₹1,200.
Units held after	1,200 units at ₹24 = ₹28,800	1,250 units at ₹24 = ₹30,000	1,152 units at ₹25 = ₹28,800
What is taxed	The whole ₹1,200, as income	The whole ₹1,200, as income	The gain in the 48 units, as a capital gain
Who sets it	The trustees: amount and date	The trustees: amount and date	The investor: amount and date

We explain how each route works. Which one fits depends on the person's own needs and tax position.

Same assumed case as slide 4: 1,200 units, NAV ₹25, IDCW ₹1 a unit. Stamp duty on the reinvestment is ignored.

The figures as they stand

Rules in force on 12 October 2026.

TAX DEDUCTED AT SOURCE

10%

Deducted from IDCW paid to a resident investor, once the yearly limit is crossed.

YEARLY LIMIT

₹10,000

IDCW from a mutual fund in a financial year. The limit was ₹5,000 until 31 March 2025.

PAYOUT WITHIN

7 days

Working days from the record date within which the payout must reach the investor.

Sources: HSBC Mutual Fund Tax Reckoner 2026-27; Tata Mutual Fund note on TDS, 20 Jul 2026; SEBI Master Circular for Mutual Funds, 20 March 2026, para 12.4.

If you learnt this from older material

What older material says

- The option is called 'dividend'
- The scheme pays dividend distribution tax before paying the investor
- Tax is deducted at source above ₹5,000 a year
- A dividend is paid out of the scheme's profit

What holds now

- IDCW: the name since 1 April 2021
- No distribution tax since 1 April 2020; the investor pays at slab rate
- Tax is deducted at source above ₹10,000 a year, since 1 April 2025
- A payout can include the investor's own capital; the statement shows it

Sources: SEBI Master Circular, 20 Mar 2026, Ch. 12; HSBC Tax Reckoner 2026-27; Tata Mutual Fund TDS note, 20 Jul 2026; Aditya Birla Sun Life AMC note, 31 Jul 2023.

Four things people get wrong



'IDCW is income on top of my units.'

It comes out of the units. The NAV falls by the amount paid.



'A monthly payout is a fixed income.'

The amount and the timing are not assured. A scheme can pay less, or skip a payout, if there is no surplus.



'Buy just before the record date.'

The buyer gets the payout and an NAV that is lower by the same amount, and the payout is taxable.



'Reinvested IDCW is not taxed.'

It is taxed as income in the same way as a payout, although no cash reaches the bank.

Check yourself

Q1

An investor holds 2,000 IDCW units at an NAV of ₹40. The scheme pays ₹2 a unit and markets do not move. What are the payout, the new NAV and the value of the units?

Q2

Why did SEBI replace the word 'dividend' with IDCW, and from what date?

Q3

A resident investor receives IDCW of ₹14,000 from one fund house in a year. Is tax deducted at source, and is that the final tax?

Sources and disclaimer

SOURCES FOR THE FIGURES IN THIS DECK

- Option names, capital (equalisation reserve) disclosure, statement split, NAV fall, 7 working days, unit premium reserve: SEBI Master Circular for Mutual Funds, 20 March 2026, Chapter 12.
- Renaming from 1 April 2021: SEBI circular SEBI/HO/IMD/DF3/CIR/P/2020/194 of 5 October 2020, para 7.
- Tax deducted at source (10% on the whole amount above ₹10,000; 20% without PAN): Income-tax Act, 2025, sections 393 and 397, as reproduced by TaxHeal; HSBC reckoner. Limit raised from ₹5,000 on 1 April 2025: Tata Mutual Fund note, 20 Jul 2026.
- Distribution tax ended 1 April 2020; payouts taxed at slab rate: Aditya Birla Sun Life AMC note, 31 Jul 2023.
- Stamp duty, late-payment interest, tax on withdrawals: Trustner Academy verified fact sheet, 7 Oct 2026.
- The tax sources are secondary. All unit, NAV and payout figures in the examples are assumed.

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