

When it's about money..

**IIFL** PRESENTS #REBOOTINGINDIA  
**BUDGET ET** 2018



# Does it make sense to recycle your ELSS investments after return of LTCG tax?

BY SHIVANI BAZAZ, ET ONLINE | UPDATED: FEB 22, 2018, 02.42 PM IST

Post a Comment

Some [mutual fund](#) investors love to recycle their investments in Equity Linked Saving Scheme or [ELSS](#) to claim tax benefit under [Section 80C](#) of the [Income Tax Act](#). The strategy is very simple: you recycle your old investment and claim tax deduction on it again after three years. However, the re-introduction of Long Term Capital Gains ([LTCG](#)) tax may queer the pitch for these investors, say some mutual fund advisors.

“Fundamentally, this process is unhealthy for your investments but now after the introduction of LTCG, you will be at loss since you will pay tax on the redemption,” says Vishal Dhawan, Founder, Plan Ahead Wealth Advisors.

The finance minister has proposed to tax long term capital gains above Rs 1 lakh on equity mutual funds at a flat 10 per cent without the indexation benefit.

For late comers, investments in ELSS qualify for tax deductions of up to Rs 1.5 lakh under Section 80C. However, instead of making fresh investments, some investors pull out their old investment after the mandatory lock-in period of three years and invest it again to claim a tax deduction on the investment. Known in mutual fund circles as recycling, mutual fund advisors frown upon this practice.



**Big Change:**

The end of Five-Year Plans: All you need to know

“Earlier, it was just about not letting the money grow in the long term but now you have tax implications also. You will pay 10 per cent on your redemption above Rs 1 lakh. So the entire money doesn’t go back to the system,” says Vishal Dhawan.

After the reintroduction of **LTCG tax**, the investors indulging in this process would pay 10 per cent tax on their long term capital gains above Rs 1 lakh. But, if the gains are less than Rs 1 lakh, they can escape the LTCG tax. It seems, most investors may be able to escape the new tax on recycling their ELSS investments, as not many investments would actually make long term capital gains of above Rs 1 lakh within three years. For example, if you invest Rs 1.5 lakh in ELSS, your investment has to grow at an annual rate of 18.36 per cent to make capital gains of over Rs 1 lakh.



Relax & let us boost your website traffic

Times Group



Dos & Don'ts of transacting online

UTI MUTUAL FUND

Recommended By Colombia

“To make gains worth and above Rs 1 lakh is possible in ELSS. While we can’t guarantee 18-19 per cent returns consistently, there is definitely a possibility of ELSSs gaining even more than 20 per cent annually,” says Vishal Dhawan.

Mutual fund advisors believe that investors who want to recycle their investments will continue to do it even after the new LTCG tax. “For an investor in the 20 per cent tax bracket, it makes sense to pull out Rs 2.5 lakh, pay Rs 5,000 as tax and invest Rs 1.5 lakh back to save taxes. It saves him tax and gives him extra cash in hand,” says Chokkalingam Palaniappan, Director, Prakala Wealth Management. However, he cautions that pulling out money early would result in losing the advantage of compounding of returns over a long period. “At the end, you pulled out Rs 2.5 lakh and invested lesser. The investment could have grown to a larger amount if not churned midway,” he adds.

Mutual fund advisors believe that recycling the ELSSs won't be a bad idea in some cases. “Investors who don't have more money to invest can go for recycling their investment. We have been asking investors to not indulge in such processes but in some cases where investor may not have a choice, I think it is okay,” says Chokkalingam Palaniappan.

Stay on top of business news with The Economic Times App. [Download it Now!](#)

[Live Market](#)  
[News](#)  
[Portfolio](#)  
[Mobile](#)  
[Live TV](#)  
[Biz Listings](#)

[Industry](#)  
[Newsletters](#)  
[Commodities](#)  
[Speed](#)  
[Blogs](#)  
[RSS](#)

[About Us](#)  
[Create Your Own Ad](#)  
[Advertise with Us](#)  
[Terms of Use & Grievance Redressal](#)  
[Privacy policy](#)

## FOLLOW US



Download it from  
**APP STORE**



Download it from  
**GOOGLE PLAY**



Download it from  
**Windows Store**

### Other Times Group news sites

[इकनॉमिक टाइम्स](#) | [ईकोनॉमिक्स टाइम्स](#) | [Pune Mirror](#) | [Bangalore Mirror](#) | [Ahmedabad Mirror](#) | [ItsMyAscent](#) | [Education Times](#) | [Brand Capital](#) | [Mumbai Mirror](#) | [Times Now](#) | [Indiatimes](#) | [नवभारत टाइम्स](#) | [महाराष्ट्र टाइम्स](#) | [ವಿಜಯ ಕರ್ನಾಟಕ](#) | [Go Green](#) | [AdAge India](#) | [Eisamay](#) | [IGN India](#) | [NavGujarat Samay](#) | [Times of India](#) | [Samayam Tamil](#) | [Samayam Telugu](#) | [Miss Kyra](#) | [Bombay Times](#) | [Filmipop](#) | [BrainBaazi](#) | [BrainBaazi APP](#)

### Living and Entertainment

[Timescity](#) | [iDiva](#) | [Entertainment](#) | [Zoom](#) | [Healthmeup](#) | [Luxpresso](#) | [Gadget Reviews](#) | [Titanium & Platinum Credit Card](#) | [Online Songs](#) | [MensXP](#) | [Hotels](#) | [Travel Destinations](#) | [Cricbuzz](#) | [Recipes](#) | [Gaana](#) | [Happytrips](#) | [Getsmartapp](#)

### Interest Network

[itimes](#)

### Hot on the Web

[IPO](#) | [PNB Share Price](#) | [Income Tax Slabs](#) | [Aadhaar Card](#) | [How to Save Income Tax](#) | [Axis Bank IFSC Code](#) | [Income Tax](#) | [Sensex Today](#) | [Nifty Bank](#) | [Sensex](#) | [Income Tax Calculator](#) | [Tripura Elections](#)

### Services

[Book print ads](#) | [Online shopping](#) | [Matrimonial](#) | [Astrology](#) | [Jobs](#) | [Tech Community](#) | [Property](#) | [Buy car](#) | [Bikes in India](#) | [Free Classifieds](#) | [Send money to India](#) | [Used Cars](#) | [Restaurants in Delhi](#) | [Remit to India](#) | [Buy Mobiles](#) | [Listen Songs](#) | [News](#) | [TimesMobile](#) | [Real Estate Developers](#) | [Restaurant Deals in Delhi](#) | [Car Insurance](#) | [Gadgets Now](#) | [Free Business Listings](#) | [CouponDunia](#) | [Remit2India](#) | [Techradar](#) | [AliveAR](#) | [Getsmartapp App](#) | [ETMoney Finance App](#) | [Feedback](#) | [AutoManage Notifications](#)

## In Case You Missed It

- ✦ [Aditya Birla Sun Life Mutual Funds](#)
- ✦ [L&T Mutual Funds](#)
- ✦ [Budget 2018](#)
- ✦ [Kotak Mahindra Mutual Funds](#)
- ✦ [Reliance Mutual Fund](#)
- ✦ [HDFC Mutual Fund](#)
- ✦ [Franklin Mutual Funds](#)
- ✦ [IDFC Mutual Funds](#)
- ✦ [IPO](#)
- ✦ [Best Mutual Funds](#)
- ✦ [UTI Mutual Fund](#)
- ✦ [ICICI Mutual Fund](#)

