Have you heard about ELSS?

SWAN INVEST

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P11-12, Ground Floor, B-Block, Metro Tower, Near Vijay Nagar Square,
A.B. Road, Indore (M.P.)-452001

Email: info@swaninvest.in | Web.: www.swaninvest.in

Call: 9977007175, 9425060482

INTRODUCTION

Tax saving is a priority for anyone, be it a newly employed fresher, or a senior manager. There are many investment instruments like public provident fund (PPF), life insurance premium, equity linked saving scheme (ELSS), tax saving fixed deposits (FD) with the banks, National Saving Certificate (NSC) that offers tax benefit under section 80C of the income tax act 1961 of up to Rs 1.5 lakh p.a. However, from all the above-mentioned tax saving instruments, ELSS is the best tax saving product for the investors as it offers dual benefit of tax saving and higher returns in the long run as compared to other tax saving instruments. Below mentioned are some of the reasons that make ELSS the best tax saving scheme as compared to other tax saving instruments.

Section 80C of Income Tax Act

The Income Tax Department with the view of encouraging savings and investment among the taxpayers have provided various deductions from the taxable income under chapter VI A deductions. 80C being the most famous.

Section 80C is one of the most popular and favoured sections for the taxpayer as it allows to reduce taxable income by making tax saving investments or incurring eligible expenses. It allows a maximum deduction of Rs 1.5 lakh every year from the taxpayers total income.

The benefit of this deduction can be availed by Individuals and HUFs.

Companies, partnership firms, LLPs cannot avail the benefit of this deduction.

Section 80C includes subsections, 80CCC, 80CCD (1), 80CCD (1b) and 80CCD (2).

The list of eligible investment for tax deductions in 80C include PPF, EPF, LIC premium, Equity linked saving scheme (ELSS), principal amount payment towards home loan, stamp duty and registration charges for purchase of property, Sukanya smriddhi yojana (SSY), National saving certificate (NSC), Senior citizen savings scheme (SCSS), ULIP, tax saving FD for 5 years, Infrastructure bonds etc.

What is an Equity Linked Savings Scheme (ELSS)?

Now that we have seen that Section 80C includes tax deductions from ELSS, let us look more into the concept of ELSS. The ELSS fund is the only kind of mutual fund eligible for tax deductions under 80C, where you can claim a tax rebate of up to Rs. 1,50,000 and save up to Rs. 46,000 / year in tax by investing in this scheme.

The ELSS mutual fund's asset allocation is mostly made towards equity and equity linked securities (as the name implies, 65% of the portfolio) and may have investments made towards fixed income securities as well. The ELSS funds come with a moderate lock in period of 3 years, which is the shortest among all Section 80C investments.

Under section 80C, ELSS offers tax deductions up to Rs. 1,50,000 / year.

ELSS provides you with twin benefits. Tax deductions and Wealth Creation

As the ELSS comes with a lock-in period of 3 years, there are no provisions to make an exit before that stipulated time.

An investment of any amount can be made in ELSS, as there is no maximum capping, while the minimum limit varies across hedge houses.

Based on the returns of ELSS, they are the only tax saving scheme that has the potential to beat inflation over time.

The portfolio of ELSS funds mainly consists of equities, but may contain some fixed income securities as well.

What to know when investing in ELSS funds

1. Great option for beginners: If you are keen on exploring the equity market, ELSS funds is a great investment choice. ELSS provides a gateway into equity mutual funds and helps you understand the uncertainty and predictability of the market during the 3 year lock-in period.
2. Short lock-in period: ELSS come with a 3 year lock-in period which is generally much less compared to other financial instruments. This starting period will help in building financial discipline, although keeping funds for a longer period is advisable, promising higher/ reliable returns.
3. Tax Exemption up to Rs. 1.5 Lakhs per annum: Important to calculate the overall investments before selecting the best ELSS funds. For eg. For a Rs. 1 Lakh investment in the Public Provident Fund (PPF), only Rs.50,000 can be claimed of the ELSS for tax exemption.
4. No upper limit for investment amount: There is no limit to the amount investment in ELSS, but any amount exceeding Rs. 1.5 Lakh cannot be claimed for tax benefits. The amount that you invest should be based on your risk appetite and financial goals.
5. Long Term Goals: ELSS is also ideal for long term goals such as healthcare, child's education, retirement by investing for a longer period of time. ELSS can help fulfill your long term goals.
6. Investing in ELSS through SIP: Choosing the Systematic Investment Plan for regular investments in equities provides a greater compounding benefit over an extended period.
7. Tax Implications: It is important to be aware of the various tax implications when investing in a financial product. You will incur 10% tax on Long Term Capital Gains (LTCG) exceeding Rs. 1 lakh per annum.
8. Market Risks: ELSS has the potential for higher returns compared to traditional investment products. However, ELSS is subject to market risks and considering the market is cyclical, the rise and fall of equities are temporary.Therefore, it may be best to stay invested beyond the lock-in period for better returns.

To invest using Lump Sum or SIP?

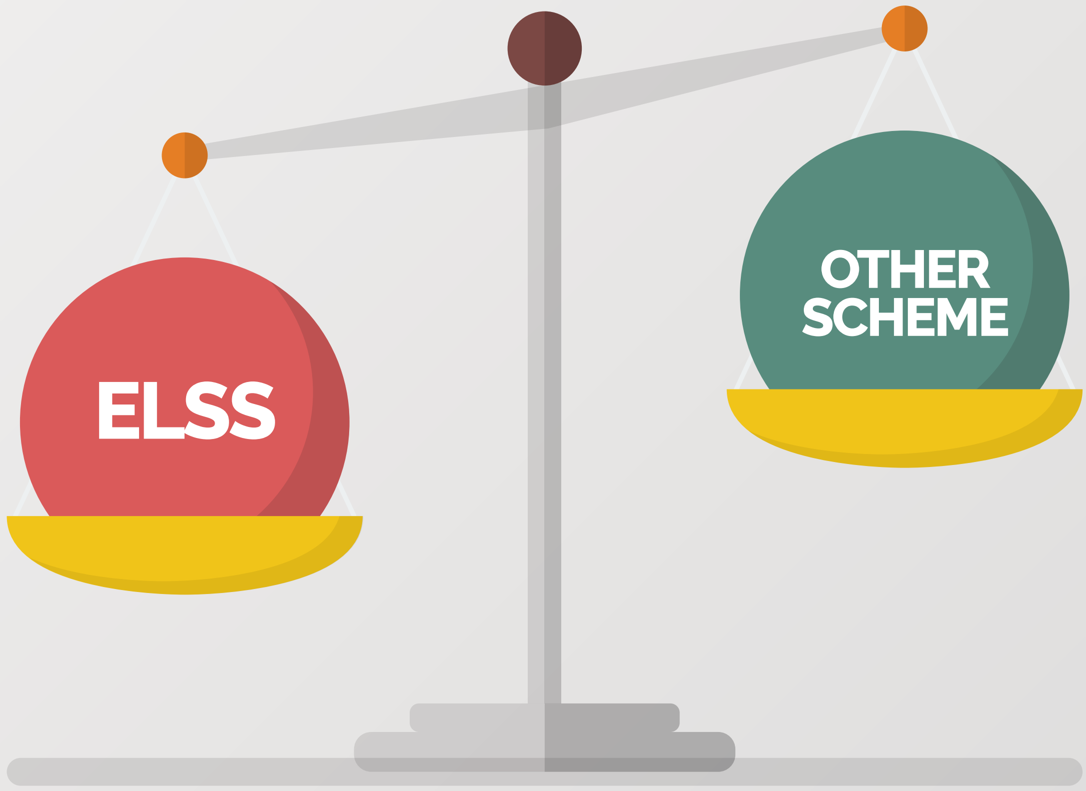
It comes down to your risk appetite. If you are not willing to take higher risk, investing via SIP is advisable as you get to invest in funds across business cycles. When the markets are down, you buy more units while you purchase fewer units when the markets are bullish. Therefore, over time, your price of purchase of fund units gets averaged out. You will benefit from this when the markets rise as you can realise higher capital gains on redemption. This benefit is not available if you invest a lump sum.

Investing a lump sum is not advisable unless the markets are gripped by a bearish trend, and you are willing to take higher risk levels and have a longer period of investment.

Comparison of ELSS with other tax saving schemes

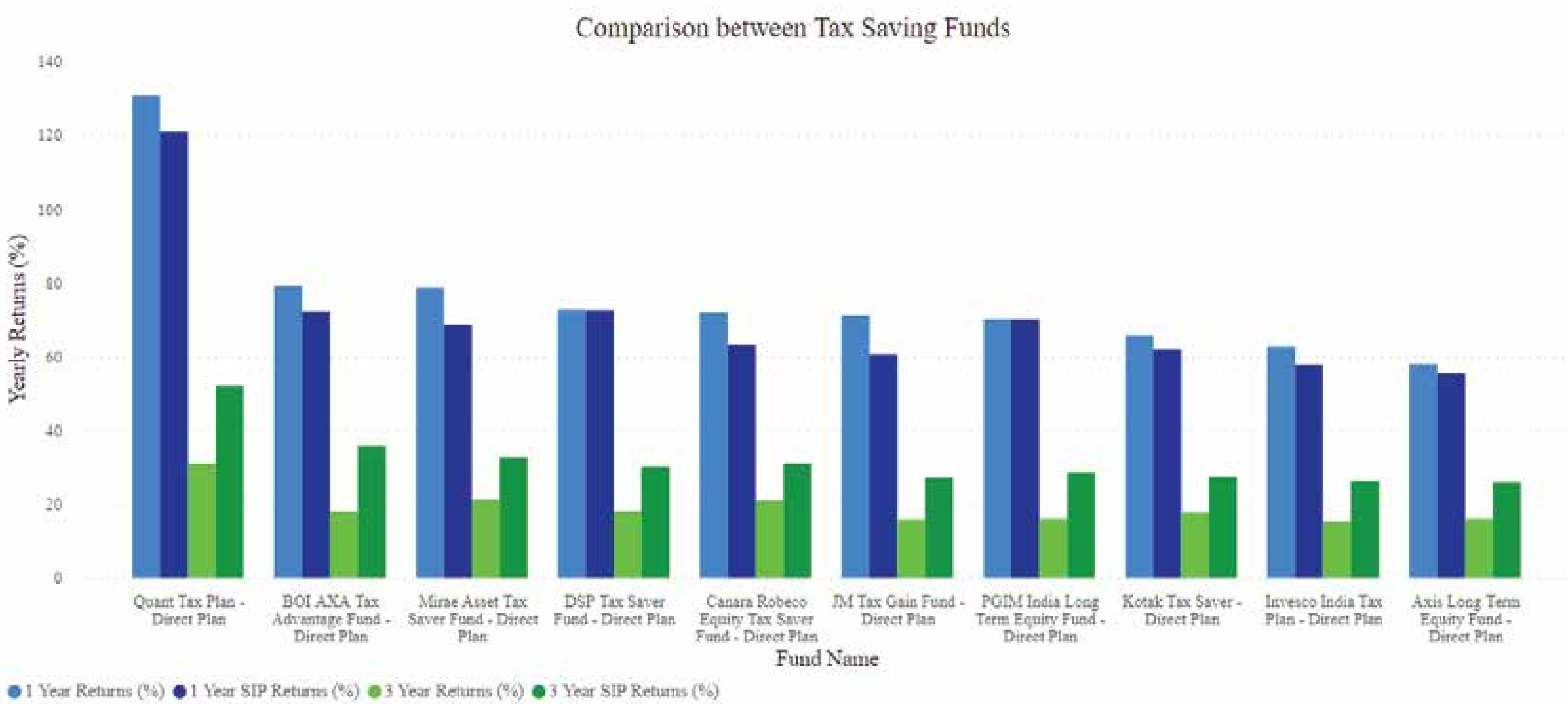
Investment	Returns %	Lock-in Period	Tax on returns
Fixed Deposit	4 - 6	5 Years	Yes
Public Provident Fund	7 - 8	15 Years	No
National Saving Certificate Scheme	7 - 8	5 Years	Yes
National Pension System	8 - 10	Till retirement	Partially
ELSS fund	15 - 18	3 Years	Partially

ELSS has the best returns, at 15% - 18%, an ideal lock-in period, allowing you to test the waters before investing for a longer period of time, and is partially taxable. Therefore providing the best option in tax saving schemes.



Comparison of the best Tax Saving Funds

Fund Name	1 Year Returns (%)	1 Year SIP Returns (%)	3 Year Returns (%)	3 Year SIP Returns (%)	5 Year Returns (%)	5 Year SIP Returns (%)
Axis Long Term Equity Fund - Direct Plan	57.86	55.38	15.89	25.75	17.49	19.63
BOI AXA Tax Advantage Fund - Direct Plan	79.04	72.26	18.02	35.52	20.59	23.68
Canara Robeco Equity Tax Saver Fund - Direct Plan	71.90	63.15	20.79	31.01	19.13	22.41
DSP Tax Saver Fund - Direct Plan	72.66	72.49	18.16	30.17	18.12	20.29
Invesco India Tax Plan - Direct Plan	62.71	57.71	15.32	26.15	17.44	19.13
JM Tax Gain Fund - Direct Plan	71.24	60.61	15.76	27.00	18.42	19.10
Kotak Tax Saver - Direct Plan	65.65	61.89	17.67	27.31	17.64	19.02
Mirae Asset Tax Saver Fund - Direct Plan	78.61	68.50	21.29	32.55	23.20	23.86
PGIM India Long Term Equity Fund - Direct Plan	70.26	70.23	15.89	28.49	16.96	19.34
Quant Tax Plan - Direct Plan	130.64	120.89	30.94	51.98	24.76	32.22

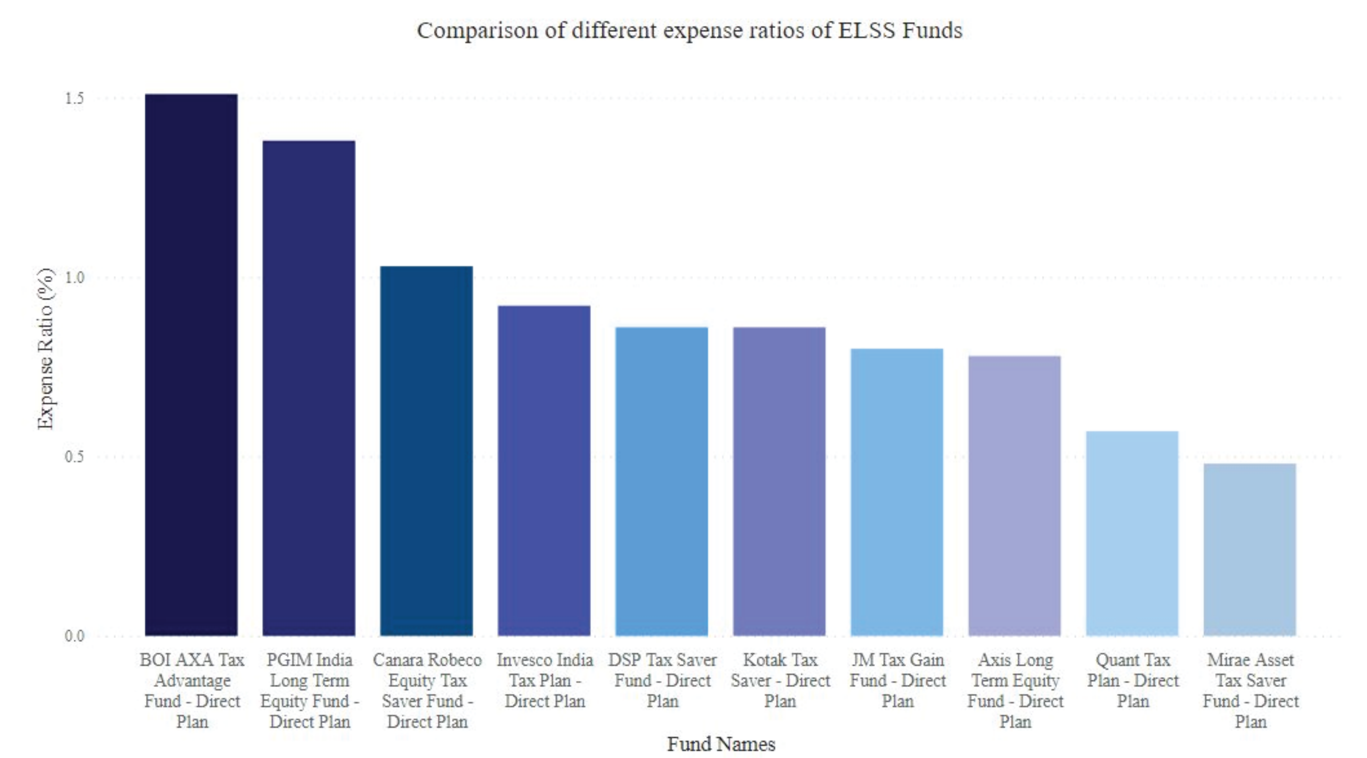


The figure above shows the performance of various tax saver schemes that combine wealth creation with tax saving using Section 80C. The various fund compared were:

- Axis Long Term Equity Fund - Direct Plan
- BOI AXA Tax Advantage Fund - Direct Plan
- Canara Robeco Equity Tax Saver Fund - Direct Plan
- DSP Tax Saver Fund - Direct Plan
- Invesco India Tax Plan - Direct Plan
- JM Tax Gain Fund - Direct Plan
- Kotak Tax Saver - Direct Plan
- Mirae Asset Tax Saver Fund - Direct Plan
- PGIM India Long Term Equity Fund - Direct Plan
- Quant Tax Plan - Direct Plan

The Quant Tax plan has the highest returns over 1 to 3 years and promised a steady accumulation of wealth over time. The darker colors in the figure indicate the SIP returns,which are notably higher compared to the normal returns especially over time. Therefore holding ELSS funds for longer promises higher returns and more reliable gains.

Expense Ratios of the Tax Saving Funds



What are expense ratios?
The expense ratio simply put is the operating and management fee for the fund, and can sometimes dictate the choices as to whether to invest in a particular fund or not. They have had a larger impact on the net profitability. They generally vary between 0.1% - 2.5%. The Bank Of India AXA Tax Advantage fund has the highest expense ratio at 1.5% while the Mirae Asset Tax Saver Fund is one of the lowest, providing higher returns.

Good all-round investment
From all the mentioned above, ELSS provides effective tax saving options and provides you with the opportunity to accumulate wealth while saving on taxes. As a beginner investor, it boasts a 3 year lock-in period to help you better understand the unpredictability of the market, and helps you test the waters before investing long term. As a mature investor, ELSS provides consistently high returns that you can trust and a wide variety of schemes and funds to choose from. Unlike life insurance plans (both traditional and unit linked), there are no charges for premature withdrawal or surrender in ELSS; you can stop investing at any point of time (though not recommended) without penalty.This broad spectrum of opportunities and high returns is exactly what is so attractive, and makes ELSS one of the best tax saving investment options out there.