ELSS: Get more out of it

BEYOND TAX BENEFITS If you are young and have more years of service ahead, you can put a major portion of your tax-saving investment in equity linked savings scheme (ELSS)

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MUMBAI: The beginning of a financial year is a good time to plan your investment. It is also a good time to put your money in investment basket and get tax benefit as well. One such product is equity linked savings scheme (ELSS). ELSS is mutual fund investment, which also gives you tax benefit. Here is how you can use it to work for you in terms of investment and taxation.

WHAT IS IT?

An ELSS scheme invests in equity mutual fund. "At least 65% of the corpus is invested in equities. It cannot be less than that," said S Krishna Kumar, chief investment officer-equity, Sundaram Mutual Fund. "These funds are meant for long-term wealth creation by participating in equities and should be able to deliver alpha (active returns) over the benchmark," said Ajit Menon, chief executive officer of DHFL Pramerica Mutual Fund.

According to Value Research, currently around 37 asset management companies provide open-ended ELSS schemes and six asset management companies provide close-ended ELSS schemes. The total number of open-ended schemes in the market is 42 whereas the number of close-ended ELSS schemes in the market is 28. "There are no sub-categories or types within ELSS schemes as such but the customer has the liberty to choose among ELSS schemes that invest in small-, mid- and large-cap stocks," said Kumar.

As an investor, you can choose either the growth or the dividend options in ELSS schemes. "In growth schemes you will get a lump sum on redemption. In dividend option, you will get regular dividends from the profit generated by the scheme," said Krishna Kumar. According to financial planners, a growth-based ELSS scheme generally fares better than dividend-based ELSS schemes. "When you are paid a dividend out of your ELSS scheme, the net asset value (NAV) takes a hit. If you need money after your lock-in you can always redeem it without affecting the NAV of the scheme at all. Hence a growth scheme is better," said Suresh Sadagopan, founder of Ladder7 Financial Advisories. If you have a salary income and are not looking for regular income from your investment, then you should opt for growth option. "Also you cannot be certain that your scheme will generate returns and the fund manager will declare a dividend. For example, in the year gone-by, the returns were hardly 2-3%," said Sadagopan. If you invest in ELSS, you can claim tax benefit under section 80C of the income tax Act for up to ₹1.5 lakh.

CONSIDERING ELSS IN YOUR PORTFOLIO

There are a couple of parameters that you can keep in mind before zeroing down on a particular ELSS scheme. "Consistence in beating the benchmark, historical returns, the kind of underlying assets they invest in, fund manager's performance and expense ratio are some of the parameters you should look at," said Vishal Dhawan, founder of Plan Ahead Wealth Advisors. According to financial planners, you should not have more than two ELSS scheme in your portfolio. "Depending on your age and risk profile you can decide which kind of ELSS scheme suits you but multiple schemes are not required," said Melvin Joseph, founder of Navi-Mumbai based Finvin Financial Planners.

Remember that ELSS has a three-year lock-in, hence, you can withdraw only after three years. "If the scheme continuously underperforms after the lock-in period, you can pull out from the ELSS scheme. If you want to invest gain after pulling out for tax-saving purposes, then you can look at a different ELSS scheme. For the same reason, when you are studying your scheme's performance and returns, it is essential to compare it with the performance of the peer schemes and then analyse if it is underperforming or not," said Dhawan.

Now are you wondering of all the 80C options, where does ELSS stand? "It is difficult to compare ELSS with other tax-saving options because of the difference in the nature of products. Let's take the example of PPF. ELSS and PPF are inherently different products so who should invest in which product is completely contextual and depends on your risk profile," said Sadagopan. If you are young and have more years of service ahead, you can put a major portion of your tax-saving investment in ELSS as equity investment can help in growth.