How To Invest In Tax-Saving ELSS Mutual Funds Online

You may have multiple goals for investing your money. If tax saving is one of them, then an Equity Linked Savings Scheme (ELSS) may be a good match. ELSS is an equity mutual fund that aligns seamlessly with the dual purpose of wealth accumulation and tax optimisation. Notably, ELSS stands out as the sole mutual fund category eligible for tax deductions under the Income Tax Act, 1961. Let's understand the specifics of investing in tax-saving ELSS mutual funds online.

How to invest in ELSS?

Here is a step-by-step guide to investing in ELSS mutual funds:

1. **Select the ELSS fund**: You can begin by identifying an ELSS fund that aligns with your financial goals and risk tolerance. Thoroughly research different ELSS mutual fund schemes and consider factors such as expense ratios, fund manager expertise, portfolio allocation, and more.
2. **Complete KYC formalities**: It is mandatory to complete the Know Your Customer (KYC) formalities once for investing in all mutual fund schemes. ELSS investments are no different. You can complete your KYC by submitting your identification and financial proofs, such as a Permanent Account Number (PAN) card, Aadhaar card, bank statements, and more, to a registered mutual fund distributor or an online platform.
3. **Fill out the application form**: Once KYC formalities are completed, you will be required to fill out the application form for the chosen tax-saving ELSS fund. Make sure to provide accurate information and double-check the details before submission.
4. **Choose the investment amount and method**: Next, you need to determine the amount you wish to invest in ELSS online. You have the flexibility to invest either through a lump sum or via a Systematic Investment Plan (SIP). SIP involves regular, periodic investments, whereas a lump sum investment is a one-time endeavour.
5. **Initiate investment**: Transfer the desired investment amount through a bank transfer or online payment method. You can set up automated payments if you choose to invest through an SIP. This way, your money will be automatically invested in the future without needing any intervention from your end.

Things to keep in mind when investing in tax-saving ELSS funds

1. **Investment amount:** ELSS mutual funds typically have a low entry barrier and allow investment amounts as low as Rs 500. Moreover, there is no upper limit to your investments. However, you must note that while there is no upper limit on the investment amount, tax benefits are available only up to the specified limit.
2. **Liquidity**: ELSS funds come with a lock-in period of three years from the date of investment. During this period, you cannot redeem or switch your ELSS investments. It is essential to understand that the lock-in period applies to each investment

individually. For example, if you initiate an SIP today, the lock-in period for it will start today. The lock-in period for each SIP instalment will start from its respective investment date.

3. **Taxation**: ELSS funds are known as tax-saving mutual funds. Investing in them offers tax benefits under Section 80C of the Income Tax Act, 1961. You can claim a tax deduction from your annual taxable income for the amount invested, subject to a maximum limit of Rs 1.5 lakh per financial year. Additionally, gains from ELSS mutual funds are considered Long-Term Capital Gains (LTCG) for the purpose of taxation since the investment is held for more than a year. LTCG exceeding Rs 1 lakh in a financial year are taxed at a rate of 10% without the benefit of indexation.

Conclusion

ELSS mutual funds offer a riveting combination of tax savings and flexibility. They also have the shortest lock-in period as compared to other tax saving instruments. However, you must note that tax-saving ELSS mutual funds primarily invest in equity and equity-related securities. As a result, they can be volatile and carry risk. Therefore, it is advised to assess your risk appetite and investment goals before investing in them.