



## Equity Linked Savings Scheme (ELSS)

# HERE'S WHAT IT IS...



An Equity Linked Savings Scheme (ELSS) is a diversified equity mutual fund that gives you a dual benefit of tax saving with the growth potential of equities. However, unlike other tax saving investments, ELSS has a lock-in period of just 3 years! You can invest in ELSS through Systematic Investment Plan (SIP) and also lump sum. Investing through an SIP also gives you the benefit of rupee-cost-averaging and compounding, that helps you ride over market volatility over the long term. ELSS aims to beat rising inflation in the long run by investing primarily in equities.

## Benefits of ELSS



\*The tax saving shown has been calculated for a person aged less than 60 years in the highest income tax slab having annual income less than Rs. 50 lakhs, as per section 80C of the Income Tax Act, 1961 for the Financial Year 2018-19 and includes applicable cess.

# ELSS Explained

Most of us have a tendency to wait until the last moment in the financial year to start making tax saving investments, and more often than not, we end up making the wrong decisions.

The key here is to begin investing at the start of the financial year and change the notion of **"tax saving"** into **"tax planning"**. This involves creating a strategy to help you maximise your tax savings together with wealth creation.

With tax saving as a goal, there are several options that qualify for deductions under Section 80C of the Income Tax Act, 1961 that allow deductions up to Rs.1,50,000 each financial year. Some options are listed below:

Market linked return	With assured rate of return	Others
Equity Linked Savings Scheme (ELSS)	Employee/Public Provident Fund (EPF/PPF)	Life Insurance premium
Unit Linked Insurance Plan (ULIP)	National Savings Certificate (NSC)	Re-payment of House Loan (principal)
	5 year Tax Saving Fixed Deposit	Sukanya Samridhi Yojana
	Senior Citizen Savings Scheme	



With so many options, how does one choose the right one? There is no single answer. And that is simply because everyone's overall goals are different and so are their risk appetites. However, what's important is to keep in mind that such investments are not just to save tax, but also to build wealth and beat inflation over the long term!

Equity Linked Savings Scheme (ELSS) is one such avenue that provides both tax saving benefits and a relatively higher growth potential over time.

As you can see, ELSS offers the **lowest lock-in period** together with dual benefits of **tax saving** and **potential capital growth**.

Some of the main advantages of ELSS are as follows:

- 1 Investment in ELSS could provide capital growth over the long term since they invest in the equity market.
- 2 Equities over a longer time frame have the potential to outperform traditional tax saving instruments.
- 3 Investments made in ELSS are eligible for tax deduction up to Rs.1,50,000 under Section 80C of the Income Tax Act, 1961.
- 4 ELSS has the lowest lock-in period of 3 years as compared to other investment avenues
- 5 Investor can opt for dividend option and look forward to some cash flows even during the lock-in period.\*

\*Dividend will be taxable. Please consult your financial advisor or tax consultant.

### Disadvantages of ELSS

Being an equity-oriented product, ELSS are susceptible to market volatility. Premature withdrawal is not allowed.

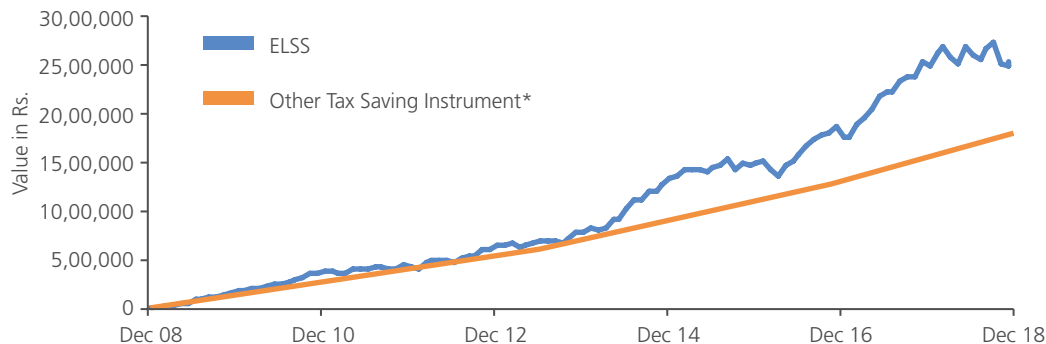
# Benefit of investing in ELSS through Systematic Investment Plan (SIP)

A good way to invest in ELSS is through a Systematic Investment Plan (SIP). SIP helps you take advantage of market ups and downs through rupee cost averaging. This is a process through which a fixed amount is invested each month. When markets are down, you end up buying more units at the same price, and when the markets are up, you buy fewer units. Over time, this results in averaging out the cost per unit, than if you buy all the units at one go.

Overall, ELSS is a good investment vehicle to save tax as well as to build wealth over the long term. If you really want to reap the rewards of your tax saving investments, think beyond the lock-in period of three years. As per the illustration below, equities have delivered relatively higher returns and aided in capital growth over the long term.

## 10 Years of ELSS performance vis a vis another tax saving instrument

The graph is for illustration purpose only. It reflects the growth of Rs 10,000 invested monthly for a period of ten years.







Returns as on Nov 30, 2018

Note: Past performance may or may not sustain in the future; It is assumed that the other tax-savings instrument yields 8% return on an annualised basis; for ELSS, we have considered the NAV of a particular ELSS scheme; SIP date is assumed to be the 1st day of each month; The monthly performance of both the instruments have been rebased to reflect the movement.



# ELSS compared to other investments

With so many tax saving options, it's easy to get confused. So let's take a closer look...

		PPF	NSC	Bank Deposits	ULIP	ELSS
Lock in Period		15yrs	5/10yrs	5yrs	5yrs	3yrs
Returns		8.0% <sup>#</sup>	8.0% <sup>#</sup>	6.5% to 7.25% <sup>*</sup>	Mkt. linked	Mkt. linked
Minimum Investment		₹500	₹100	₹1,000	Depends on premium	₹500
Risk Rating		Low	Low	Low	Moderate to high	Moderate to high

<sup>#</sup>Returns for PPF and NSC are approximated for ease and are subject to change basis policy changes if any.

<sup>\*</sup>The rate of return may vary for each bank

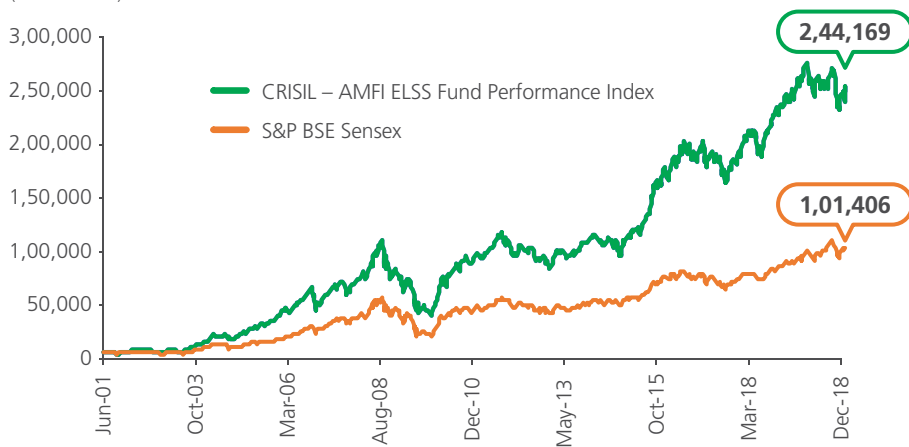
# ELSS Fund Performance

While the returns on PPF are more or less fixed over time, returns on ELSS are related to market movements. As you can see, over time the growth of equities plays an important role in boosting potential performance of your investment.

## CRISIL-AMFI ELSS Fund Performance Index (December 2018)

Take a look at the performance of ELSS across various mutual fund schemes since 2001.

(Index Value)



Data Source: CRISIL for CRISIL-AMFI ELSS Fund Index. BSE for S&P BSE Sensex.  
The S&P BSE Sensex represents the PRI variant of the index. Data as on December 28, 2018.



# FAQs on ELSS

## 1 What is the risk associated with ELSS?

ELSS funds are essentially diversified equity funds and carry similar risk-return profile as equity funds as they both invest in the equity markets. ELSS funds have a 3-year lock-in period from the date of investment during which the money from the fund cannot be taken out.

## 2 What is the tax benefit for investment in ELSS?

Investments get tax deduction under Section 80C of the Income Tax Act, 1961 up to Rs. 1,50,000.

## 3 What is a lock in period?

A lock in period means that the funds invested cannot be withdrawn before the expiry of the respective time period, under normal circumstances. All tax saving investments have lock in periods ranging from 3 to 15 years. ELSS funds have a lock in period of 3 years, the shortest among all the instruments eligible for tax saving under Section 80C.

## 4 What options should one invest for - growth or dividend?

You can opt for the growth or dividend payout option. The growth plan is the cumulative option under which your investment will keep growing till you redeem it. In the dividend plan, the fund declares dividend depending on various factors like appreciation, availability of surplus, etc.

## 5 What is the minimum investment limit?

Most equity funds have a minimum investment limit of Rs. 5,000, but ELSS funds have a lower threshold of Rs. 500. New investors could start a SIP in ELSS and gradually grow their investment, with time.



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