

A 0.8% fee gap cost ₹17 lakh on ₹10 lakh over 20 years

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Maxim: *Spreading a sale saves a fixed amount. Waiting costs more as the amount you leave behind grows.* — Dharendra Kumar

Many investors know they should move from regular to direct mutual fund plans, and then delay to save a little tax. Dharendra Kumar's rule shows when the delay pays and when it quietly costs more than it saves.

A saving that stays the same size is rarely worth a cost that keeps growing.

Since 1 January 2013, following a Sebi circular of September 2012, every Indian mutual fund has offered two versions of the same scheme, as fund houses such as [HDFC Mutual Fund](#) explain. The regular plan pays a commission to the distributor who sold it, built into its annual expense ratio. The direct plan, bought without a distributor, does not. Same manager, same portfolio, different cost. In a 2017 analysis, [Value Research](#) found that equity funds' regular plans charged an average of 2.21% a year against 1.39% for direct plans, a gap of about 0.8 percentage points.

That gap sounds small. Its effect is not. In the same analysis, ₹10 lakh invested for 20 years at an assumed 15% a year grew to about ₹1.26 crore in a direct plan and about ₹1.09 crore in a regular plan. The difference, about ₹17 lakh, was more than the original investment. Nothing about the fund was different. Only the fee was.

Investors who learn this often decide to switch. And many then hesitate, because switching means selling the regular plan, and selling can mean tax.

The tempting half-measure

Under the rules introduced in the July 2024 Budget, long-term capital gains on equity funds above ₹1.25 lakh a year are taxed at 12.5%, as [Zerodha's Varsity summarised](#) at the time. An investor with large gains in a regular plan can sell part of it before 31 March and the rest after 1 April, using the ₹1.25 lakh exemption twice. That saves a fixed sum: at most ₹15,625 in tax.

A reader asked Dharendra Kumar, founder of Value Research, whether that was worth doing. His answer, in a [September 2026 column](#), turned on one observation: "Spreading a sale saves a fixed amount. Waiting costs more as the amount you leave behind grows."

The money left in the regular plan while you wait keeps paying the higher fee. On a small amount, a few months of extra fees cost less than the tax saved. On a large amount, they cost more. Kumar put the crossover at about ₹17 lakh left waiting in the regular plan, and summed up the rule plainly: "spread it if the money that would wait is small; move it all if it is large."

The principle reaches well beyond this one decision. Investors are good at seeing a one-time saving, because it arrives as a visible number. They are poor at seeing a cost that grows quietly, because it never appears on any statement as a separate line. Fees, idle cash and delayed decisions all belong to the second kind.

The same trap appears elsewhere. People keep a large sum idle in a savings account to avoid a small penalty for breaking a fixed deposit early. They hold on to an expensive insurance-cum-investment policy for years to avoid a one-time surrender charge. They put off starting a SIP until a bonus arrives. In each case the visible saving is fixed, and the invisible cost keeps compounding for as long as the decision is delayed.

Making the switch sensibly

1. **Find out what you are paying.** Your fund's factsheet lists the expense ratio for both regular and direct plans. The difference is what the commission costs you each year.
2. **Check your gains and holding periods.** Units held for less than a year attract short-term tax at a higher rate. Sometimes the right move is to switch only the units that have crossed a year, and stop fresh SIPs into the regular plan at once.
3. **Check exit loads.** Some funds charge a fee for redemptions within a year of purchase. Switch those units after the load period ends.
4. **Weigh the tax saving against the waiting.** Use Kumar's test: if what would sit in the regular plan while you wait is small, spreading the sale is reasonable. If it is large, the higher fee on that money will soon outweigh the fixed tax saving.
5. **Decide what replaces the distributor.** A direct plan has no adviser built in. If you valued advice, a fee-only adviser can still cost less than years of commission, and is paid to work for you rather than for a fund house.

The decision rule: stop new money going into regular plans immediately; it costs nothing to do so. Then move existing holdings in one go unless the amount left waiting is small enough that a few months of extra fees cost less than the tax you would save.

The ₹17 lakh gap in the 2017 example did not come from a bad fund or a bad market. It came from a fee that was easy to ignore, compounded over twenty years. The tax saved by spreading a switch is real, but it is the same size whether you delay by a month or a year. The fee is not.

Kumar's maxim is a useful habit for every money decision: before chasing a fixed prize, ask what is growing while you wait for it.

Sources

- [Value Research: Regular to direct switch, one go or two years? Dharendra Kumar \(21 September 2026\)](#)
- [Value Research: Should you go for direct plans in 2017? \(12 April 2017\)](#)
- [HDFC Mutual Fund: Introduction of Direct Plan \(Sebi circular CIR/IMD/DF/21/2012\)](#)
- [Zerodha Varsity: Budget 2024, top five proposals on personal taxes \(July 2024\)](#)

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