

#WiseWithEdelweiss



How to choose the best ELSS funds to invest in?

Tax saving season is around the corner and every individual who is liable to pay tax is looking for investment instruments, which could save some of his/her hard earned money. Sec 80C of the Income Tax Act, 1961 comprises of investment avenues like Life Insurance policies, Public Provident Fund (PPF), Equity Linked Savings Scheme (ELSS), etc. Money invested in these instruments not only result in investment savings but also qualifies for tax savings.

Why should you invest in ELSS Mutual Funds?

Let's start with the basics first – Under Sec 80C, you can claim up to Rs. 150,000/- deduction from your gross taxable income by investing an equivalent amount in ELSS or other eligible 80C schemes and thereby end up saving up to Rs. 46,800/- in taxes every year i.e. for investors in the highest tax bracket.

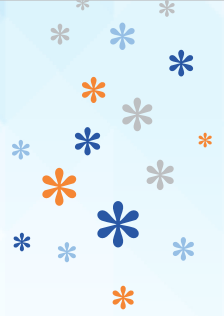
Equity is the one of better performing asset class – ELSS Mutual Funds are essentially diversified equity mutual funds, which invest in equity and equity related securities. While they are subject to market risks, historical data from 2012 to 2017 shows that ELSS funds have given 12.6% annualized returns in the last 5 years, much higher than other asset classes (source: Internal Research).

Expert Management – Unlike traditional tax saving instruments like PPF or Fixed Deposits, investment in ELSS mutual funds are dynamically managed by professional and skilled fund managers.

Maximum Liquidity – ELSS Mutual Funds are most liquid when compared to other traditional tax saving instruments eligible for tax benefit under section 80C because they have a shorter lock-in period of just 3 years. Further, you always have the option of redeeming your investments partially or fully after the lock-in period of 3 years is over.

Convenience & Flexibility – With ELSS mutual funds, investors have the convenience of investing through the SIP route or Lump Sum. SIPs help investor benefit from Rupee Cost Averaging and compounding over a long term. You can stop and restart your SIPs at any time as per your convenience.

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Tax Advantage: Till the beginning of FY 2018, ELSS capital gains / profits were tax free but a change in tax on was introduced in this year's Union Budget. Capital gains of up to Rs 1 Lakh in ELSS mutual funds will be tax exempt, however, gains in excess of Rs 1 Lakh will be taxed at 10% (plus cess). Similarly, dividend distribution tax will be borne by investors who have opted for dividend payout option.

Incidence of tax in ELSS investments arises only at the time of redemption and not during the term of the investment. Even with the introduction of the capital gains tax, ELSS remains one of the most tax efficient 80C investment options.