MUTUAL FUND ELSS-SIMPLIFIED

What is an ELSS?

This is an equity diversified fund and investors enjoy both the benefits of capital appreciation, as well as tax benefits. . An ELSS – Equity Linked Savings Scheme is like a Diversified Equity Fund. It is a type of mutual fund that qualifies for tax exemption under section 80C.

ELSS is an equity oriented mutual fund scheme in which the majority corpus (about 80-100%) is invested in equities. As the allocation is done in equity which are considered as high return assets, the primary aim of such funds is capital appreciation. It has a 3 year lock in period.

Benefits of ELSS

It is a classic investment option as it offers two benefits at once:

1. Capital Appreciation

2. Tax benefits

Tax Benefits in ELSS: Investment in ELSS is deductable from taxable income, hence reducing the taxable amount for the investor. Basically, the investor shall save tax at a rate depending on his income slab.

Tax free returns: Income/Returns from ELSS schemes (dividend and on redemption) is tax free.

Hence, if you wish to save tax while offering your portfolio an extra edge on investing long term, ELSS schemes are designed for you!

Who can buy?

Section 80C of the Income Tax Act provides tax benefits to a person who buys units of ELSS, either in his own name or jointly. It can be Individuals or HUF.

What is the Minimum & Maximum amount of investment?

Minimum Amount of investment is Rs.5000. There is no limit for maximum amount of investment; however the tax advantage is only up to Rs.1.5 lakhs.

How does deductions u/s 80C work?

When you invest in certain schemes like ELSS, PPF, certain Bank Fixed Deposits etc. you can claim up to **Rs.1, 50,000** as a deduction from your gross total income in a financial year under Sec 80C of the Indian Income Tax Act, 1961.

How is Tax saved?

Investments in ELSS plans are eligible for deduction from gross total income under Section 80C of Income Tax Act. Only Rs.1.5 lakhs of investments qualifies for tax benefits under the same section. Your gross income is reduced by the amount you invest in the scheme. If you are paying a tax of 30.9% you can save up to Rs.46, 350/- on an investment of Rs.1.5 lakhs or more in ELSS.

Comparison with other Peers:

ELSS has a lower lock-in period compared to other tax saving options.

PPF, a tax-saver option is a 15year savings plan, while the National Saving Certificate carries a lock-in of 6years.

How to invest?

There are two options i.e. Growth Option and Dividend Option.

Lump sum or SIP

You may either invest in lump sum or through SIP. Identifying the scheme and starting an SIP would ensure that the investor benefit from lower acquisition cost through rupee cost averaging in a volatile market.
Investing periodically also spreads the burden.

Growth or Dividend option

Choosing the growth ensures compounding and capital appreciation in a mutual fund investment. However, in case of ELSS, the dividend paid out option provides a degree of liquidity even during the lock-in period. The dividend paid out can be invested in other investment options, whether equity or debt, depending upon the rebalancing needs of the investor's portfolio and thereby, reduce the risk in the overall investment plan. From the tax perspective, both options are equally efficient as dividends are tax-free.

Some Examples of ELSS:

Some common examples of ELSS are SBI Magnum Tax Gain, HDFC Tax Saver, Tata Tax Saving Fund, Franklin India Index Tax Fund, BNP Paribas Long Term Equity Fund etc.