Everything about ELSS funds

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How much can I save using ELSS funds?

You can get a deduction of up to ₹1.5 lakhs from your taxable income. Depending on your taxable income, you could save up to ₹45,000 every financial year.

This means when the tax is calculated, it will be calculated based on the amount that is left after reducing ₹1.5 lakhs from your annual income in any given fiscal year.

Example: If you earn ₹4.5 lakh in a year, you are in the tax bracket that is taxed at 5% per annum. So by investing in an ELSS mutual fund, you can save up to ₹15,000.

Refer to tables on the right side to know how much can be saved using ELSS funds.

Income Range	₹2.5 to ₹5.0 lakh
Tax Rate	5%
Max Saving	₹15,000

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What are ELSS Funds?

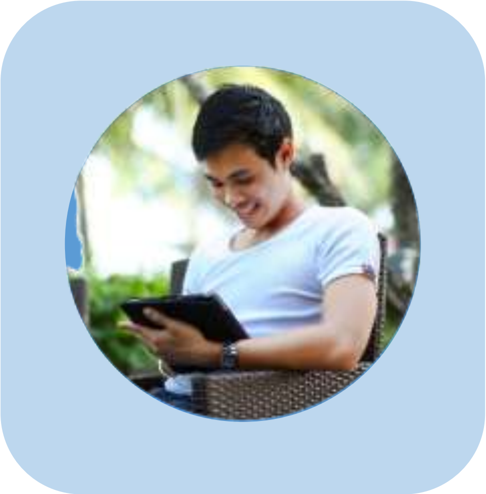
In our country, the government alone cannot support everybody's basic needs. So it encourages people to save money. However, just saving is not enough. As you might be familiar, money loses value over a period of time. This is often referred to as loss of purchasing power. Inflation erodes the value of money.

To counter inflation, it is necessary to invest for the future. Even to simply prevent the erosion of the value of your money, your money needs to earn an annual interest greater than the inflation of that year. Many people simply look at the rate of return their investment has provided in a year and think they have made money.

Whereas, the actual return would be the amount you would have made after subtracting the inflation of that year and also

The government tries to encourage healthy financial practices. Investing is one such. Therefore, to encourage investing, the government puts in place policies that encourage people to invest.

accounting for the tax applicable on the returns.



Thus, the government recognizes that they must encourage investing too. This is why the government allows tax breaks for people who invest in certain investment instruments. One of those channels is ELSS mutual funds.

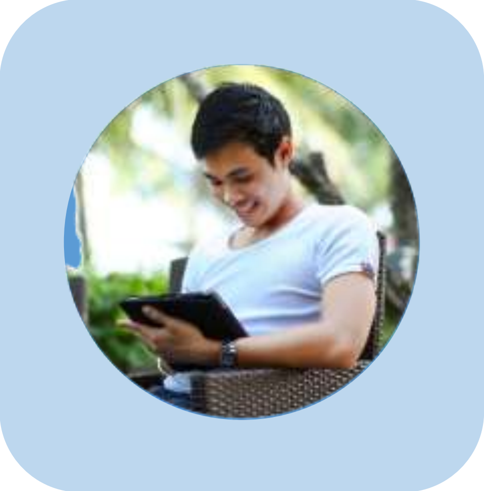
ELSS stands for Equity Linked Savings Scheme. The government makes policies to achieve goals they think are necessary for the country's good as a whole.

ELSS mutual funds come with a 3 year lock-in period. This lock-in period is also a part of the government's plan to help investors gain in the long term. Most investors often panic when the markets fall. At such times, they end up selling their investments at a lower price than at which they had originally bought.

However, over a longer period of time, investments usually perform well.

Thus, to protect investors from their own panic moves, the government has mandated a lock-in period of 3 years.

Interestingly, this lock-in period of 3 years is the lowest lock-in period among all other tax saving schemes.



What are the options under Section 80C?

Section 80C offers exemptions under many conditions. Investment in ELSS funds is one of them. Below is a list of some options under Section 80C.

1. ELSS Mutual Funds: When you invest in any ELSS mutual fund, your money is invested by the mutual fund in the equity (or stock) markets.

Equity markets provide much higher returns when compared to investment options like fixed deposits, recurring deposits, and so on.

Section 80C has a maximum limit of ₹1.5 lakh. There are other benefits to be had from Section 80C too though it can be argued that ELSS mutual funds have provided the highest returns among all other options under Section 80C.

2. Public Provident Fund: PPF

Only a maximum of ₹1.5 lakh can be deducted as benefits under Section 80C. This means if any one of the above-mentioned methods is already giving you a tax benefit of ₹1.5 lakh, you cannot take more benefit under Section 80C.

gives a fixed rate of return. This rate is decided by the Finance Ministry every year. This fiscal year, the rate is 7.8% compounded annually.

The amount that is invested in PPF is deductible from your annual income subject to an upper limit of ₹1.5 lakh. It comes with a lock-in period of 15 years and money invested in it cannot be withdrawn before the end of that period. The interest earned by the PPF is tax-free.

If however, you need money very desperately, you have the option of taking a loan against the amount in the PPF account.

3. Employer's Provident Fund: The employer's contribution to the provident fund is also eligible for tax deductions. 12% of the salary is deducted by employers and put in the employee's EPF account.

Let's say your child's annual tuition fee is ₹70,000. The principal part of your home loan EMI is annual ₹50,000. Then, only ₹30,000 worth of benefit is left to be had. So if you invest ₹30,000 in any of the other schemes under Section 80C, you will have taken maximum benefit of Section 80C.

4. National Pension Scheme:
National Pension Scheme is a pension scheme by the Indian government. It was designed to provide people working in the unorganized sectors a pension.

Again, the maximum tax benefit that can be had for tax purposes is ₹1.5 lakh.

NPS has a limited exposure to the equity markets which is 50%. People can opt to change their fund managers from among the designated list of managers. The returns are not guaranteed.

One major disadvantage to NPS is that the returns upon maturity are taxable.

5. Unit Linked Insurance Plans:
These are part insurance and part investment plans. A part of the money is put in insurance and the rest is invested in the equity market.

If you are able to get benefits under Section 80C by virtue unavoidable expenses like children's tuition fee and home loan, then invest only the balance amount in ELSS funds.

Because this plan is linked to the equity markets, the returns are not guaranteed.

ULIP is often accused of being ambiguous. The expense ratio, commission, place of investment, etc are not revealed and therefore remain unknown.

Investment in ULIP is can also be deducted from your total taxable income. A maximum of ₹1.5 lakh can be deducted from the total taxable income using ULIP.

6. Sukanya Samriddhi Yojana: The parent or guardian of a girl child can invest in this scheme in the name of the girl child. The maturity period of this scheme is 21 years. Partial withdrawal of up to 50% of the amount is allowed after the girl child turns 18 years old.

The current rate at this point in time is fixed at 8.6% compounded annually.

Should you invest more than₹1.5 lakhs because the returns are good?

No. Equity mutual funds can offer similar of better returns when compared to ELSS funds without the mandatory 3-year lock-in period.

Investments made in Sukanya Samriddhi Yojana can be used to deduct tax for an amount up to ₹1.5 lakh.

7. Senior Citizens Savings Scheme: Only people over the age of 60 years and those above 55 years of age who have retired can opt for this scheme. It offers a fixed interest of 8.6% per annum with a lock-in period of 5 years.

Again, you can get benefits of up to ₹1.5 lakh on investments made in this scheme.

8. National Savings Certificate: They offer a return on 7.8% and come with a maturity period of 5 years. the interest is compounded annually and is taxable.

Investments in NSC can be made from designated post offices. Tax benefits worth a maximum.

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of ₹1.5 lakh can be had from NSC.

9. Fixed Deposit: Fixed deposits are easily one of the most popular investment options in India. While fixed deposits do not have a lock-in period, tax saving fixed deposits do. A 5-year lock-in period exists on fixed deposits eligible for tax breaks.

Fixed deposit rates these days are hovering around 6.50% for different banks.

10. Tuition Fee: Tuition fee for a maximum of two children is also deductible from your taxable income for up to a maximum limit of ₹1.5 lakh. The educational institute should be in India and the course should be a full-time course for the tuition fee to be deductible under Section 80C.

11. Repayment of Home Loan: The component of your EMI that is against the payment of the principal can be deducted from your taxable income.

12. Life Insurance Premium: Premium paid for insurance in your name, your spouse’s name or your children’s name can be deducted from your taxable income up to a maximum limit of ₹1.5 lakh.

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What is the Advantage of ELSS Mutual Funds?

Advantage Against Public Provident Fund (PPF)

PPF returns a rate of 7.8% guaranteed. Whereas ELSS funds do not guarantee you a fixed return.

However, good ELSS mutual funds have given returns between 15 and 20% in the past. So if you choose your ELSS fund properly, you should be able to earn a lot more than what you would have earned if you invested in PPF.

Later in this pdf, we will show you how to choose a good ELSS mutual fund to invest.

Obviously, ELSS mutual funds are riskier. But if you are willing to take some risk, you stand to gain major benefits.

For example, let us take the interest from an ELSS fund to be 17.5% while PPF gives a rate of 7.8%.
If you invest ₹1.5 lakh, at the end of three years, you will have ₹1,87,908 if you invest in PPF and ₹2,43,335 if you invest in an ELSS fund. That is a difference of ₹55,427 in 3 years.

Advantage Against National Pension Scheme (NPS)

If you want to invest in National Pension Scheme, you must be prepared to hold your investment until your retirement at the age of 60. If you are young, that is a long way off.

Besides, the returns earned on NPS are taxable making them a very poor proposition for investment.

ELSS funds are locked-in only for 3 years and the returns are not taxable.

Advantage Against Unit Linked Insurance Plans (ULIP)

ULIP is part insurance and part mutual fund. As mentioned before, a part of the amount is used for insurance while the rest is invested in the equity markets. Insurance is absolutely essential.

Doing an insurance just to save tax is not the best way to save tax though.

ULIP does not reveal many key metrics like expense ratio, commission, etc. At the same time, because they are equity-linked, they do carry with them the risk that comes with being associated with the equity markets. The lack of transparency makes judging ULIP tougher.

ELSS funds are equity-linked too however they reveal all key metrics that are used to judge any investment. So an investor wanting to invest can take a sound decision as to which fund he wants to invest in.

Advantage Against Sukanya Samriddhi Yojana (SSY)

Sukanya Samriddhi Yojana on the face of it is a wonderful initiative by the government of India. To the average parent of a girl child, such a scheme can lead to a much more secure future.

However, ELSS is better in that it has offered a rate of return much higher than that assured by SSY.

Besides, the lock-in period in case of SSY is very long too.

Advantage Against Senior Citizen Savings Scheme (SCSS)

With a lock-in period of 5 years, Senior Citizen Savings Scheme locks in money for much longer than ELSS does. However, it provides with a fixed return of 8.6% which is better than what a fixed deposit would give.

Senior citizens usually like to stay away from risk and hence SCSS might make good sense.

If on the other hand, a senior citizen is willing to stomach some risk, he should explore investing in ELSS funds to save tax. ELSS funds have the potential to offer the highest returns among the options listed under Section 80C.

Advantage Against National Savings Scheme (NSC)

National Savings Scheme offers an annual interest of 7.8% which is guaranteed. It too has a lock-in period of 5 years.

As mentioned in the case of SCSS, investing in NSC can offer much higher returns with a lock-in period that is much lower if you can take some risk.

Advantage Against Fixed Deposits (FD)

Different banks offer different rates of return. This rate is around 6.50% these days. In order for your fixed deposit to be eligible for tax benefits, it needs to be locked-in for 5 years.

Doing a fixed deposit for tax saving purposes does not seem like a very good idea. This is largely due to the very low rate offered by fixed deposits.

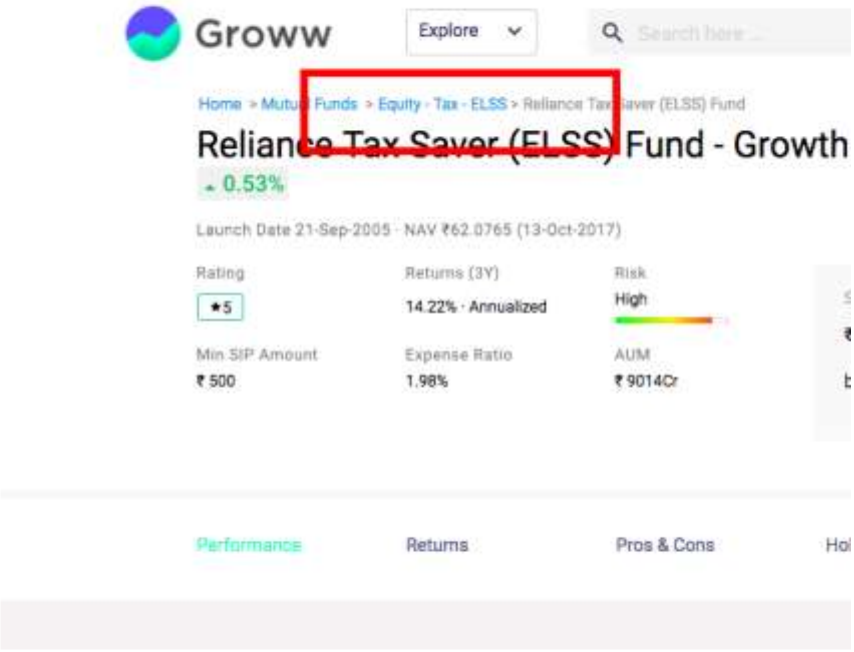
ELSS funds, on the other hand, offer much higher returns with a lower lock-in period.

How to choose a mutual fund?

1. Make sure the fund is an ELSS mutual fund.: Most ELSS funds have names that clearly state they are ‘tax saver’ or ‘ELSS’. However, some don’t.

To check if a fund is an ELSS fund, log on to groww.in.
Type the fund’s name.

Check the category of the fund. It should be Equity – Tax – ELSS.



the ELSS here – 30 Tax Saving Mutual Funds.

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2. Look at past returns: Past performance is no guarantee of future performance. Most people start with this step but they stop here too. Looking at returns is only the start of evaluating a fund.

At the same fund’s page, scroll to the ‘Returns’ section.

Look at the 1-year returns (1Y), then 3-year returns(3Y), and then 5-year returns(5Y).

Give most importance to the 1-year returns followed by the 3-year returns followed by the 5-year returns.

If the 1Y return is drastically higher or lower than the 3Y or 5Y performance then the mutual fund is not very stable.

Similarly, if the 3Y performance is drastically higher or lower than the 3Y or 5Y performance then the mutual fund is not very stable.

What you want to look for is stable performance.

3. Age of mutual fund: On the same page, you will be able to the launch date of the fund – right under the name of the mutual fund.

It is best for new investors to invest in funds that are more than 5 years old as these funds have a reputation and track record to look up to.

4. Risk of mutual fund: On the page of the fund, you can see a risk level indicator.

5. Expense Ratio: The expense ratio is the percentage of the fund that the asset management company takes annually as a charge for all operations of the fund.

An expense ratio that is too high is usually not a good sign.

6. Asset Management Company: This is the company managing the mutual fund. Mutual funds are almost always named after the AMC that manages them.

Every AMC has their own characteristic style of investing. You should explore the AMC and their over-all investment style before choosing a fund from them. Again, for this reason alone, you should avoid investing in new AMC.

7. Asset Under Management (AUM):

This refers to the amount of money being managed by an individual mutual fund. Different types of mutual funds have a different ideal size for AUM. The below table is a good approximate guide to the ideal

Example:
Aditya Birla Sun Life Mutual Fund is the AMC which has various mutual funds.

Some of them are Aditya Birla Sun Life Small & Midcap Fund, Aditya Birla Advantage Fund and so on.

size of AUM for different types of mutual funds.

Mutual funds having an AUM under ₹100 crore should be avoided by new investors.

8. Simpler method - rating: If all of the above methods seem very tedious and intimidating to you, there is a simpler way to choose a mutual fund. Use the rating of a mutual fund to know which fund is best in any given category.

The star rating of every mutual fund is mentioned of its page on Groww.

For a small-cap mutual fund, typical AUM size is ₹5,000 crores.

Mid-cap mutual fund, typical AUM size is ₹8,000 crores.

Large-cap mutual fund, typical AUM size is ₹30,000 crores.

For an ELSS fund, typical AUM size is ₹15,000 crores.

Best Rated Mutual Fund 2017

DSP BlackRock Tax Saver Fund

AUM	₹3,043	Returns 1Y	16.66%
Expense Ratio	2.52%	Returns 3Y	16.86%
Min SIP Amount	₹500	Returns 5Y	20.80%

Kotak Taxsaver Fund

AUM	₹680	Returns 1Y	16.71%
Expense Ratio	2.38%	Returns 3Y	15.96%
Min SIP Amount	₹500	Returns 5Y	16.35%

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Best Rated Mutual Fund 2017

Reliance Tax Saver (ELSS) Fund

AUM	₹9,014	Returns 1Y	20.50%
Expense Ratio	1.98%	Returns 3Y	14.01%
Min SIP Amount	₹500	Returns 5Y	21.60%

Aditya Birla Sun Life Tax Relief 96

AUM	₹3,756	Returns 1Y	20.97%
Expense Ratio	2.31%	Returns 3Y	18.92%
Min SIP Amount	₹500	Returns 5Y	21.65%

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How to buy a mutual fund?

1. Log in to your Groww account. If you do not have a Groww account, create your Groww account by clicking on 'Sign Up'.

2. Go the page of the ELSS fund. Type the fund name and press enter. You should now be on the page of your chosen ELSS fund.

3. Choose a method of investment.

You can either invest in small monthly installments – called SIP- or in one go – called lump-sum investment. Know which method of investing – SIP or lump sum – is better for you.

If opting for SIP

If you choose to go for SIP, click 'Start SIP'. Upon loading of the next page, fill in the amount and choose the date on which the SIP will be deducted every month.

Click ‘Start SIP’. You will be redirected to a BSE page confirming your order. Verify your order details and make payment by logging into your net banking account.

This link shows a video to do the same.

If opting for lump sum
On the fund’s page, click the ‘Invest One Time’ button. Upon loading of the next page, fill in the amount and click on ‘Invest One Time’.

You will be redirected to a BSE page confirming your order. Verify your order details and make payment by looking into your net banking account.

This link shows a video to do the same.

Important Things to Remember

1. ELSS Lock-in Period
ELSS funds come with a 3 year lock-in period. You cannot withdraw the amount invested before three years from the investment. After three years, you can opt to redeem the amount invested or let it stay invested.

Lock-in for SIP: The three year lock-in period applies for each individual SIP. So, for **example**, the units of ELSS funds you bought in February 2016 can only be redeemed in February 2019. Likewise, the units of ELSS funds you bought in March 2016 can only be redeemed in March 2019.

Lock-in for lump sum: The lock-in period on investments in case of lump sum investments is fairly simple. You can redeem your investments 3 years from the date of investment.

2. Year of Tax Savings
The investment made will give you tax benefits only for that financial year.
Lump Sum Example: If you invest ₹1. 5 lakh in the financial year 2017-2018, you will get tax benefits in the financial year 2017-2018. The money invested that year will continue to remain locked-in for 3 years from the date of investment.

SIP Example: You will get tax benefits on the **total** amount of SIP made in the **current** year only. To get the maximum tax benefit, your total SIP in the current financial year should be ₹1. 5 lakh. You won’t get any additional benefits if you exceed this amount. So if you want to invest a total of ₹1. 5 lakh in a year via SIP over 12 months, your monthly SIP amount should be ₹12,500 per month.

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3. Total Benefits
The ₹1. 5 lakh tax exemption under Section 80C is not just for ELSS tax saving mutual funds. It includes all other exemptions under Section 80C. You can only claim benefits on a **total** of ₹1. 5 lakh under Section 80C.

Example: If you pay a total of ₹80,000 lakh on your children’s education, you have ₹70,000 worth of benefit left to be had from Section 80C. So you should be investing₹70,000 in an ELSS mutual fund.

4. Tax on Earnings From ELSS Funds
ELSS funds are equity mutual funds. Equity mutual funds don’t have any tax levied on them for redemption after 1 year.

ELSS funds are locked in for 3 years. Thus, the gains on them are tax-free. So ELSS mutual funds help you save tax while also earning you money that cannot be taxed.

5. You Do Not Have to Redeem After the Lock in Period Ends
If you feel your investment in an ELSS mutual fund is doing well, you can choose to remain invested in the ELSS fund even after the 3-year lock-in period. It is not mandatory to redeem after the three-year lock-in period ends.

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