CCI NG 3.7 Product: TOIMumbaiBS PubDate: 03-04-2018 Zone: MumbaiCity Edition: 1 Page: TOIMSPO2 User: sanjay.dighe Time: 04-02-2018 21:52 Color: K

UTI Mutual Fund
Haq, ek behtar zindagi ka.

UTI SWATANTRA

An investor education initiative | Powered by THE TIMES OF INDIA

ELSS score over other competing tax saving investment options

SIP in these funds, approved under sec 80C of Income Tax Act, bring in investing discipline at a low cost

TIMES NEWS NETWORK

People who need to invest in approved financial products to save on taxes often prefer to rush to invest during the last few months of the financial year, especially during the January-February-March of every year. Financial advisors and planners say that this is not the best way to invest or put money in financial products to save on taxes.

The process to save taxes should start at the beginning of the financial year and continue through the year, they say. This way, for one, there is no extra burden on your finances at the end of the year. Secondly, such a year-end process also helps one to inculcate investment discipline.

There are several financial products in which you could invest or ones you could buy to save on taxes. Among those are equity linked savings schemes (popularly ELSS), national pension scheme (NPS), public provident fund (PPF), tax saving bank fixed deposits, life insurance plans, pension plans, national savings certificate (NSC) etc.

According to financial advisors and planners ELSS, floated and managed by mutual fund houses are among the best tax savings options available in the market. As the name suggests, ELSS are diversified equity schemes which are suitable for long term investment. In addition to tax savings, they also offer capital appreciation.

An ELSS is just like any other equity scheme, but they come with a three-year lock-in clause, meaning if you withdraw your money within three years from investment, you need to reverse your tax savings and pay some taxes. With the recent trend of falling returns from tax-saving instruments like PPF, tax saving FDs and NSC, investing in ELSS is even more preferable than the other competing products. It is also the only product among the tax saving instruments that has the potential for attractive long term returns but comes with a lock-in of just three years.

In comparison, PPF has a lock-in of 15 years with conditional withdrawal allowed after the seventh year, while tax saving FDs and NSC have five-year lock-ins. On the other hand, life insurance plans usually come with a lock-in of five years.

According to financial advisors and planners, opting for a systematic investment plan (SIP) in an ELSS is one of the best ways to save taxes. SIPs inculcate an investment discipline among investors while they help lighten up the burden on investors by spreading out their investments over several months.

These schemes also have the potential to offer superior post-tax returns when compared with other competing products. According to data by Value Research, as of March 31, over the last five years, the ELSS category has delivered an average annual return of 19.1% while in the last three years these funds have given an average yearly return of 10.9%. The returns by its competing products have been in single digits.

Financial planners and advisors say that even after the imposition of long term capital gains of 10% on capital gains of more than Rs 1 lakh which applies to ELSS funds also, these products still score over its competing products in terms of potential long term return.

Financial planners and advisors say that one of the reasons behind superior returns by ELSS is that given the three-year the fund manager doesn't have to bother much about outflows and he/she could concentrate on fund management with a long term view.

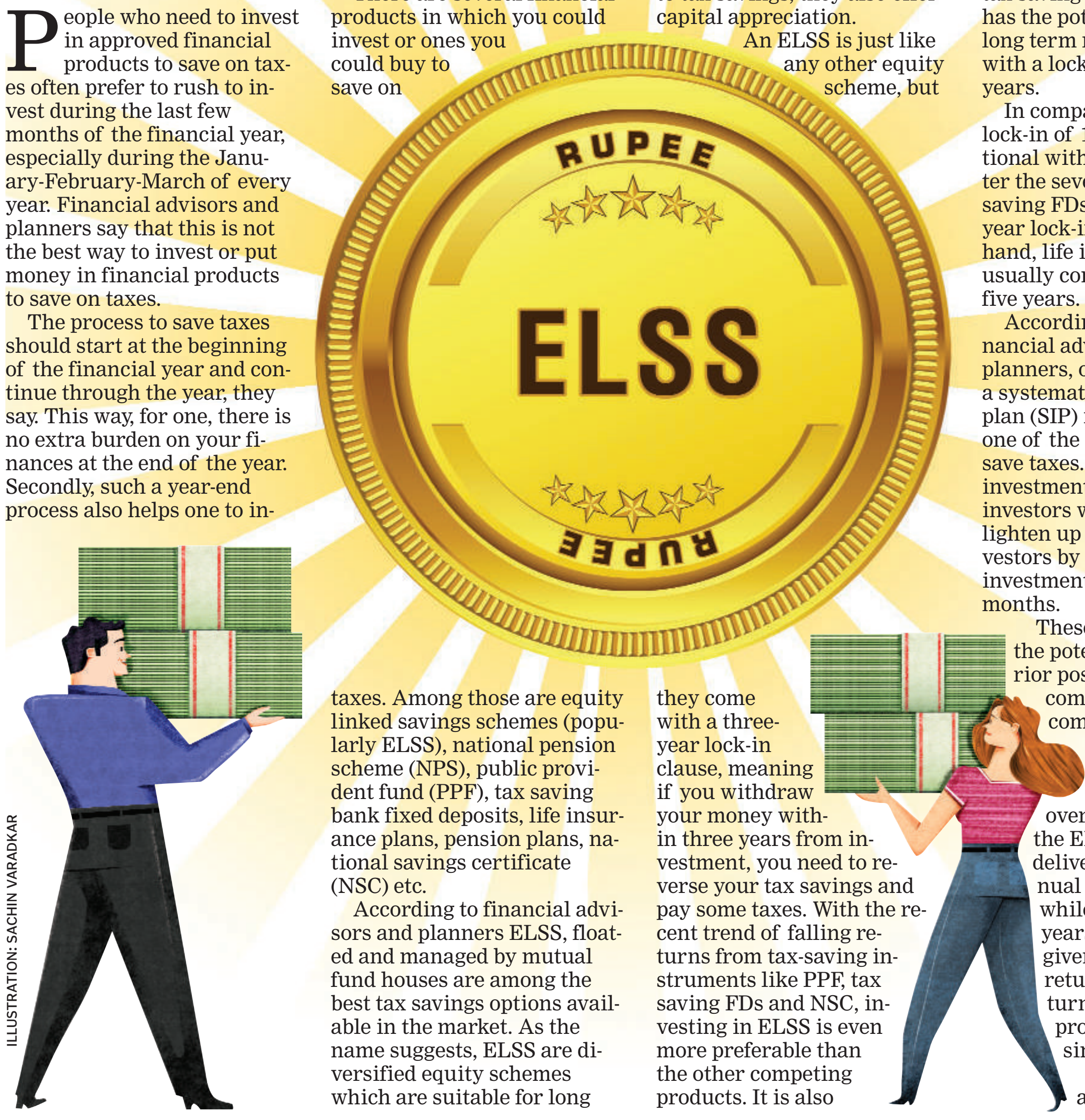

ILLUSTRATION: SACHIN VARADKAR

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Scan this QR code to learn about how ELSS can help investors save tax, create wealth & meet life goals in the most tax-efficient manner.

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

Should you invest in MFs post retirement?

Suraj Kaeley

The mutual fund industry has successfully built savings habit amongst Indians through the systematic investment plan (SIP) route. As per industry trade body AMFI data, the monthly inflow through SIPs in February 2018 was Rs 6,425 crore from around 2.05 crore accounts, translating to an average SIP amount of Rs 3,100. The assets under management (AUM) of these accounts is Rs 2.01 lakh crore, translating to an average AUM per SIP account at Rs 98,000.

The SIP book continues to grow at a rapid pace and new SIP additions in February crossed the 1 million (10 lakh) mark. Though there is no formal data on the purpose behind investing through SIPs, but one can guess that investments in these accounts would be meant for meeting the long term goals (like retirement) of these investors. Here, I would like to highlight the role mutual funds can play for retirees.

Typically, if you are in service, you are likely to have saved in your provident fund (PF), superannuation or some other savings instrument to create for yourself a retirement corpus. On retirement, the need for regular income is generally fulfiled through a combination of pension, interest income from deposits, annuities from insurance companies, dividend income from stocks or mutual funds, rental income and so on. So the question is what role can a mutual fund play in such a scenario?

Let me just focus on how mutual funds can help you meet your need for regular income. In a mutual fund product you can invest either through a growth option or a dividend option. In a dividend option, the dividend income is tax free in the hands of the investor but the mutual fund needs to deduct dividend distribution tax (DDT) before making the pay out to its investors.

The dividend distribution tax applicable to resident individuals is 29.12% and 11.65% (including surcharge and cess) in case of debt and equity oriented mutual funds respectively. Dividends are not fixed or guaranteed and can get impacted with significant market movements. As a result, the dividend option may not be the most suitable option for all retirees.

The other option available is the systematic withdrawal option (SWP). You can opt for a specific amount to be paid out from your investments in a mutual fund scheme at periodic intervals (monthly, quarterly or any other period you desire) and thereby creating a flow of regular income to meet your expenses post retirement.

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HOW DOES SWP ACTUALLY WORK?
When you invest in a mutual fund scheme, you are allotted units based on the NAV of the scheme. If you opt for an SWP, the mutual fund would redeem part of units at the applicable NAV as per the frequency and amount that you have indicated in your application form.

(The second part of this article will be published on April 17, 2018 edition of Swatantra)

***Suraj Kaeley** is a senior fund industry professional*

INVESTOR QUERY

I HAD INVESTED RS 2 LAKH IN A DEBT FUND IN MAY 2014. THE VALUE OF THAT INVESTMENT AS OF JANUARY 30, 2018 WAS RS 2.8 LAKH. WITH LTCG TAX BEING INTRODUCED NOW, I WANTED TO KNOW HOW MY TAX ON DEBT FUND INVESTMENT WILL BE CALCULATED. KINDLY EXPLAIN IF I DECIDE TO ENCASH IT IN MAY 2018.
V Gowri Shanker

Anand N Zinzuvadia replies

In reference to your query on your debt fund investments, as per the proposals brought in the Budget and subsequently applied from the financial year 2018-19, there is a change that is applicable to long term capital gains on equity and equity-oriented mutual funds.

The tax implications on debt funds, however, remain unchanged. In your case, your investments of Rs 2 lakh in a debt fund has grown to Rs 2.8 lakh as on January 30, 2018. If you wish to redeem the investments in May 2018, you have to consider the redemption amount. You are allowed to set off the indexation on the purchase cost of investments against the capital gain that accrues to you. The cost indexation index (CCI) for the financial year 2018-19 is yet to be declared by the government. So we can actually calculate the tax liability after the redemption of your investments. Currently LTCG on debt funds are taxed at 20.80% after you claim indexation benefits. You will be eligible for five indexation-year benefits since you had invested in 2014. For illustration (please note this is not the actual since CCI for 2018-19 is yet to be published by the government), I have taken the figures given below:

Investments done in	May 2014
Amount invested	Rs 2 lakh
Redemption amount (Estimated)	Rs 2.9 lakh
Indexation value (Estimated)	Rs 2.45 lakh
Capital Gain (post indexation adjustments)	Rs 45,000
LTCG @ 20.8%	Rs 9360
Effective tax rate after 5 years	4.68%

Some numbers are assumed and actual figure could differ when the units are redeemed and published CCI is applied

Anand N Zinzuvadia is with N J Securities, Amreli, Gujarat

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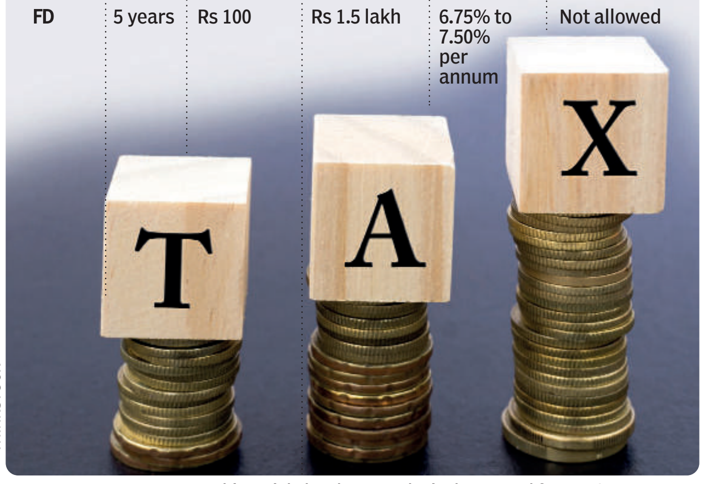
COMPARING SOME KEY FEATURES OF POPULAR TAX SAVING INSTRUMENTS

Product	Lock-in	Min. investment	Max. investment	Return	Premature withdrawal
ELSS	3 years	Rs 500 and above	No maximum limit	Expected at 12-15%per annum over long run	Possible with tax sops reversal
PPF	15 years	Rs 500	Rs 1.5 lakh	Decided by the Govt, currently 7.6% per annum	Conditional withdrawal
FD	5 years	Rs 100	Rs 1.5 lakh	6.75% to 7.50% per annum	Not allowed



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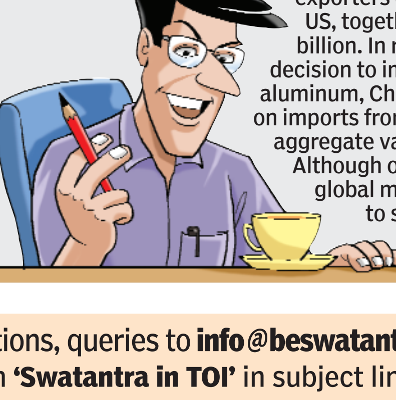
NEXT EDITION

Recently Sebi completed the process of recategorisation of mutual fund schemes. The our next edition we will address questions like what recategorisation means, how should investors react to it and what was the objective behind this process.

DEMYSTIFIER

WHAT IS US-CHINA TARIFF WAR ABOUT?

In March this year, US President Donald Trump imposed import tariffs on steel and aluminum. Earlier in January he had also put similar tariffs on solar panels and washing machines. The latest move to impose tariffs on steel and aluminum was mainly aimed at hurting China, one of the largest exporters of these two items to the US, together worth about $60 billion. In retaliation to Trump's decision to impose tariffs on steel and aluminum, China also imposed tariffs on imports from the US with the aggregate value at about $2 billion. Although opinions are divided, global markets are jittery, leading to strong sell-off in stock markets around the world.



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