

## WHY ELSS IS A BETTER TAX SAVING INVESTMENT OPTION THAN OTHERS

ELSS funds have lower lock in period and offer better tax treatment on returns as compared to other tax saving instruments u/s 80C

**B**efore the year comes to an end, many investors will start looking at investment opportunities under section 80C to save on their taxes. There are several options the Income Tax Act provides under this section, prominent among them include the public provident fund (PPF), bank fixed deposits (FD)- 5 years, national saving certificate (NSC) and equity linked saving schemes (ELSS), which are also popularly known as tax saving mutual funds schemes. Each of them have their own distinct features, one should evaluate each one of them using multiple parameters before choosing their option.

**TENURE:** ELSS is an absolute winner as it comes with a three year lock-in. While NSC comes in two variants- five and ten years, bank fixed deposits make you invest for at least five years to make it eligible for tax benefit while the PPF makes investors have a 15 year outlook. Though ELSS comes with a three year lock-in, there is no need to sell at the end of three years, investors can remain invested till they want and enjoy capital appreciation by investing in equities.



**MINIMUM INVESTMENT:** Individuals can invest in ELSS with a sum as low as Rs 500 with no compulsion to contribute in future.

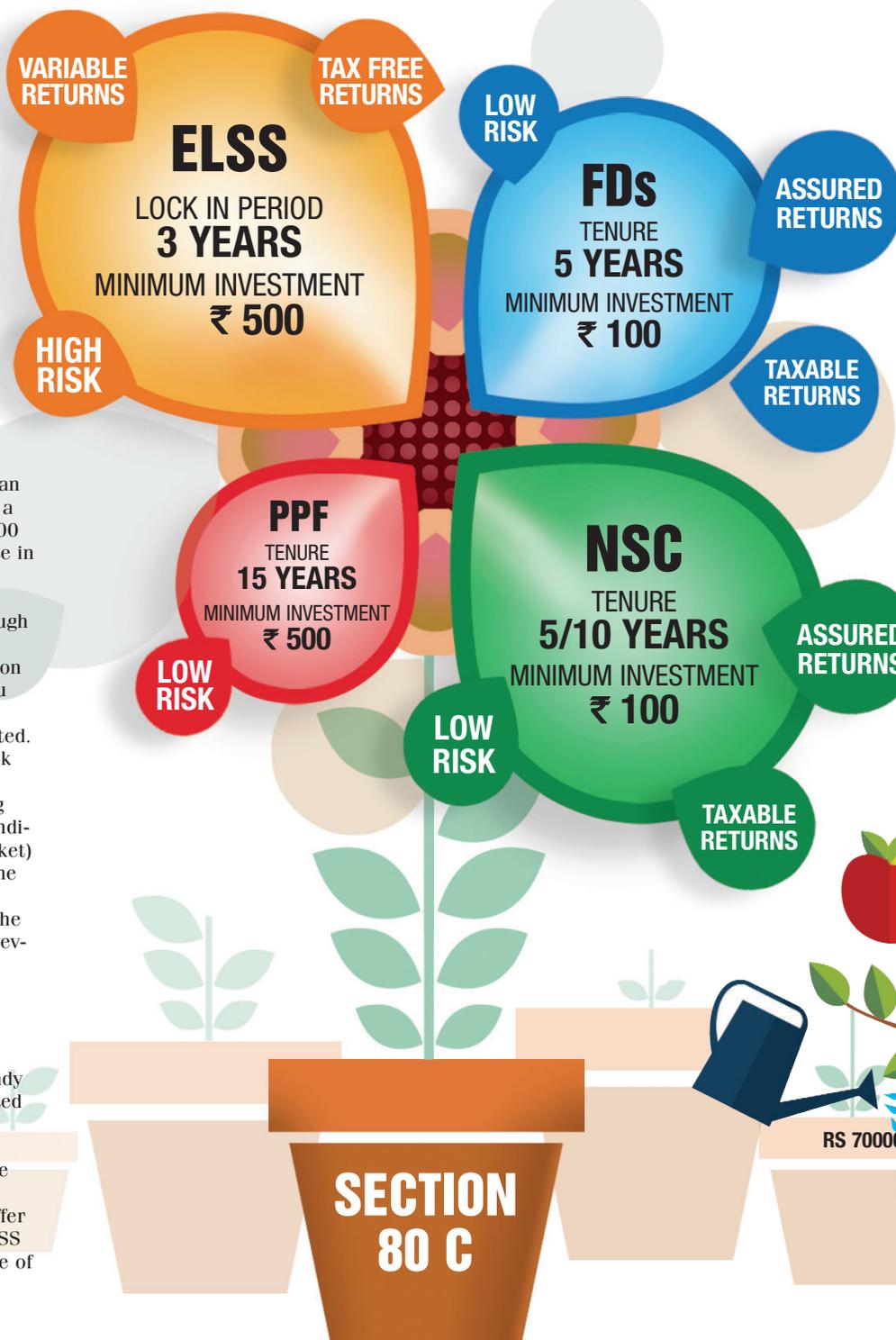


**TAX LIABILITY:** Though all the instruments offer tax incentives on the investments, you cannot afford to ignore the tax treatment of the returns generated. Interest earned on NSC and bank FDs is clubbed to the investor's income and taxed at a whopping rate of 30.9% (considering an individual is in the highest tax bracket) thus effectively bringing down the post tax returns.

PPF proceeds are tax free in the hands of the investor. ELSS however scores here. There are two options for investors. Dividends declared by these funds are tax free. Further, since ELSS comes with a three year lock in and Security Transaction Tax is already deducted, capital gains are treated to be long term and are tax free.



**RISK-RETURN:** While PPF, bank fixed deposits and NSC offer assured returns, ELSS offer market linked returns. Rate of return payable on PPF is



announced by Central Government from time to time and for 2014-2015 it is fixed at 8.7%. The interest paid is compounded annually. NSC, however compounds interest half yearly and pays 8.5% and 8.8% for five and ten years term, respectively. Bank fixed deposits offer around 8.5% to 9% returns, compounded half yearly. Since ELSS invests in equities, the returns are uncertain and investors must be prepared to stomach volatility. However, long term investors can see some wealth creation as equities manage to beat inflation.

To have a better understanding of returns, it makes sense to look at past, though past returns are no indication of future. We should consider Nifty as a representative of ELSS. Over last 20 years, it is assumed that Rs 70000 were invested on the last business day of each

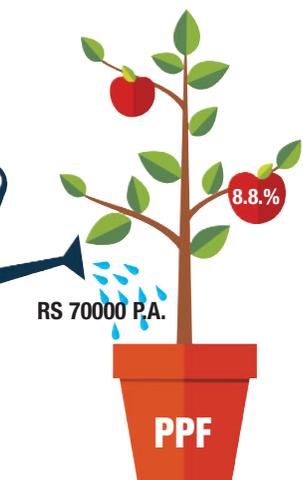
financial year and the results were judged. While investment in Nifty grew to Rs 57.22 lakh – a return of 12%, PPF offered Rs 38.73 lakh – return of 8.8%. The numbers are as of March 31, 2014. Nifty has outperformed PPF by a wide margin as shown in graphic below.



**EASE OF INVESTMENTS:** While NSC is yet not available online, not all banks offer online investing in tax saving bank fixed deposits. PPF is available with India Post and select branches of some banks. Mutual funds offer systematic investment plans which make staggered investing possible. Also investors can tap mutual funds online, making life easier. ELSS helps investors save on tax and create tax free wealth in long term.

₹ 57,22,370 AFTER 20 YEARS

₹ 38,73,961 AFTER 20 YEARS



TO KNOW MORE, CONTACT YOUR FINANCIAL ADVISOR TODAY OR WRITE TO US AT [investoreducation@hdfcfund.com](mailto:investoreducation@hdfcfund.com)

To read all the articles of INVEST-WISE series, please visit Investor Education > Downloads section on our website [www.hdfcfund.com](http://www.hdfcfund.com)

**MUTUAL FUND INVESTMENTS ARE SUBJECT TO MARKET RISKS, READ ALL SCHEME RELATED DOCUMENTS CAREFULLY.**

Amount invested in Nifty	1470000
Amount invested in PPF	1470000
NIFTY XIRR	12.0%
PPF XIRR	8.8%