UTI Mutual Fund
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UTI SWATANTRA

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Are you looking for last minute options to save taxes?

From ELSS to NPS, PPF, Sukanya Samriddhi Yojana, bank FDs and insurance, you could select one or more of these financial products

Times News Network

THINKSTOCK

In the next 10 days, as the financial year ends, a large number of people will be in a rush to invest in tax-saving financial products to lessen their overall tax burden. This is also the time, since they are in a rush, they are often left confused about which financial product is the best for them. Here are some of the popular tax saving options under section 80C of Income Tax Act to select from:

1. Equity Linked Savings Schemes (ELSS)

These are mutual fund schemes run by fund houses which are also approved by the government to save on taxes. These come with a three-year lock-in. Meaning if you withdraw the amount invested to save on taxes within three years from start, you have to forego your tax benefits. You could opt for growth and dividend options. These are completely market linked products and so rates of return can not be predicted. However, in the last five years, the average yearly return in the ELSS category has been about 18.5%, data on Valueresearch website showed. Given an investor's risk profile that allows him/her to invest in ELSS, financial advisors prefer these funds over most other tax saving options. That is because ELSS combines expert investment option at a low-cost, have the shortest lock-in among competing products and can inculcate an investing discipline if an investor opts for monthly systematic investment plan (SIP).

2. National Pension Scheme (NPS)

In addition to the section 80C benefits that allow NPS contributions to be clubbed with other approved investment products, one can also avail of a Rs 50,000 deduction by investing in this product that is under direct government supervision. So in a way by investing the Rs 50,000 in NPS, you could avail of total tax benefits for Rs 2 lakh per year.

3. Public provident fund (PPF)

With the government guarantee, relatively higher tax-free rate of return and available tax deductions, PPF is one of the most popular fixed-income tax saving options in the market. Of late the government has linked the return to yields in the government securities market, which has taken some sheen off this product. According to financial advisors and planners, PPF is among the best tax saving options.

4. Sukanya Samriddhi Yojana (SSY)

This is a scheme that is aimed especially at the girl child. Run by the government, investments in SSY are tax free, so are the returns. An SSY account could be opened in the name of a girl child till she turns 10. Currently it fetches about 8.1% rate of return, which is the highest among similar fixed income tax saving products.

5. Tax saving bank deposits

There are some designated fixed deposits in banks which are allowed as tax saving products by the government. These deposits come with a five-year lock in and pre-mature withdrawal is not allowed. Most of the government-run and private banks offer this product. One can also invest in these FDs through post offices.

6. Insurance plans

Most of the insurance plans available in the market qualify for tax deductions under section 80C. These include unit linked insurance plans, term plans as well as traditional plans. Here the money spent to buy an insurance, the maturity benefits as well as the death benefits are tax free.

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Scan this QR code to learn all about ELSS & understand how it helps investors in saving tax ...

STEPS TO DOWNLOAD AND SCAN A QR CODE
● Download QR code app on your phone ● Run app and scan the QR code ● Your smartphone will read the code & navigate to the destination

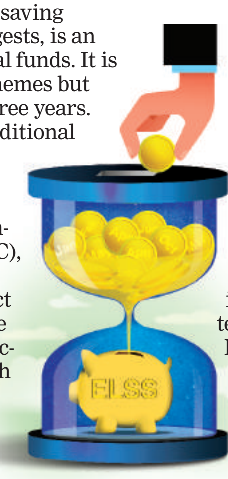
ELSS scores over other tax-saving options

Anurag Bansal

With the financial year-end just around the corner, it's high time to plan one's investments to save tax, in case it is still on your to-do list. Ideally an investor should eliminate such pressure by simply planning these investments as early as possible during the year.

One has a plethora of products available under section 80C to save tax. ELSS (Equity linked saving scheme), as the name suggests, is an equity scheme with mutual funds. It is similar to other equity schemes but with a lock in period of three years. With falling returns in traditional tax-saving instruments such as Public Provident Fund (PPF), Tax-Saving Fixed Deposits and National Savings Certificate (NSC), it makes sense to invest in ELSS. It is the only product that offers equity exposure and has potential for attractive long term returns with lowest lock-in-period of three years. Among other investment options, Public Provident Fund (PPF) has a minimum lock-in of 15 years with conditional withdrawal before maturity. Tax-Saving Fixed Deposits and National Savings Certificate (NSC) are locked in for a period of five years. Life insurance policies are also taken generally for more than 10 years, with a minimum lock in of five years.

To invest in an ELSS, one can either make a lump sum investment or do a monthly SIP (systematic investment plan) or do both. One can claim deduction of up to Rs 1.5 lakh of investments in ELSS, although there is no upper limit for investment. Like in other mutual fund schemes, ELSS funds also come with a growth and dividend option. In the growth option, the investor gets a lump sum on redemption, whereas in the dividend option there is a regular dividend income as and when a payout is declared by the fund. There is no compulsion to redeem after expiry of lock in period and an investor can continue in the scheme and benefit from long-term growth.



ELSS category has the potential to offer superior post-tax returns as compared to other options available under Section 80C. As of March 8, 2018, the ELSS category has delivered annualized returns of nearly 8.4% in last three years and 18.2% in last five years, with highest in the category being almost 12% and 22.3% in last three years and five years respectively. The safer options available under Section 80C mostly offer much lesser returns. However, as is the case with all mutual fund schemes, there's no guarantee of any fixed returns.

If the budget proposal to introduce tax of 10% on long term capital gains of over Rs 1 lakh goes through, ELSS funds would also attract LTCG tax of 10% on redemption. Still, within the basket of Section 80C, ELSS will continue to have higher returns, shortest lock-in period and a low cost structure when compared to various tax-saving investment options.

Considering the long term return potential of equities, ELSS will remain the best investment option for long term investors who are looking for decent risk-adjusted returns with tax-saving benefits. Equities as a long term saving instrument has delivered good returns and the funds can remain invested for a longer period as per the investment goal. Lastly, instead of waiting for the year end, investors should invest at the beginning of the year via SIP route and enjoy real benefit of disciplined investing.

Anurag Bansal is Director, SMC Global Securities

INVESTOR QUERY

SEVERAL OF OUR READERS ASK HOW LONG THEY SHOULD STAY INVESTED IN A MUTUAL FUND. SHOULD THEY REDEEM THEIR INVESTMENTS AFTER THREE YEARS, FIVE YEARS, OR MORE THAN THAT?

Financial planners and advisors say there is no one answer to this question. There are quite a few factors that should determine how long one should stay invested in a mutual fund scheme.

To start with an investor should have a goal while beginning to invest in a mutual fund scheme. The investor should also have a timeline about when that particular goal is achieved. And the timeline to achieve the goals should determine what kind of funds one should invest in, they say. Again the nature of mutual fund scheme one selects would also depend upon the risk profile of the investor.

There could be goals which are short term in nature, like buying a motorcycle in a year or two, buying a laptop in six months, paying the annual fee of a child every one year. For meeting such short term goals, financial planners and advisors say it is better to invest in fixed income funds which have lower risks compared to balanced or equity funds since these latter ones are more prone to market volatility.

There could also be some goals which could be achieved about three to seven years from the time when one starts investing. These could be buying a car, meeting the down payment for buying a house, taking care of expenses of the child who's going for higher education etc. For meeting such goals, financial planners and advisors say that if the risk profile of the investor matches, they he/she should select a balanced fund. Usually these funds have a large portion invested in equities (about 60-75%) and the rest in debt securities. Hence these funds have lower risks compared to equity funds but higher risks than pure short-term, fixed income funds.

Financial planners and advisors say for meeting long term goals, those which are to be achieved in more than seven years in the future, one should look at investing in equity funds. Here again, the risk profile of the investor should be taken into consideration.

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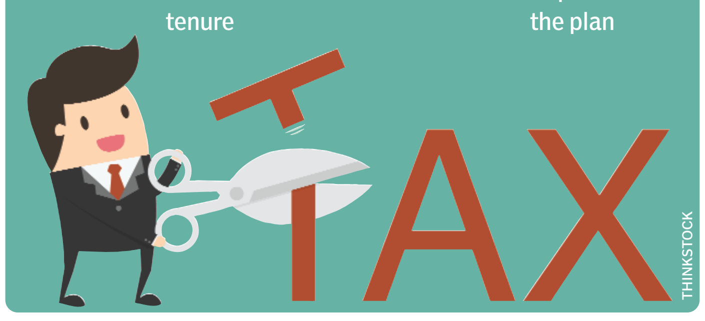
GURU SPEAK

"Successful investing is about managing risk, not avoiding it."

— **Benjamin Graham,** *teacher of Warren Buffett*

TAX SAVINGS OPTIONS UNDER SEC 80C OF INCOME TAX ACT

PRODUCT	RETURN	LOCK-IN	MINIMUM INVESTMENT
ELSS	Market linked	3 years	Rs 500
NPS	Market linked	Till 58yrs of age	Rs 6,000
PPF	7.6% from Jan 1, 2018	Partial withdrawal after 7 years	Rs 500
Bank FDs	6.5-7.5%	5 years	Rs 1,000
Insurance	Varies with tenure	Variable	Depends on the plan



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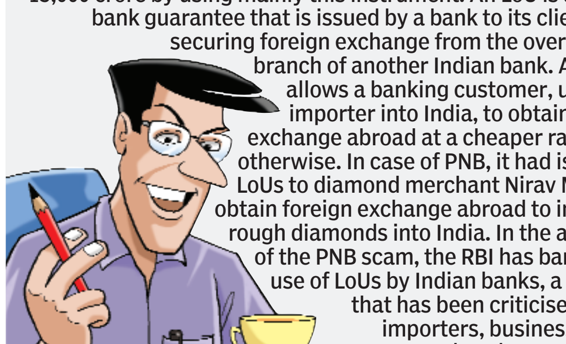
NEXT EDITION

We will tell you why it makes lot of sense to start investing early in the financial year to save taxes

DEMYSTIFIER

WHAT IS AN LoU?



Of late the term LoU has come into the limelight after Punjab National bank said it had been defrauded to the tune of about Rs 13,000 crore by using mainly this instrument. An LoU is a form of a bank guarantee that is issued by a bank to its client for securing foreign exchange from the overseas branch of another Indian bank. An LoU allows a banking customer, usually an importer into India, to obtain foreign exchange abroad at a cheaper rate than otherwise. In case of PNB, it had issued LoUs to diamond merchant Nirav Modi to obtain foreign exchange abroad to import rough diamonds into India. In the aftermath of the PNB scam, the RBI has banned the use of LoUs by Indian banks, a decision that has been criticised by importers, business houses and trade associations.

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