



## Equity Linked Savings Scheme

As the name indicates ELSS is an Equity Linked Savings Scheme launched by Mutual Fund Houses in India. ELSS may be an existing scheme with a track record or a New Fund Offer. It may be an open ended scheme or a closed ended in some cases.

## Tax Exemption

Under Section 80C of Income Tax Act, you have the option to invest a sum of Rs.1,00,000/- and avail exemption. The Equity Linked Saving Scheme (ELSS) is one such investment option.

Investments in (or contributions to) ELSS are eligible for exemption with a ceiling of Rs.1,00,000.

Illustration of Tax exemption for a male person less than 65 years in receipt of salary income for the assessment year 2010-11:

Particulars	Without ELSS Investment	With ELSS Investment
Gross Total Income	Rs.7,50,000	Rs.7,50,000
Exemption Under Section 80C	Nil	Rs.1,00,000
Total Income	Rs.7,50,000	Rs.6,50,000
Tax on Total Income	Rs.1,30,000	Rs.1,00,000
Tax saved on Investment	Nil	Rs.30,000

## Lock-in

An investment in an ELSS scheme has a lock in of three years. This means, you will not be able to withdraw your investment before completion of 1095 days. At first glance, a 1095 days lock-in in an ELSS product may seem unreasonable but you must consider the fact that all investment products under Section 80C will have a lock-in period. If you compare the lock-in periods for various instruments eligible under Section 80C of Income Tax Act, you will notice that ELSS has the least lock-in period.

Instrument	Lock-in Period
ELSS	3 Years (or 1095 days) from the date of allotment of the respective Units
Bank Fixed Deposit	5 Years
PO Time Deposit	5 Years
NSC	6 years
PPF	15 Years (Partial withdrawal after 6 years)

## Benefits of investing in ELSS over other tax-saving instruments

- Investments in ELSS enable an investor to claim deductions under section 80C upto Rs 100,000. Since this is an equity-linked scheme, the earning potential is very high (although at a higher risk) as compared to other tax-saving instruments.



- The Systematic Investment Plan (SIP) is an effective way of investing in ELSS as the concept of rupee cost averaging and the power of compounding work well.
- The lock-in period is the shortest, three years, as compared to other tax saving instruments. The maturity period for NSC and PPF is six years and 15 years respectively.
- According to current tax laws, long-term capital gains on investment in equity oriented funds and the dividends received on these investments are tax-free under section 10(38) and section 10(35) respectively in the hands of the investor.

## High Risk-High Return

Among all investment avenues available under Section 80 C, ELSS has potential for highest returns. Investments in public provident fund (PPF), National Savings Certificate (NSC), and Bank Deposits earn income of a 'fixed' nature, i.e. they give returns of a fixed nature and not more. On the other hand, ELSS being an equity product can boost returns far beyond any other fixed income instrument like a PPF or NSC. These returns could be by way of dividend or capital appreciation in the net asset value (NAV) at the end of 3 years.

Investment Instrument	Risk	Return	Rate of Return*	Interest/Dividend Receipt*	Tenure	Taxability of Interest Income
ELSS	High	High	Depends on Market Performance	Upon Declaration of Dividend	Minimum Lock-in is three years	Dividends are Tax Free in the hands of the investor
NSC	Low	Low	8%	On Maturity	6 Years	Taxable
PPF	Low	Low	8%	On Maturity	15 years	Tax Free
Bank Fixed Deposits	Low	Low	7.5% (SBI Rate for general public w.e.f. 27.07.2009 – Source SBI Website)	Monthly/Quarterly	5 Years	Taxable
PO 5 Year Time Deposit	Low	Low	7.5%	Annual	5 Years	Taxable

\*Rates of Return/periodicity of interest payment could vary. Please check with the concerned organizations before investing

## Liquidity in ELSS investments

The amount cannot be withdrawn before the maturity period. However, ELSS is definitely beneficial as compared to other tax-saving instruments, as the lock-in period is just three years compared to the maturity period of six years (NSC) and 15 years (PPF) respectively. Also, the earning potential of ELSS is high, although at higher risk. Investors can opt for the dividend option in ELSS; dividends are tax free, thus ensuring some liquidity and the opportunity to capture gains during the lock-in period.

## Investment strategy for ELSS funds



- Your risk appetite should at all times determine the total investments in tax-saving funds. Don't go overboard in the segment simply because of the opportunity to rake in impressive returns, thereby ignoring the risk involved.
- Use the SIP route for investing in tax-saving funds. Not only does it do away with the need for timing markets, but it also evens out your cash out go. It reduces the strain on your wallet at the end of the financial year when most investors conduct their tax-planning exercise.

## Suitability

It is suitable for all types of investors who have higher risk appetite and need to invest in tax planning schemes/instruments. ELSS is a great beginning for early investors to start taking equity exposure based on their risk appetite. It can help you shed your inhibition about investing in equities through mutual funds in a big way.

## Past Performance of some of the top rated ELSS Schemes\*

Both ELSS and diversified equity schemes have the same risk profile. They are high risk - high return investment avenues. The major difference is in terms of the mandatory lock-in period of three years applicable to ELSS. It is always advisable for investments in equity linked instruments to be for the long term, as it is only over this time frame that equities have the potential to unlock value and outperform other comparable assets. The lock-in period fixed for ELSS supports this view and also allows the fund manager to plan a strategy that will be beneficial in the long-term.



Various researches on mutual funds have found that ELSS funds have shown impressive performances over three years. Refer the data given below. If you consider the tax benefits associated with ELSS, their performance looks even better than that of diversified equity funds.

Sl No	Scheme Name	Start Date	NAV	End Date	NAV	Return (CAGR %)	Approximate value of Rs.10000 invested (Rs.)
1	Canara Robeco Equity Tax Saver	01/09/2006	17.83	01/09/2009	19.24	21.8	18,079
2	Taurus Tax Shield	01/09/2006	15.91	01/09/2009	28.56	21.51	17,950
3	Sundaram BNP Paribas Tax saver	01/09/2006	22.48	01/09/2009	37.6	18.68	16,724
4	Sahara Tax Gain	01/09/2006	18.26	01/09/2009	29.28	17.02	16,031
5	Fidelity Tax Advantage	01/09/2006	10.56	01/09/2009	15.63	13.95	14,801
6	Magnum Taxgain	01/09/2006	44.99	01/09/2009	49.54	11.48	13,859
7	Franklin India Taxshield	01/09/2006	112.3	01/09/2009	154.3	11.17	13,743
8	HDFC Tax saver	01/09/2006	125.9	01/09/2009	165.8	9.59	13,165

\* Past Performance may or may not be sustained in the future.

## Typical Characteristics of an open ended ELSS Scheme

**Investment Pattern:** Usually mutual funds invest 100% of the corpus in equity and equity related securities. They may also have option to invest up to 20% in Debt and Money Market Instruments and retain some cash also.

**Investment Objective:** The primary objective of the scheme is to generate long-term capital appreciation from a portfolio that is invested predominantly in equity and equity related instruments.

**Net Asset Value:** Calculated & declared every working day

**Plans / Options:** Growth Option Dividend Pay-out Option & Dividend Reinvestment Option

**Application Amount:** The minimum amount for all category of investors is Rs. 500/- and in multiples of Rs. 500 thereafter. There is no cap on the maximum amount. However investments only up to Rs. 1 lakh by the eligible investor in the scheme will qualify for deduction under the Act.

**Min. Additional Investment:** Minimum additional purchases of Rs. 500.

**Entry Load:** No Entry Load for Direct Investments w.e.f January 4th, 2008. In terms of SEBI circular no.SEBI/IMD/CIR No.4/ 168230/09 dated June 30, 2009, no entry load will be charged by the Scheme to the investor effective August 1, 2009. Upfront commission shall be paid directly by the investor to the AMFI registered Distributors based on the investors' assessment of various factors including the service rendered by the distributor



Exit Load: Nil

Redemption Cheques Issued: Will be allowed only after the expiry of the lock in period of 3 years.

Minimum Redemption Amount: Will be allowed only after the expiry of the lock in period of 3 years.

Systematic Transfer Plan / Dividend Transfer Plan: Available. However, the scheme cannot become a transferor scheme before 3 year lock-in-period.

Nomination Facility: Available

Mode of Holding: Single, Joint or Anyone or Survivor

Switching Option: Available only after the expiry of the lock in period of 3 years.

Recurring Expenses: Varies from scheme to scheme. Typical recurring expenses could be in the range of 2.5% per annum.

## Risk Factors

Mutual Funds and securities investments are subject to market risks and there is no assurance or guarantee that the objectives of the Scheme will be achieved. As with any investment in securities, the NAV of the Units issued under the Scheme can go up or down depending on the factors and forces affecting the capital markets. Past performance of the Sponsor/AMC/Mutual Fund is not indicative of the future performance of the Scheme. Name of the Scheme does not in any manner indicate either the quality of the Scheme; its future prospects or returns. The Sponsor is not responsible or liable for any loss resulting from the operation of the Scheme beyond their initial contribution of Rs.1 lakh towards the setting up of the Mutual Fund and such other accretions and additions to the corpus. Investment in ELSS scheme is subject to lock in period of 3 years from the date of allotment of units. The NAV of the Scheme may be affected, interalia, by changes in the market conditions, interest rates, trading volumes, settlement periods and transfer procedures. The Mutual Fund is not assuring that it will make periodical dividend distributions, though it has every intention of doing so. All dividend distributions are subject to the availability of distributable surplus in the Scheme. For details of scheme features apart from those mentioned above and for scheme specific risk factors, please refer to the Offer Document/Scheme Information Document.