**How ELSS Mutual funds can grow your money & save tax too**

There are various tax saving investment options where an individual can save tax u/s 80C of Income Tax Act. However, all such investment options come with fixed returns. One of the best ways to grow your money along with saving tax is to invest in Equity Linked Saving Scheme (ELSS) Mutual Funds in India.

**What are Equity Linked Saving Scheme (ELSS) Mutual funds?**
ELSS mutual funds in simple term are mutual fund schemes that invests 65% in equity related instruments that are notified to avail tax benefits. Investment in such ELSS MFs would provide tax benefit to investors u/s 80C, which is capped to a maximum of Rs 1.5 Lakh.**(New Budget Norms 2014-2015)**

**How do you benefit from ELSS Mutual funds?**
There are various ways you would benefit from ELSS mutual funds.

1) **ELSS mutual funds help you to grow money:** Since ELSS mutual funds invests in equity related instruments, these schemes would help you to grow your money when the stock market grows over a period of time.

2) **Save tax u/s 80C up to Rs 1.5 Lakh:** By investment in ELSS mutual funds, you are eligible for tax exemption up to Rs 1 Lakh u/s 80C. If you have not utilized 80C fully, this is a good opportunity to invest in ELSS funds.

3) **Lock-in period of 3 years:** ELSS mutual funds come with lock-in period of 3 years. Generally, investors would get tempted to take out the money from any investment option as soon as they get some good returns. They would not wait for long term to enjoy long term benefits. Since ELSS MF’s come with a 3 year lock-in period, you are forced to keep your investment for a minimum of 3 years. This would help you to grow your money that considers market fluctuations.

4) **ELSS returns are tax free:** If you observe, none of the returns from tax saving investment options other than PPF are tax free. NSC, Tax Saving Bank FD, Tax saving Post office TD scheme etc. all these tax saving option returns are taxable based on individual tax slab. However, interest in Public Provident Fund is tax free, but that comes with a 15 year lock-in period (apart from certain exemptions to withdraw in between). The only tax saving investment option that provides tax free returns for short period is ELSS Mutual funds. Since ELSS mutual funds invest in equity related instruments, these are classified under equity funds. Any returns received from equity funds after 1 year is tax free, hence ELSS funds which comes with a 3 year lock-in period, dividends/returns/capital gains from such funds are also tax free.

**Are there any risks involved in investing in ELSS mutual funds?**
Since these funds invest 65% in equity, there is some element of risk. Moderate risk and High risk investors can consider this as a tax saving investment option. Also the past performance may or may not repeat in future. Hence investors should consider this risk element and consider investing in such funds.

**How should you invest?**

Unlike regular equity schemes, the ELSS funds have a lower investment threshold of Rs 500. You can invest a large amount at one go, but the best way to invest in equity-oriented instruments is through regular monthly driblets called SIPs. For instance, if you have Rs 30,000 to invest in ELSS funds this year, split them into three instalments between now and 31 March. This will curtail the risk significantly by averaging out your cost of purchase. To start an SIP, submit post-dated cheques or give an ECS mandate to your bank. The money will be automatically transferred to your mutual fund every month.

When you invest in certain schemes like ELSS, PPF, certain Bank Fixed Deposits etc. you can claim up to Rs.1,00,000 as a deduction from your gross total income in a financial year under Sec 80C of the Indian Income Tax Act, 1961. The Table below will help further explain the how this works –

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| --- | --- | --- |
| **Particulars** | **Without Tax Saving Investments u/s 80C** | **With Tax Saving Investments u/s 80C** |
| Gross Total Income | Rs.7,50,000 | Rs.7,50,000 |
| Exemption u/s 80C | Nil | Rs.1,00,000 |
| Total Income | Rs.7,50,000 | Rs.6,50,000 |
| Tax on Total Income | Rs.80,000 | Rs.60,000 |
| **Tax saved** | **Nil** | **Rs.20,000** |

*The Illustration above highlights the Tax exemptions for a Salaried Individual under 60 years of age for the Financial Year 2013-14. This would differ for people under different income brackets. Please consult your Financial Advisor to know your eligibility.*

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| --- | --- | --- | --- |
| **Particulars** | **PPF** | **NSC** | **ELSS** |
| Tenure | 15 years | 6 years | 3 years |
| Returns | 8.80 % \*(Compounded Annually) | 8.60 to 8.90 % \*(Compounded half-yearly) | Returns / Dividends are Marketlinked and not assured |
| Minimum Investment | Rs.500 | Rs.100 | Rs.500 |
| Maximum Investment | Rs.1,50,000(**NewNorms 14-15)** | No limit^ | No limit^ |
| Amount eligible for deduction u/s 80C of Income Tax Act, 1961 | Rs.1,00,000 | Rs 1,00,000 | Rs 1,00,000 |
| Taxation for interest | Tax free | Taxable | Dividends and capital gain tax free in the hands of the investor |
| Safety/ Risk | Highest Safety | Highest Safety | High Risk |
| Lock-in Period | 15 Years - Partial Withdrawal after 6 years is permitted | 6 Years | 3 years |