CUT TAXES, THE SMART WAY...

INVEST IN EQUITY LINKED SAVING SCHEME (ELSS).

Benefits of doing Investments in ELSS

Tax planning is an integral part of the financial planning. Efficient tax planning enables you to reduce your tax liability to the minimum. When the year ending approaches we find investors taking hasty decisions for Tax savings and sometimes with long-term repercussions. Under Section 80c of the Indian income tax act the following are the prominent product for Tax savings:

NSC

NATIONAL SAVINGS CERTIFICATE

5 YR FIXED DEPOSITS

ELSS

EQUITY LINKED SAVING SCHEME

PROVIDED FUND

LIFE INSURANCE

Among all these the Equity based Tax saving instrument is Equity Linked savings scheme is the most popular for long term investment in equities.

What is ELSS?

An ELSS is a diversified equity mutual fund which has a majority of the corpus invested in equities. ELSS has a lock in period of 3 years from the date of investments. Earlier investments in Equity Linked Savings Scheme under section 80c are exempt to the limit of Rs.1,00,000 which has been hiked in the current Union Budget to Rs.1,50,000/-.One should look at the long term performance of these funds before investing.

Advantages of investing in ELSS over other tax saving instruments are as follows:

1. Main advantage of ELSS is its shorter lock-in period (3 Yrs.). Maturity period of NSC is 6 years and PPF is 15 years.
2. Investor can opt for dividend option and get some gains during the lock-in period
3. Maturity amount received in ELSS is completely free from income tax. Investors with higher tax brackets have a good advantage of it.
4. One can opt for lumpsum as well as Monthly Systematic investments which reduces the problem of hasty decision of tax savings during the year end.
5. ELSS is more suited to those investors who are willing to take high risk and looking for high capital appreciation.

There are various tax saving investment options available. In order to optimize the benefits it is crucial to analyze the available options & selecting the one which suits your need. Let's have a look at these options in detail.

Comparison of risk and returns vis-a-vis other tax saving instruments

Instruments	Lock-in Period (years)	Returns	Risk Level	Minimum Inv. (Rs)	Maximum Inv. (Rs)	Tax status on returns
Public Provident Fund (PPF)	15	8.50%	Low	500	1,50,000	Tax free
National Savings Certificate (NSC)	5	8.50%	Low	100	NA	Taxable
	10	8.80%	Low			
Bank Fixed deposits	5	8.20%-8.40%	Low	10,000	1,50,000	Taxable
Equity Linked Savings Schemes (ELSS)	3	Market Linked	High	500	1,50,000	Tax free
Unit Linked Insurance Policy (ULIP)	5	Market Linked	High	10,000 (as per premium)	1,50,000	Tax free

Fund performance comparison for ELSS schemes as of Nov-14

Scheme Name	NAV	Absolute Returns in %	
		3 Years	5 Years
Reliance Tax Saver (ELSS) Fund - Growth	44.36(07-Nov-14)	124.18	173.97
Axis Long Term Equity Fund - Growth	27.37(07-Nov-14)	117.02	--
ICICI Prudential Taxplan - Growth	259.93(07-Nov-14)	93.88	140.53
DSP BlackRock Tax Saver Fund - Growth	30.02(07-Nov-14)	93.01	114
Religare Invesco Tax Plan - Growth	32.04(07-Nov-14)	87.13	129.44
SBI Magnum Tax Gain Scheme 93 - Growth	105.48(07-Nov-14)	86.52	99.53

One should remember that this schemes works well for investors with high risk profile. You should keep in mind that returns in these schemes fluctuate depending upon the equity markets. In short, the scheme does not guarantee any fixed amount of returns. The biggest advantage of ELSS is that it promotes long term investment in equities.

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