SIP vs STP vs SWP Know the Difference

As you explore investment plans, you must have come across a host of abbreviations like SIP, SWP and STP. But what are these different strategies? How do they work, how are they different from each other and how can they help you? Let's find out!

1 Systematic Investment Plan (SIP)

WHAT IS A SIP?
SIP allows investors to invest a fixed amount in the mutual fund scheme of their choice at regular intervals. As these investments are spread over a period of time, it helps average out the purchase cost.

WHY SIP?
- Enables rupee cost averaging
- Lets you start with as little as ₹500/month
- Encourages disciplined investment
- Builds the habit of investing

HOW SIP WORKS – A PRACTICAL EXAMPLE

SIP Date	Amount Invested	Scheme NAV	Units	
01 Jan	₹10,000	₹15	666	Average Unit Cost ₹14.23
01 Feb	₹10,000	₹14.5	689	
01 Mar	₹10,000	₹14	714	
01 Apr	₹10,000	₹13.5	740	
	₹40,000		2,809	

Note: The above table is for illustration purposes only.

HOW ARE SIPS TAXED?
Tax on SIP is based on the type of fund an investor chooses for investment.

Fund Type	Holding Period for Long-Term	Short-Term Capital Gains (STCG) Tax	Long-Term Capital Gains (LTCG) Tax
Equity	1 year	15%	LTCG below ₹1lakh exempt from tax. LTCG above ₹1 lakh taxed at 10%.
Debt Fund	3 years	Slab rate	20% with indexation
Hybrid Funds	Taxed as equity fund if 65% of the scheme portfolio is invested in equity; otherwise taxed as debt fund		

2 Systematic Transfer Plan (STP)

WHAT IS A STP?
In a STP, investors get to transfer a certain portion of the lump sum amount already invested in one mutual fund to another fund at periodic intervals.

WHY STP?
- Averages out the purchase cost
- Enables debt-to-equity transfer for higher return potential, or equity-to-debt transfer for more stability
- Eliminates the hassle of manually making transfers
- Enhances diversification

HOW STP WORKS – A PRACTICAL EXAMPLE
If ₹5 lakh were invested in a debt mutual fund scheme that earns 7% returns annually, the investment would earn returns of ₹8,750 in three months. But if, from the 2nd month, the investor opted for STP of ₹20,000 to an equity scheme that generates 12% returns in the year, the estimated returns after three months would be:

Month	Amount in Debt Scheme	Returns from Debt Scheme	Amount in Equity Scheme	Returns from Equity Scheme	Total Returns
2nd	₹4,80,000	₹2,800	₹20,000	₹200	₹3,000
3rd	₹4,60,000	₹2,683	₹40,000	₹400	₹3,083
4th	₹4,40,000	₹2,566	₹60,000	₹600	₹3,166
					₹9,249

Note: The above table is for illustration purposes only.

HOW ARE STPS TAXED?
- LTCG and STCG are applicable based on the type of fund/s chosen for investment and the holding period
- STT (Securities Transaction Tax) is applicable when transferring from an equity fund to a debt scheme
- STT is applicable when transferring funds between equity schemes of the same fund house
- No STT on debt-to-equity transfers

3 Systematic Withdrawal Plan (SWP)

WHAT IS SWP?
SWP allows investors to withdraw a fixed amount from a mutual fund scheme at regular intervals, eliminating the need for manual withdrawals.

WHY SWP?
- Guards against market instability
- Amount remaining in the scheme continues to generate returns
- Ideal for meeting periodic financial needs
- Option to withdraw funds monthly, quarterly, half-yearly or yearly

HOW SWP WORKS – A PRACTICAL EXAMPLE
If you've invested ₹5 lakh in an equity scheme with a NAV of ₹100 (that keeps on changing), you'd have 5,000 units of the scheme. If you'd like to withdraw ₹10,000 a month using SWP, the approximate portfolio value would be:

Month	Cashflow	NAV	Scheme Units	Value
1st	5,00,000	100	5,000	₹5,00,000
2nd	-10,000	103	4,903	₹5,05,000
3rd	-10,000	102	4,805	₹4,90,097

Note: The above table is for illustration purposes only.

HOW ARE SWPs TAXED?
- LTCG and STCG taxes are based on the type of mutual fund scheme and holding period

Comparing SIP, SWP and STP

SIP		SWP		STP
Periodic investment in a MF scheme	Vs	Periodic withdrawal or redemption of a MF scheme	Vs	Periodic transfer of investment from one MF to another
Investment Plan		Withdrawal Plan		Withdrawal + Re-investment Plan
For investing regularly and meeting your financial objectives		For a regular income from your investments		For re-balancing your portfolio and asset allocation

SIP, STP and SWP are all systematic investment and withdrawal strategies to help you make the most of your investments. Use these plans effectively to invest smart and achieve your financial objectives.

Sources: https://www.amfiindia.com/mutual-fund

This is an investor education and awareness initiative by PGIM India Mutual Fund.
Mutual Fund investments are subject to market risks, read all scheme related documents carefully.