An investor education initiative

Edelweiss MUTUAL FUND

Are taxes your biggest concern?
Here's a smart tax planning move for you!

Ever wondered if you could eat the cake but at the same time avoid the calories that turn into tummy rolls? Wouldn't it be great if the same applied to your mutual fund investments, and you could enjoy inflation-beating returns without the mounting tax liabilities?

Systematic investing in mutual funds is often touted as the tried and tested method to build wealth and be financially free. But the reality may be a little more complex than this. They say that nothing in this world is free. Rightly so, your investments are also not free and are charged with income tax upon withdrawals. However, from the many types of mutual fund schemes, there is one that can offer tax savings. So, you get a large chunk of cake upon maturity without worrying about the tummy rolls along the way. Scroll down to find out more.

How to save tax when investing in a mutual fund scheme?

Investing in mutual funds can offer you tax benefits under the Income Tax Act, 1961. You can claim tax deductions under Section 80C on your mutual fund investments of up to Rs. 1.5 lakh in a financial year. This means you can save up to Rs. 46,800 in taxes every year. However, the important thing to note here is that not all mutual funds are tax saving investments. The only exception here is ELSS mutual funds.

What is ELSS?

Short for Equity Linked Savings Scheme, ELSS is an equity fund that facilitates future savings and offers tax benefits. These tax saving mutual funds are open-ended schemes that invest in equities or equity-oriented securities. In simple words, they invest in stocks of other companies.

A distinct feature of this equity savings fund is the lock-in period of three years. So, you cannot redeem your investment during this period. However, post that you can use your investment for your goals such as traveling, funding a wedding/education, etc.

How can ELSS funds help you save tax?

Well, this may be a long list! ELSS tax saving funds can help you save tax in several ways. Let's see how:

- One of the biggest benefits of mutual funds like ELSS is that they qualify for a tax deduction under Section 80C. So, you can claim up to Rs. 1.5 lakh every financial year and save up to Rs. 46,800 in taxes each year.

- Since you have to stay invested in the fund for a minimum of three years, you have assured tax savings for at least three years. If you save Rs. 46,800 each year, you could have cumulative savings of up to Rs. 1,40,400.

- Since ELSS funds have a lock-in period of three years, the profits on withdrawals automatically fall in the category of long-term capital gains. This means that your earnings are taxed as per long-term capital gains tax at 10%. This is lower than the short-term capital gains tax of 15%. Moreover, long-term gains of up to Rs. 1 lakh are exempt from all taxation. So, your tax burden is reduced.

How can you invest in ELSS funds to save tax?

You can invest in a lump sum or opt for a Systematic Investment Plan (SIP) as per your preference or convenience. But do remember that every SIP has a separate lock-in period of three years. So, plan well.

To sum it up

ELSS funds are the only tax saving mutual funds in India. Moreover, since they are an equity scheme, they can help with capital appreciation and deliver inflation-beating returns. This is a hard to miss offer for any investor!