

ELSS - A great option to save taxes!



Come January, and people rush to search for tax-saving alternatives. There are several tax-saving instruments, each having their advantages and disadvantages. Here's why equity-linked savings scheme or ELSS should be considered as a tax-saving alternative:

Benefits of ELSS: While the obvious benefit of ELSS investment is saving taxes via deduction of up to Rs.1.5 lakhs in a financial year, there are several other benefits it offers:

- **Low Lock-In Period:** One of the biggest advantages of ELSS is a relatively low lock-in period. While most other tax-saving instruments have a lock-in period of 5 years and more, ELSS has a lock-in period of 3 years. Once you invest in ELSS for three consecutive years, you can redeem your funds.
- **Invest through SIP:** Similar to other mutual funds investments, you can use a staggered investment approach to tax saving and invest in ELSS through SIP. This ensures that you are not burdened during the last few months of the financial year. ELSS SIP inculcates financial discipline and helps in better management of savings and expenses. Further, ELSS SIP offers the advantage of rupee cost averaging. If you are investing in ELSS through SIP, the 3-year lock-in period will apply to each of your SIPs.
- **Build a corpus:** ELSS invests in equities, which have the potential to generate a sizeable corpus. With ELSS, you can continue investing even after its maturity period. You can invest for as long as you wish to. Thus, along with tax savings, you can even build a generous corpus in the long run.
- **Flexibility:** ELSS offer the flexibility to choose between dividend and growth options. In the dividend option, the investor receives the dividend periodically, whereas in the growth option, the dividend gets reinvested into the ELSS scheme. Also, if you feel that your ELSS fund is not delivering, you may choose to switch the fund house.
- **Suitable for people in all tax brackets:** With an ELSS, tax benefit can be availed up to a maximum investment of Rs.1.50 lakh per annum. Thus, ELSS investments is suitable for people in all tax brackets.

For investors who do not mind taking the risk involved in equity investments, ELSS can serve as a great avenue to save taxes with a probability of generating a generous corpus.



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ELSS Investments are subject to a 3 year lock-in. As per the present tax laws, eligible investors (individual/HUF) are entitled to deduction from their gross income of the amount invested in Equity Linked Saving Scheme (ELSS) up to Rs.1.5 lakhs (along with other prescribed investments) under section 80C of the Income Tax Act, 1961. Tax savings of Rs. 46,800 mentioned above is calculated for the highest income tax slab. Finance Act. 2020 has announced a new tax regime giving taxpayers an option to pay taxes at a concessional rate (new slab rates) from FY 2020-21 onwards. Any individual /HUF opting to be taxed under the new tax regime from FY 2020-21 onwards will have to give up certain exemptions and deductions. Since, individuals/HUF opting for the new tax regime are not eligible for Chapter VI-A deductions, the investment in ELSS Funds cannot be claimed as deduction from the total income. Investors are advised to consult his/her own Tax Consultant with respect to the specific amount of tax and other implications arising out of his/her participation in ELSS.

Mutual fund investments are subject to market risks, read all scheme related documents carefully.