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Tax Planning : Drive your money in the ELSS vehicle!

We are at the beginning of a new financial year, a time, when most of us ought to consider tax saving investments. If you are a salaried professional, you will get a reminder from your accounts department, while if you are self-employed, your Chartered Accountant (CA) will remind you about tax-planning for the financial year. Some of us rush at the eleventh hour and start looking at the investments, as late as in the month of March! However, this is merely a 'tax-saving' exercise and cannot be called 'tax planning'. Tax-planning is all about planning in advance, which involves evaluating your overall tax strategy and implementing it before the year-end. In this way, you can make the most of the tax-saving opportunities, which will help you accumulate wealth over the long-term. Tax planning is an essential part of financial planning and you should devote enough time and effort for the same.

When it comes to saving tax, the first thing that would come to our minds, are the avenues that are available under section 80C of Income Tax Act, 1961, which allows claiming tax deduction of up to Rs 1,50,000. Following are some of the tax saving instruments available under this section:

Tax Savings Instruments u/s 80 C

- Market Linked
  - ELSS
  - ULIP
- Fixed Income
  - Public Provident Fund (PPF)
  - NSC
  - Tax Saving FDs
  - Senior Citizen Saving Scheme
  - Employee Provident Fund
  - NABARD Bonds
- Others
  - Life Insurance Premium
  - Repayment of House Loan (Principal)
  - Children's Tuition Fees.

With the above tax saving instruments available, the obvious question that arises in our minds is, which option should I opt for? Should I select one of above or should I invest some chunk of money into all or some of the above to claim the deduction? Well, the answer for this question is skewed as every individual has different set of requirements and risk appetite. However, it's critical, not to just look at the tax saving criteria of the avenue under consideration, but also its potential to generate higher returns.
In this article, we will look at one such investment avenue that not only helps save tax, but also gives an opportunity to reap high returns and build wealth i.e. ELSS.

What is ELSS?

Equity Linked Saving Scheme (ELSS) is an equity mutual fund and has a lock-in period of 3 years. It has a minimum of 80% exposure in equity and upto 20% in debt, money market instruments, cash or even more equity.

Why ELSS?

Keeping in mind the optimal returns criteria, ELSS offers a good bet (although at a higher risk) since it is linked to equity. However, one has the option of investing via the Systematic Investment Plan (SIP), which will not only be easier on the pocket, but will also provide the benefit of rupee cost averaging. These funds have the shortest lock-in among all the tax-saving vehicles (3 years). The NSC or National Saving Certificate has a lock-in of 6 years, PF or Provident Fund (15 years) and KVP or Kisan Vikas Patra (over 7 years). Recently, 5-year bank fixed deposits have also been recognized by the government as one of the tax saving options.

Conclusion

Overall, ELSS is a good investment vehicle to save tax as well as to grow your investments over the long term. You could reap better returns from appreciation in equity markets over the long term. You can also choose the SIP route to avoid ups and downs of markets. If you really want to reap the rewards of your tax saving investments, think beyond the lock-in period of three years. Over the long-term, returns from equities have always been greater than any other investment. So, what are you waiting for? Drive your money in the ELSS vehicle to save tax as well as create wealth over the long term!

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