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# Equity Linked Savings Scheme The Wise Choice

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# TAXES EAT INTO YOUR DISPOSABLE INCOME

Meet Deepak.



At a young age, he brags about his salary to his friends.

But the real story remains untold. What does he get in his hands?

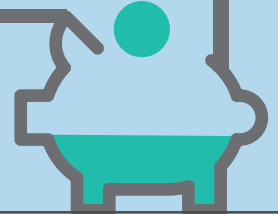
Taxes eat into, upto 30% of his income.



After taking both taxes and expenses into account..

DEEPAK IS LEFT WITH VERY LITTLE.

He needs to find out ways to reduce his tax burden and kick-start his savings.



Income Tax Act allows certain deductions from taxable income that help reduce your tax liability.

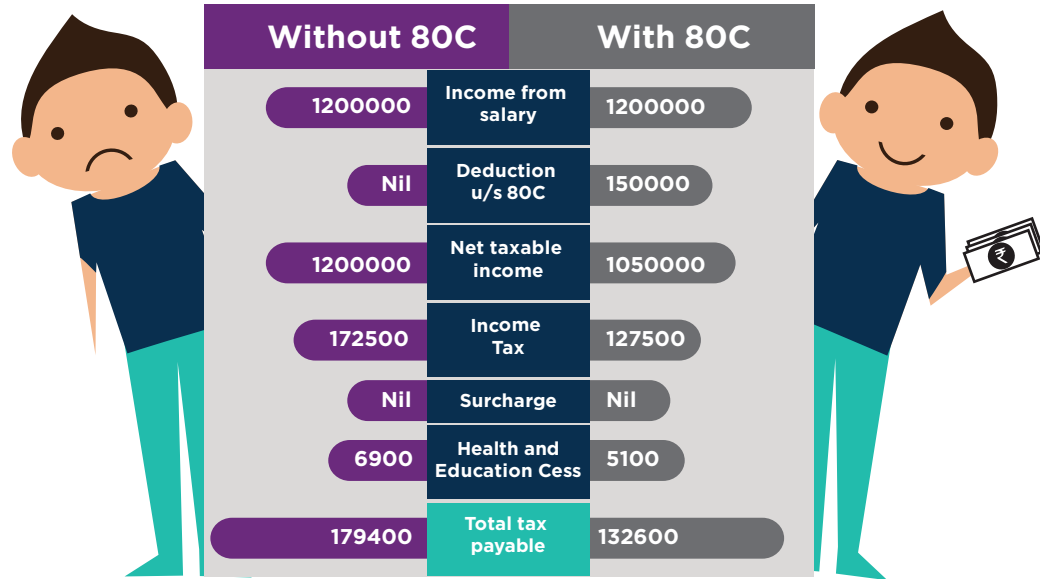
# SECTION 80C

## THE LEGAL WAY TO SAVE TAXES

Section 80C of the Income Tax Act allows Deepak a deduction of upto Rs. 1.5 lakh from his total income.

To avail this deduction, Deepak must invest this amount in any approved investments.

A simple calculation of taxes makes Deepak realize the amount of tax that can be saved by making the 80C investment.



\*Note: Tax calculations have been made as per Income Tax Slabs applicable for AY 2022-23. It is assumed that the assessee has no other income except income from salary. It is assumed that the assessee has not opted for new tax regime of lower tax rates under section 115BAC.

**You can save taxes upto Rs. 46,800\* by investing in an 80C approved investment.**

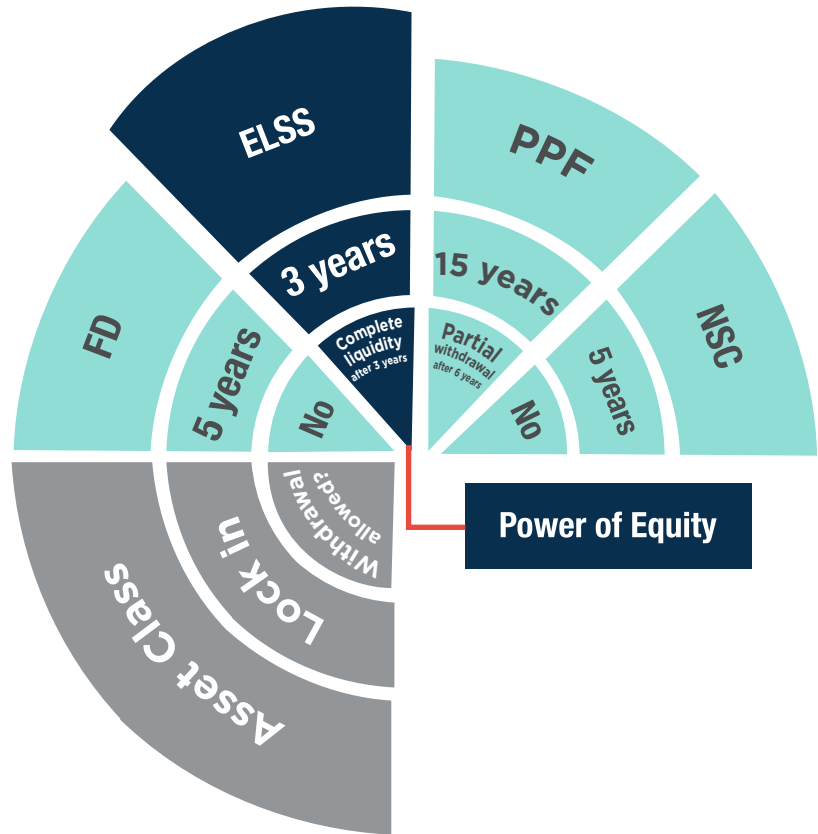
# CHOOSING THE RIGHT INVESTMENT

Deepak asks his advisor to suggest some 80C approved investments.

After going through various options available, he understands that apart from tax benefit, these investments have inherent features and benefits.

The same tax benefit upto Rs. 1.5 lakh applies for each of these options.

However, returns, period of lock-in, withdrawal allowances differs.



**Choose your 80C investment carefully, after taking into account the other benefits it offers.**

# POPULAR CHOICE MAY NOT ALWAYS BE THE BEST

Deepak's father who is old has advised him to open a PPF account and simply deposit Rs. 1.5 lakh each year, without giving it a second thought.

He being a PPF investor himself, claims that it's a safe bet and this feature overrides benefits that any other instrument offers.

He insists that PPF is safe and helps save tax. That's what really matters!



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**Times change, markets mature, offering wider choices to investors. It is important to evaluate each choice before blindly choosing the traditionally popular option.**

# ELSS VS. PPF: ADVANTAGE ELSS

Deepak takes a closer look at the ELSS option:



## ETT INSTRUMENT

- a) Investment is **Exempt** upto Rs. 1.5 lakh
- b) Dividend income is **Taxable** in the hands of investors w.e.f. 1 April 2020
- c) Redemption proceeds are **Taxable**. Long term capital gains on equity oriented mutual funds exceeding Rs 1 lakh are taxable at the rate of 10%.



## EQUITY PARTICIPATION

ELSS actively invests the corpus in the equity market. Equities have the potential to earn higher returns than traditional savings options over the long term.



## BETTER LIQUIDITY

With the shorter lock-in period of 3 years, ELSS is the only option that allows you to withdraw your money after 3 years if needed.

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**ELSS has an higher earning potential and a shorter lock-in period.**

# ELSS IS A WISE CHOICE!

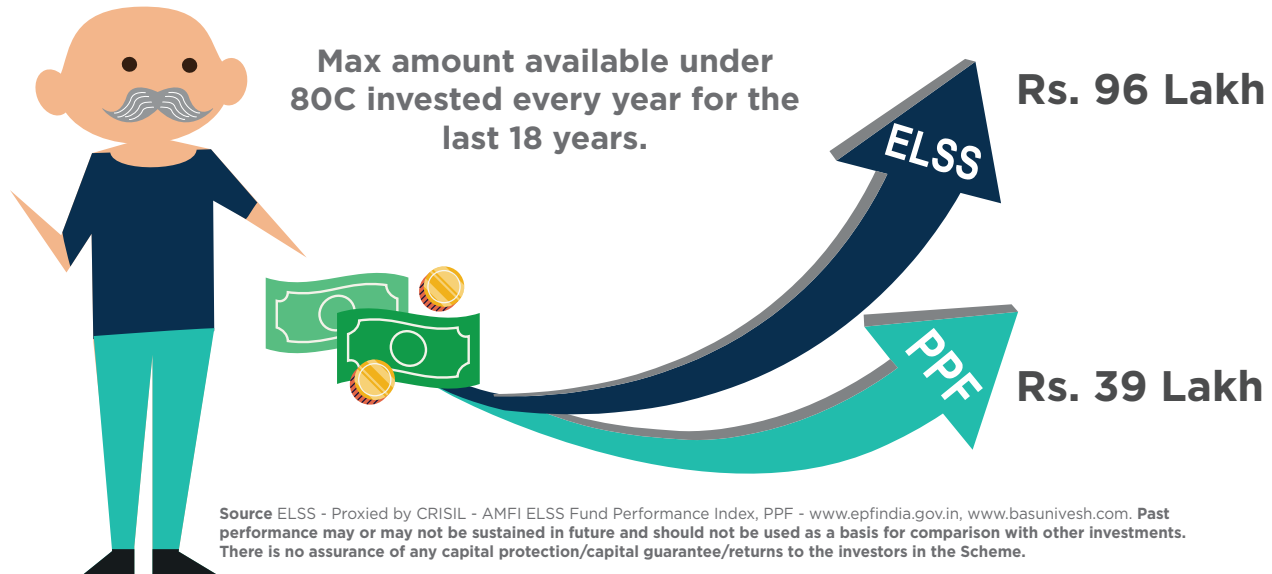
	PPF	ELSS	
Does it offer tax benefit u/s 80C?	✓	✓	Upto Rs. 1.5 Lakh
Is the income from the investment tax-free?	✓	✗	Dividend income is taxable in the hands of investors w.e.f. 1 April 2020.
Will my profits on withdrawals be tax free?	✓	✗	Long term capital gains excess of Rs 1 lakh are taxable at the rate of 10% with effect from April 01, 2018.
What would be my predominant asset class exposure?	Debt	Equity	Exposure to Equity in ELSS is at least 80% of the portfolio
Do I get the benefit of a lower lock-in period?	✗ Partial withdrawal allowed after 6 yrs	✓	Entire investment can be redeemed after 3 years
Does it offer transparency?	✗	✓	Portfolio is disclosed every month NAV is disclosed daily

Do not compromise when you have an efficient choice available. It is a matter of Rs. 1.5 lakh of your hard-earned money year after year! So, spare a thought and weigh the pros and cons!

**Lock-in period is the lowest in an ELSS!**

# THE PROOF OF THE PUDDING IS IN THE EATING

If Deepak's father would have invested in ELSS instead of PPF, this is what he would have made!



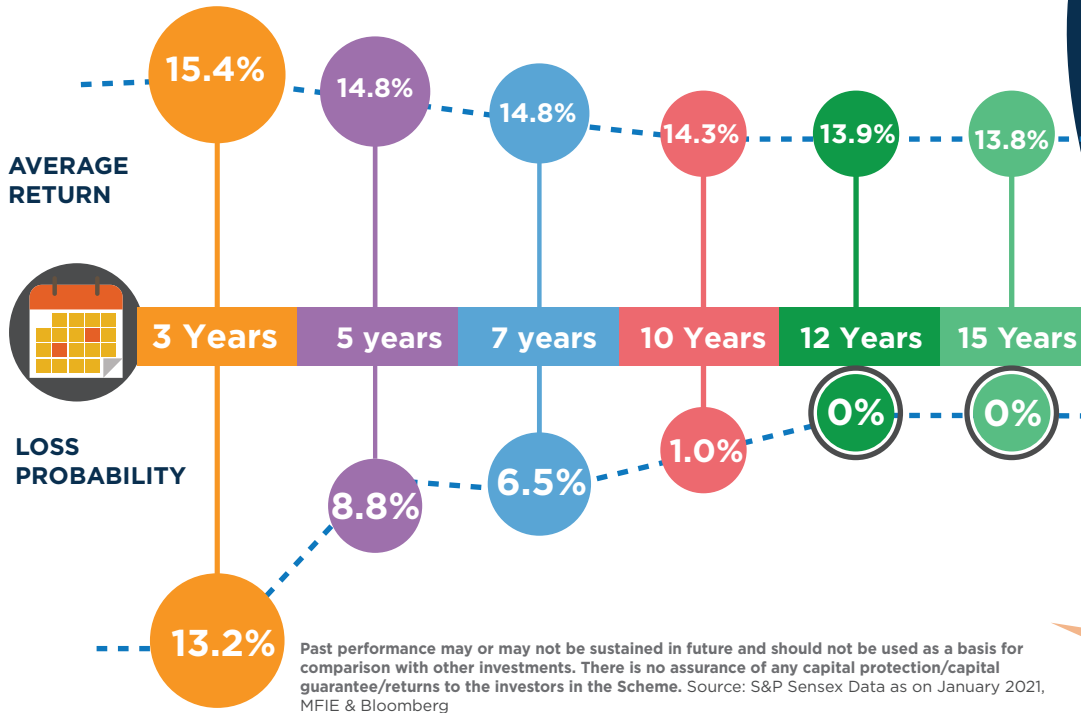
Data for the period of March 31, 2002 to January 31, 2021

Enjoy the benefits of compounding with an Equity Linked Savings Scheme.



# LONG TERM HORIZON HELPS

Deepak is convinced about the advantages of ELSS, but is worried about the risk that comes with equity.



If you stay invested in equity fund over a longer duration, the risk (probability of loss) is relatively lower. As the holding period increases, the probability of making a loss becomes lower.. This is where the lock-in period helps.



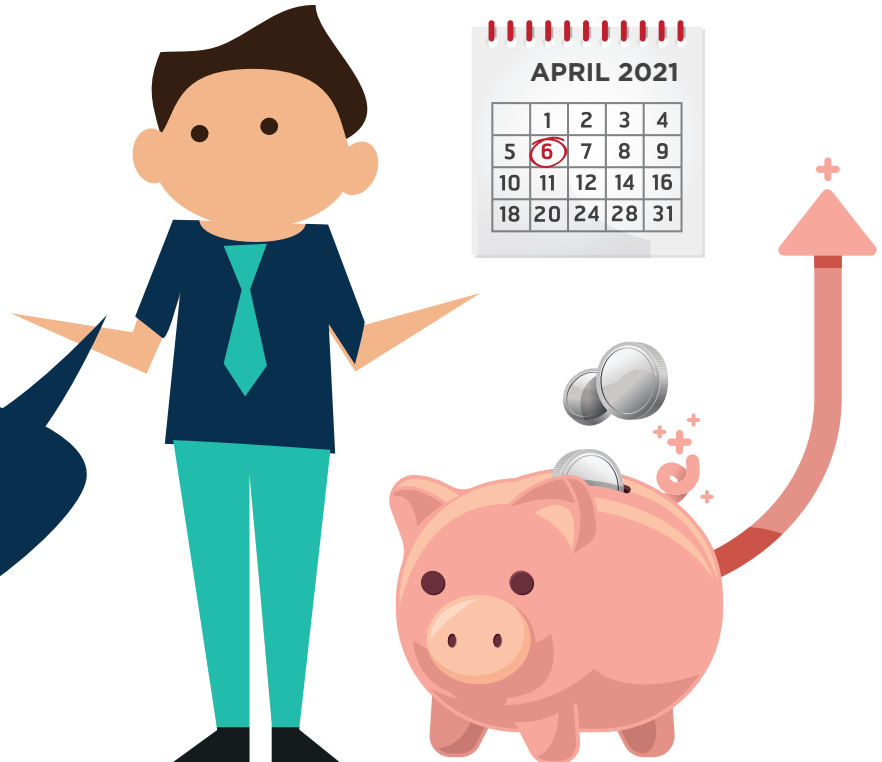
**Over the long term, risks in equity investments tend to become lower. Hence, the 3-year lock-in could actually be a blessing in disguise!**

# A SYSTEMATIC EARLY START

Making provision for a lump sum at the end of the year can affect Deepak's cash flows in that month.

Deepak's financial adviser explains that instead of waiting for the financial year to end, he can start as early as the beginning of the year.

SET ASIDE ONLY  
1/12<sup>TH</sup> (RS. 12500) OF  
THE AMOUNT (RS. 1.5 LAKH)  
EACH MONTH BY  
SIGNING UP FOR AN SIP.



Invest smaller sums periodically in ELSS and manage your cash flow better.

# BENEFITS OF SIP



Small amounts are invested at different points in the equity market over the year. This allows participation at different points of a market cycle, thus averaging out the cost.

Easier to manage a smaller cash outflow every month.



Potential to start early earning returns right from the start of the year.

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**SIP route to investing avoids last minute rush and helps to enjoy the benefits of rupee cost averaging.**

# ELSS - EQUITY FUND AT HEART

Despite the complex name and the inherent tax benefit that it comes along with, ELSS is a diversified equity fund at its core.

IT IS AN EQUITY INVESTMENT WHICH HAS THE POTENTIAL OF:

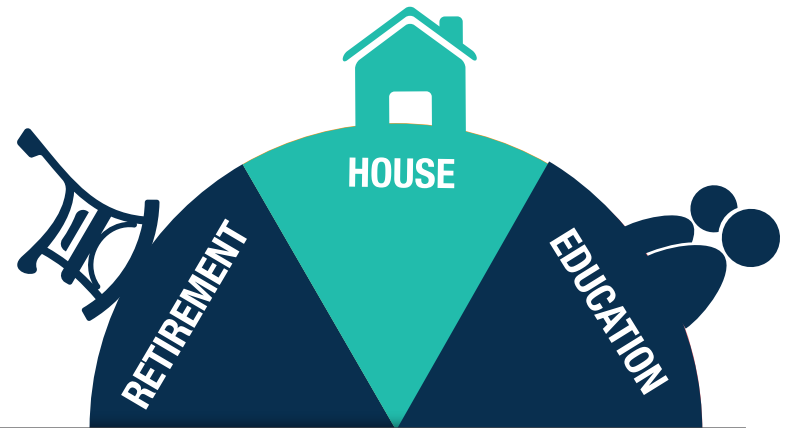
CAPITAL APPRECIATION

INFLATION-ADJUSTED RETURNS

Therefore, nothing stops Deepak from using ELSS to save for his long term financial goals.

So Deepak need not have different silos - one for investments and another for tax saving.

His ELSS can double-up as a goal-oriented investment.



**ELSS need not be isolated for tax benefit. Instead it should be viewed as a diversified equity fund allowing investors to save for a financial goal, with an added advantage of tax saving.**

# HIGHER DISPOSABLE INCOME

Deepak is about to save Rs. 46,800\* on tax after making the ELSS investment.

He has a higher disposable income because he has a lesser tax burden.



**HE MAY USE THE SURPLUS TO INVEST IN A MUTUAL FUND FOR HIS OTHER FINANCIAL GOALS.**

**Capital gains in excess of Rs 1 lakh earned on investment in an Equity Mutual Fund held for a period of 12 months or more are taxable at 10% with effect from April 01, 2018.**

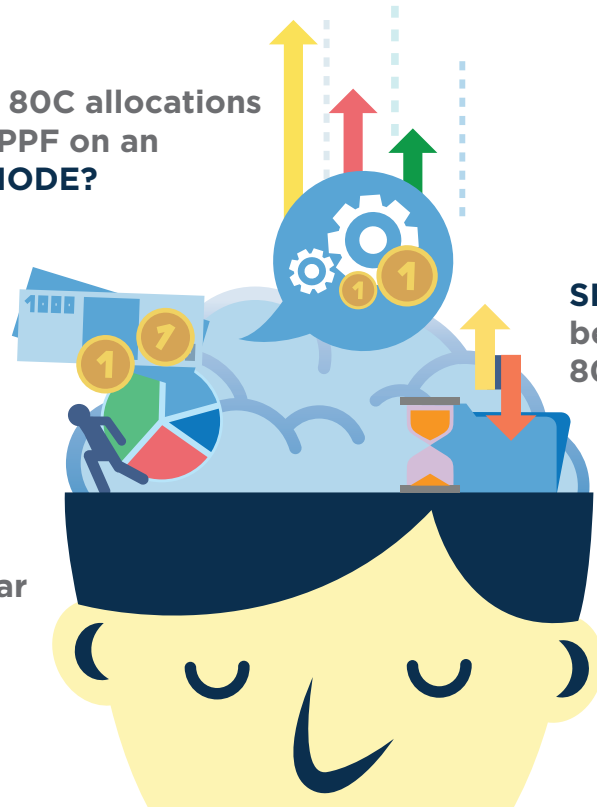
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**Mutual funds offer a wide range of schemes suited for different objectives, time horizons, risk profiles.**

# THINK BEFORE YOU INVEST!

Do your 80C allocations go into PPF on an AUTO-MODE?

**PLEASE DO NOT INVEST BLINDLY!**  
After all, it's the question of Rs. 1.5 lakh of your hard-earned money year on year!



**SPARE A THOUGHT**  
before you choose your 80C investment.

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**Make a wise choice by investing in a ELSS**

