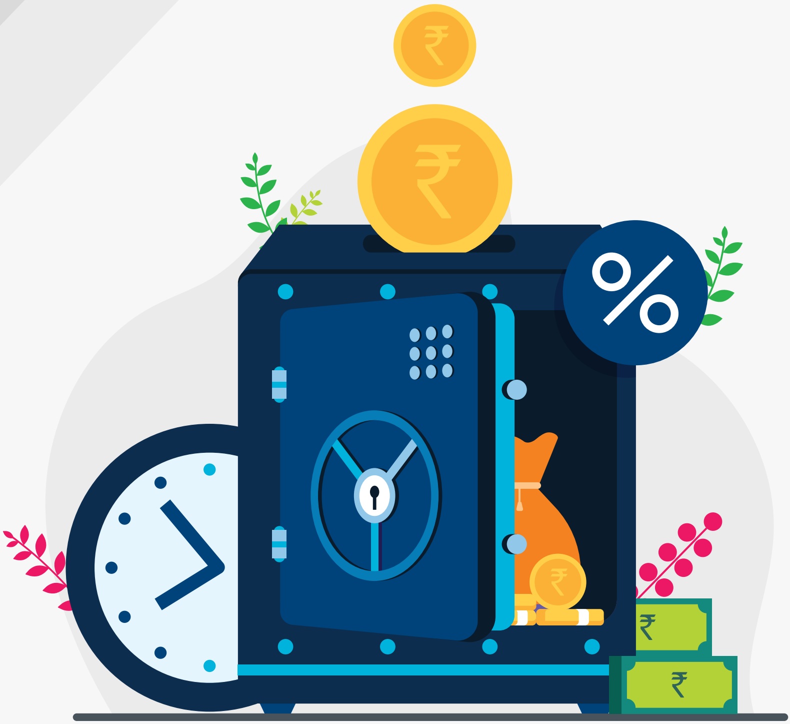
An Investor Education Initiative
MIRAE ASSET
Mutual Fund



ELSS

Invest in ELSS. Aim to prosper.

What is ELSS?

ELSS or Equity Linked Saving Scheme is an open ended equity mutual fund that offers the dual-advantage of potential wealth creation and tax saving. These funds have a statutory lock-in period of 3 years and invest primarily in equity and equity related instruments. These funds offer tax benefit under Section 80C of Income Tax Act 1961. Investments in ELSS can be made using both SIP and lumpsum investment options.

As per AMFI data, Mutual Fund industry Assets Under Management in ELSS have been growing at a compounded annual growth rate (CAGR) of more than 20%. One of the reasons for ELSS Mutual Funds' growing popularity among tax payers is the increasing awareness that these schemes offer to maximise the dual benefits of tax savings and potential wealth creation over long investment horizons.

How can you save Tax?

Annual Taxable Income (Rs)	Max Amount of ELSS Investment (Rs)	Taxable Income of ELSS Investment (Rs)	Tax Before ELSS Investment (Rs)	Tax After ELSS Investment (Rs)	Total Savings (Rs)
2,50,000	1,50,000	1,00,000	-	-	-
5,00,000	1,50,000	3,50,000	13,000	5,200	7,800
10,00,000	1,50,000	8,50,000	1,17,000	85,800	31,200
15,00,000	1,50,000	13,50,000	2,73,000	2,26,200	46,800

*Illustration purpose only. Calculations based on the tax rate FY 19-20 under Section 80C including education cess of 4%

Assuming investor falls in 30 % income tax bracket, of Income Tax Act, 1961.

ELSS vs Traditional Instruments

Section 80C of Income Tax Act 1961 allows tax payers to reduce their income tax obligations by investing in specified eligible investments. The amount you invest can be claimed as deduction from your taxable income for the purpose of income tax computation when filing your returns. You can claim deduction up to Rs 1.5 lakhs by investing in 80C schemes, lowering your income tax outgo by up to Rs 46,800. The eligible investments in Section 80C include, Employee Provident Fund (EPF) deducted by the employer, Voluntary Provident Fund (VPF), Public Provident Fund (PPF), National Savings Certificates (NSC), 5 year tax saving bank fixed deposits, 5 year tax saving post office deposits, Senior Citizens Savings Scheme (SCSS), Life Insurance (traditional and unit linked) premiums, mutual fund Equity Linked Savings Schemes (ELSS) etc.

Public Provident Fund

PPF is one the most popular traditional investment choice under Section 80C, since it assures capital safety and is also the most tax friendly investment option u/s 80C. The maximum investment currently allowed under PPF is Rs 150,000. The minimum is Rs 500/- only. The current PPF interest rate is 7.9% $. The tenure of this instrument is 15 years, and is extendable in blocks of 5 years. Investors should note that PPF interest rate is not fixed throughout the tenure of the deposit. PPF interest rate is linked with Government Bond yields and can be revised by the Government every quarter. The PPF interest is tax free during the tenure of the investment and the maturity corpus is entirely tax free. The liquidity of PPF is lowest among all 80C schemes. Withdrawals not exceeding 50% of 4th year balance are permitted after a lock-in period of 6 years. PPF also offers loan facilities.

$ - Source : Advisorkhoj

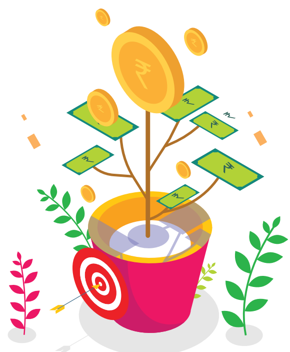
National Savings Certificates

The NSC scheme available now is NSC VIII issue, which has a term of 5 years. The interest rate is 7.9% $, which is fixed for the tenure of your investment. There is no maximum investment limit for NSC but you will be able to claim maximum deduction of Rs. 1.5 lakhs u/s 80C. The minimum limit is Rs. 100/- only. The interest paid by NSC is fully taxable as per the income tax slab rate of the investor at the time of maturity. However, you can claim 80C tax deduction on the accrued interest every financial year during the term of the investment except in the year of maturity. The 80C benefit for accrued interest in NSC reduces the effective tax rate on NSC investments.

$ - Source : Advisorkhoj

Traditional Life Insurance Plans

Traditional life insurance plans provide survival benefits in addition to life cover (sum assured) in the event of unfortunate death. In other words, if you survive the policy term, which is usually 10 – 25 years, you will get back what you invested in terms of life insurance premiums and also some returns on your investments (premiums). The most popular traditional life insurance plans are endowment plan and money back plans. Both are savings cum insurance plans; the difference is in the cash flows for the policy holder and survival / maturity benefits.



There are primarily two types of bonuses paid by endowment plans. A simple reversionary bonus is accrued every year as a percentage of sum assured and paid at the maturity of the policy. You should note that the bonus accrued is not compounded, it is only accumulated. In addition to simple reversionary bonus, a final additional bonus or terminal bonus is paid on the maturity of the policy.Money back plan is essentially a variant of endowment plan wherein a fixed percentage of the sum assured is paid to the insured during the term of the policy at some regular frequency (e.g. 5 years). The balance sum assured and bonuses are paid on the maturity of the money back policy.

The typical returns on investments (ROI) measured in terms of internal rate of return (IRR) of traditional life insurance plans is usually in the range $ of 5 – 6%. This is the lowest amongst all 80C investments because life insurance plans are not purely savings or investment plans; they also provide life cover / sum assured to your nominated beneficiaries in the event of an unfortunate death. Many financial planners advise against traditional life insurance plans like endowment or money back for tax planning because they view combining insurance and investment as a non optimal solution. They usually recommend term life insurance plans, which provides much higher life cover (more insurance) for much less premium (which also qualify for 80C benefits) and a pure savings / investments scheme like PPF or ELSS.

$ - Source : Advisorkhoj

The liquidity of traditional life insurance plans is higher than PPF because you can surrender your policy before maturity, but investors should note that they stand to lose a considerable amount of money if they surrender their policy early (before 5 years) during their policy. Different insurance plans have different surrender charges; you should consult with your insurance agents if you want to surrender your policy. The maturity proceeds of your life insurance policy is tax free provided the premium payable every year do not exceed 10% of the sum assured. If the annual premium exceeds 10% of sum assured then, the maturity corpus is fully taxable.

Characteristics	ELSS	ULIP	PPF	NSC	Tax-saving FDS
Returns	Linked to equity market returns	Market-linked, based on investment chosen (equity / debt)	7.9%*, compounded annually	7.9%*, compounded half-yearly	6.85%^
Lock-in period/tenure	Full amount can be withdrawn after 3 years from date of allotment	Lock-in period of 5 years; no surrender charges after 5 years	Lock-in period of 15 years; partial withdrawal permitted after 6 years	Lock-in period of five years; no withdrawal prior to maturity, but investments can be used as collateral to avail loans from banks	Premature exits permitted, subject to applicable charges
Tax treatment	Gains of more than Rs 1 lakh from ELSS is subjected to long term capital gains tax (LTCG) of 10% without indexation	Tax-free after the minimum lock-in period of 5 years (tax-free in the event of death of policy holder)	Tax exempt at contribution, accumulation and withdrawal	Interest income taxed at income tax slabs	Interest income taxed at income tax slabs

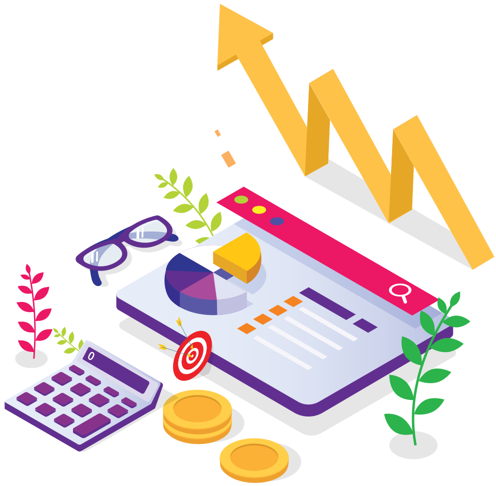
We have seen that ELSS is one of the good tax saving investments for investors looking to create wealth in the long term.

^ SBI Tax saving FD Rate (5 years) * For July - December, 2019.

Equity as an asset Class

Though ELSS mutual fund investments are subject to market risks, historical data shows that equity has been one of the best performing asset class in the long term. In the last 15 years, Nifty 50 TRI (index of the 50 largest stocks by market capitalization) $ gave 14.9% annualized returns while PPF gave 8.5% returns over the same period.

$ - Source : Advisorkhoj



Nifty might have multiplied your money more than 8 times in the last 15 years; the market value of your Rs 100,000 investment maybe Rs 801,000 (as on 31st December 2019). In contrast, Rs 100,000 investment in PPF would have grown to Rs 342,000 over this same period. This example clearly shows the long term wealth creation potential of equity as an asset class. Investors should note that, ELSS mutual fund schemes are managed by professional fund managers. ELSS investors may expect better than market returns over long investment tenures. However, it is always advisable to consult your financial advisor before investing in mutual funds since the risk that an equity scheme carries is high.

ELSS might be a tax efficient investment tool:

Individuals and HUFs may claim deduction under Section 80C of Income Tax Act 1961 up to an overall limit of Rs 1.5 lakhs from taxable income by investing in ELSS mutual funds. Long Term Capital gains in excess of Rs 1 lakh from sale of ELSS units are taxed at 10%. Dividends paid by ELSS are tax free in the hands of the investor but Mutual Funds have to pay 10% Dividend Distribution Tax before paying dividends to investors.

With interest rates of traditional 80C savings schemes falling, ELSS mutual funds may offer excellent investment options for investors with moderately high to high risk appetites. ELSS may also have the highest wealth creation potential among all 80C investment schemes. ELSS is also tax friendly, with relatively low effective taxation rate of the maturity corpus. These advantages make ELSS one of the ideal investment options for various long term financial goals like retirement planning, children's higher education, children's marriage etc. in addition to tax savings, as shown in the example above. However, you should be prepared for volatility and have long investment horizons if you aim to maximize your returns. Investors should discuss with their financial advisors if ELSS is suitable for their tax planning needs.

* Source: Advisorkhoj Mutual Fund Research, Dated 31st December, 2019.

ELSS through SIP

ELSS tax saving and wealth creation

Investors may accumulate a substantial corpus for their longer term goals in addition to saving taxes. In the example below, we have shown how much taxes you could have saved and wealth accumulated over the last 20 years if you invested Rs 5,000 every month in ELSS through SIP. For the sake of simplicity, we are assuming your tax rate is 30% and Nifty 50 TRI as proxy for an ELSS mutual fund.

Investment Tenure	Cumulative Investment	Taxes Saved u/s 80C	Market Value of Investment	Profit / (Loss)
After 3 years	1,80,000	54,000	1,70,283	(9,717)
After 5 years	3,00,000	90,000	5,28,939	2,28,939
After 10 years	6,00,000	1,80,000	17,92,030	11,92,030
After 15 years	9,00,000	2,70,000	38,41,813	29,41,813
After 20 years	12,00,000	3,60,000	55,18,153	43,18,153

Source: Advisorkhoj Mutual Fund Research, Dated 28th February 2020.

3 years after you began the SIP, the market value of your investment would have been lower than the cumulative investment made by you, in other words, you were making a loss. This is an important lesson to learn from this example. Equity as an asset class is volatile and mutual funds are subject to market risks. However, you can see that the taxes saved u/s 80C would have offset your capital gain losses. Assuming, after 5 years from the SIP start date, you had recovered all your losses and were making a healthy profit on your investment and at the same time saving taxes. Market corrections or crashes are inevitably followed by recovery and growth.

After 10 years of systematic investing, value of your investible fund might have been more than Rs 17 lakhs on an investment of Rs 6 lakhs. You might also able to save Rs 1.8 lakhs in taxes.

After 20 years, you might have accumulated a corpus of Rs 55 lakhs with a cumulative investment of Rs 12 lakhs and you might have saved Rs 3.6 lakhs in taxes. You saw the power of compounding in equity over long investment tenures in action. This example shows why ELSS is one of the ideal options for saving taxes which may grow your money.

Conclusion

With interest rates of traditional 80C savings scheme like PPF and NSC falling, ELSS mutual funds offers investment options for investors with moderately high to high risk appetites. ELSS has the highest wealth creation potential among all 80C investment schemes. With a lock-in period of just 3 years, ELSS is one of most liquid investments in the 80C universe. ELSS is also very tax friendly, with quite low effective taxation rate of the maturity corpus. These advantages make ELSS one of the ideal investment option for various long term financial goals like retirement planning, children's higher education, children's marriage etc. in addition to tax savings.

FAQs of ELSS

What is ELSS?

ELSS or Equity Linked Saving Scheme is an open ended equity mutual fund that offers the dual-advantage of potential wealth creation and tax saving. These funds have a statutory lock-in period of 3 years and invest primarily in equity and equity related products.

Are earnings from ELSS funds taxed?

Long Term Capital Gains over Rs 1 Lakh are taxed at 10% and dividend received by investors is tax free.

How much tax can I save by investing in ELSS?

You can annually save up to Rs 46,800 in tax by investing in ELSS. Assuming you fall in the highest tax bracket and invest Rs 1.5 lakhs.

Which is better SIP or Lumpsum in ELSS?

One big benefit over a lumpsum investment is that SIP enables you to lower the average cost of your investment and reduce the risk of your investment. This is known as rupee-cost averaging.

Does an ELSS guarantee returns?

No. Since ELSS is an equity scheme it is subject to market risk and does not guarantee return.

Can I withdraw from my ELSS fund before 3 years are complete?

No, since there is a statutory lock in period of 3 years; early withdrawal is not possible.

Can I create a retirement corpus by investing in ELSS funds?

Yes, by having a long term horizon one can aim to create a corpus through ELSS funds due to the dual advantage of potential capital appreciation and tax saving.

Why should I invest in ELSS when I have other tax saving investment options?

As the name suggests, funds invested in an ELSS fund will be invested in the equity market and hence based on historical performance, a higher probability of outperforming other tax saving options.

How long should you stay invested into ELSS Funds?

It is advised to have a long time horizon (3+ year) while investing in this fund.

How should I invest - Lumpsum or SIP?

This is totally on you . You can either invest Rs 1.5 lakhs lumpsum or Rs 12,500 on a monthly SIP basis. Minimum investment amount via SIP OR lumpsum is Rs 500.

Are ELSS funds risk free?

No, ELSS is not completely risk free like other tax saving options such as Bank FD and PPF. Their risk profile is similar to any equity-oriented mutual fund scheme.

An investor education initiative by Mirae Asset Mutual Fund.

All Mutual Fund investors have to go through a one-time KYC (Know Your Customer) process. Investors should deal only with Registered Mutual Funds (RMF). For further information on KYC, RMFs and procedure to lodge a complaint in case of any grievance, you may refer the Knowledge Center section available on the website of Mirae Asset Mutual Fund.