

What are ELSS Funds?

All you need to know about ELSS Funds

With the increased number of investment options available in the market like National Pension System (NPS), Public Provident Fund (PPF), Equity Linked Tax saving scheme (ELSS), 5-year fixed deposits, it is very important to invest in a tax savings scheme which not only helps reduce tax but also provides a good return during the investment horizon. Among the plethora of tax saving options available, an ELSS investment is something that every investor should consider.

What is an ELSS fund?

An Equity-linked Saving Scheme (ELSS) is an equity mutual fund which provides a tax exemption of up to Rs. 1,50,000 under section 80C of the Income Tax Act. An ELSS predominantly invests in equity and equity linked investments. Herein lies the biggest advantage of an ELSS. By investing in an ELSS, an individual can not only reduce tax liability but also make potentially higher gains through exposure to equities. An ELSS mutual fund will usually diversify its investments across market capitalisation and industries. This helps the fund manager generate equity market linked returns while at the same time mitigate overall portfolio risk. An investment in an ELSS comes with a lock-in period of 3-years while returns generated are subject to long-term capital gains tax.

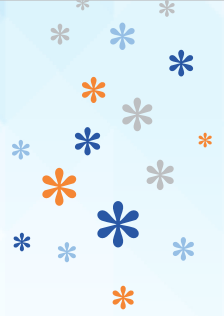
How to invest in an ELSS Mutual Fund?

Similar to any other mutual fund investment, investors can invest in ELSS mutual funds through a systematic investment plan or make a lump-sum investment. Investors can also choose between a dividend or growth option. Both options will come with different NAVs. Generally speaking, a dividend option would be more suited for investors who are looking to receive some periodic income from their investment while a growth option would be more suited for investors looking to create wealth through long-term investment in equities. Your financial advisor can help you invest in an ELSS that will best meet your requirements.

Advantages of investing in an ELSS Mutual Fund

- a. **Tax Savings** – Investment in an ELSS mutual fund is allowed for deduction under section 80C of the Income Tax Act. The cumulative limit for deduction under this section is Rs. 1,50,000.
- b. **Potential Growth** – Exposure to equity investments gives the investor the option to reap higher returns over the long-term.
- c. **Diversification** - ELSS mutual funds diversify their investments across market capitalisation and industries. Such funds also might take some exposure to fixed income assets as well. Diversification can help investors reduce overall portfolio risk.

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- d. **Flexibility** – There are lots of plans available in the market which gives the investor the flexibility to choose a plan according to his/her requirement.
- e. **Professional Management** - ELSS mutual funds are managed by professional fund managers who drive the investment decisions to maximise returns while minimising risk.

With the combined advantage of tax benefits and potential to generate good returns, we can say that investing in ELSS mutual funds for tax saving purposes is one of the best tax saving options available in the market.