

Equity-linked savings schemes: All your questions answered

Half-knowledge is more dangerous than ignorance. And sourcing knowledge lies in the art of asking the right questions. So, let's answer all your questions about Equity-linked Savings Schemes (ELSS):



1

What is ELSS?

It is a diversified Mutual Fund (MF) specially designed to offer tax benefits.



2

How to invest in it?

You can make a lump-sum investment or invest through a Systematic Investment Plan (SIP).



3

How do you earn returns on it?

The Fund invests in stocks of growing companies. As the stocks grow in value, your Fund's value rises. This helps you create wealth over a long period. You can also choose to receive regular payouts in the form of dividends.



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Is it risky?

This is an Equity Fund. Stocks are always considered risky. However, experts recommend long-term investing in Equity to cut down the risk.



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What is the minimum and the maximum investment limit?

Minimum: Rs 500

Maximum: No limit, though you only get a tax deduction of Rs 1.5 lakh



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Does it have a tenure or a maturity date?

You can stay invested for as long as you want. There is no maturity date as such.



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Who is it suitable for?

- Young investor
- Firsttime Equity investor
- Those who want to invest for a medium to long term
- Those who want to save tax through MFs



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Does it have a lock-in period?

You cannot withdraw your money before the end of three years. If you do, then you need to pay the tax you saved over those three years.



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Do you get dividends?

The Fund Manager decides whether or not to give you dividends, based on the Fund's performance. In the Growth option, the dividends, if any, get reinvested. In the Dividend option, you get regular dividend payouts.



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What are the tax benefits?

- You can reduce your taxable income by Rs 1.5 lakh by investing in ELSS.
- Also, you do not pay any tax on the long-term capital gains that you get.



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What should you keep in mind before investing in ELSS?

It is advisable to gauge the past performance of the Fund before investing. Knowing the history and the capability of the Fund Manager is also important.



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What are the charges involved in ELSS?

The expense ratio or the annual fees charged in the case of ELSS ranges from 1.25 to 3%. You do not pay the fees separately. It is adjusted in the Net Asset Value (NAV) of the Fund.



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Is there any myth about ELSS?

The biggest myth about ELSS is that it is a complex investment. A lock-in period of three years does not make the Fund complex. You can even start your investment with Rs 500.



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When is the right time to invest ELSS?

Do not wait until the end of the year to invest in ELSS. Start early for tax efficiency and avoiding market timing risks. Starting early and staying invested for a long term also helps you build your wealth.



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Why is it better than other tax-saving instruments?

Shortest lock-in period

ELSS - 3 years
Public Provident Fund (PPF) - 15 years*
Bank Fixed Deposit (FD) - 5 years

Long-term holding

ELSS does not have a maturity date unlike PPF and FDs. You can, thus, benefit from the power of compounding for as long as you want.

Higher returns

ELSS - 15.2%**
Public Provident Fund (PPF) - 8.1%***
Bank Fixed Deposit (FD) - 6-8%***

** Average returns in the past one year *** 2016-2017 rates

More tax-efficient

The dividend earned on ELSS does not attract tax. The interest on Tax-Saving Bank FD, however, is taxable. Plus, when you redeem your ELSS, there's no capital gains tax.

*As compared to PPF, FD, NPS, Fixed Deposits, and NSC.

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