Equity Linked Savings Scheme (ELSS)

by Mirae Asset Knowledge Academy

What is ELSS?

Equity Linked Savings Scheme (ELSS) was floated as per the ELSS guidelines issued by CBDT under section 80C of the Income Tax Act 1961 to encourage investments in equities by providing tax rebate. The amount, up to Rs 1.5 lakhs (For the current FY), if invested in ELSS is exempted from tax.

Investors who invest in ELSS are investing in a scheme where minimum 80% of the invested amount can be in equities and equity related securities. Therefore, it is at par with any diversified equity fund. ELSS investments come with a three years lock in period where the long term capital gains and dividends are tax free. The lock in period is only three years making it the option with the shortest lock in period in tax saving options.

Benefits of ELSS:

1. **Saves Tax**:

By investing Rs. 1.5 Lakhs in ELSS mutual funds, you are eligible for tax exemption under SECTION 80C.

	Amount in Rs.					
	10% Tax Bracket		**20% Tax Bracket**		**30% Tax Bracket**	
	Without investments under 80C	**With investments under 80C**	**Without investments under 80C**	**With investments under 80C**	**Without investments under 80C**	**With investments under 80C**
Gross Income	500,000	500,000	1,000,000	1,000,000	1,500,000	1,500,000
Investment in ELSS under Section 80C	0	150,000	0	150,000	0	150,000
Net Taxable Income	**500,000**	**350,000**	**1,000,000**	**850,000**	**1,500,000**	**1,350,000**
Gross Tax Liability	25,000	10,000	125,000	95,000	275,000	230,000
Less: rebate if income upto Rs. 500,000	2,000	2,000	0	0	0	0
Net Tax Liability	23,000	8,000	125,000	95,000	275,000	230,000
Plus Educational Cess @ 3%	690	240	3,750	2,850	8,250	6,900
Total Tax Liability	**23,690**	**8,240**	**128,750**	**97,850**	**283,250**	**236,900**
Tax Saved		**15,450**		**30,900**		**46,350**

Income estimates for an individual of less than 60 years of age. The above simulation is for illustration purpose only. As per the present tax laws, eligible investors (individual/ HUF) are entitled to deduction from their gross total income, of the amount invested in equity linked saving scheme (ELSS) up to Rs. 150,000/- (along with other prescribed investments) under Section 80C of the Income Tax Act, 1961.

2. **Lowest Lock-in Period**:
   ELSS mutual funds come with lock-in period of 3 years. As visible in earlier table ELSS has the least lock in period compared to other 80C options.

3. **Tax free Returns & Dividends:**
   If you observe, none of the returns from tax saving investment options other than PPF, ELSS and ULIP are tax free. NSC, Tax Saving Bank FD, Tax saving Post office scheme etc. all these tax saving options' returns are taxable based on individual tax slab. However, interest on 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.

4. **Growth of Equity:**
   Since an ELSS mutual fund invests in equity related instruments, these schemes would help you to grow your money when the stock market grows over a period of time.

Disclaimers:

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

Tax benefits are subject to the provisions of the Income Tax Act, 1961 and are subject to amendments, from time to time.