

Equity linked savings scheme have established themselves as one of most preferred forms of tax saving instruments in India. With markets crashing sharply amid the Russia-Ukraine crisis, several investors are contemplating whether to make the last-minute investments in ELSS in order to save taxes for the financial year, or to stay away from markets altogether and opt for safer tax-saving investment options like PPF, NSC etc. With markets still at a high even after a reasonable correction over the past few months, the changing dynamics of interest rate may throw a spanner in the stock prices upward movement.

Tax planning is a compulsory exercise carried out by most individuals at the end of the financial year. They spend some time choosing the tax-saving option. However, hardly few spend time including it in their entire financial planning. No wonder, many individuals sell their tax tax-saving investments, including investments in ELSS, once the mandatory lock-in period is over.

Investments in PPF or tax saving mutual funds qualify for Section 80C income tax deductions. Due to certain added benefits such as lower gains on tax, power of compounding, better risk-adjusted returns, availability of SIP and lump-sum options, ELSS mutual funds provide the opportunity to earn reasonable returns while saving on tax. Experts are of the opinion that even if PPF, NSC and others are great tax-saving investments, but buying ELSS when the markets are low can give you an extra edge. Investing in ELSS does not mean that you're saving taxes only. It's an avenue to meet your financial goals.

#### ELSS Funds:

ELSS invest in companies of all sizes and across sectors and therefore have a diversified portfolio. Also, it gives the flexibility to change the portfolio composition as per the market conditions and hence they are better equipped to take advantage of emerging opportunities.

For example, if you look at the top-performing ELSS funds, then you will realize that you get far better deals if you buy now. For example, the NAV for the Mirae Asset Tax Saver funds stood at 33.01 when the market peaked on 18 October 2021, the same stands at 28.73 now (9<sup>th</sup> Mar 2022). Similarly, for Axis long term equity, the NAV was at 79 on 14 Oct 2021 when the market peaked, it stands at 65.19 (9<sup>th</sup> Mar 2022).

The best part of ELSS is that the lock-in works to the advantage of investors. It should also be noted that once the lock in gets over, ELSS funds operate just like any other open-ended fund in the sense that the investors are free to redeem on any day of their choice.

There is a great margin of error when valuing a stock for the short term. This is the reason for the volatility in the underlying price in the short term from a fundamental perspective. This volatility is further compounded due to changes in investor sentiment. When we are in a bullish environment, for the same stock, a higher valuation seems okay, whereas bearish times call for much lower valuations. Market movements are beyond our control. Lump sum investments tend to fail to sail the tides of market volatility. Time invested in the market is more important than timing the market to leverage wealth creation opportunities over the long run. Investing via an SIP is advisable if you are not willing to take higher risk. When you invest through an SIP, you get the opportunity of investing in a fund across business cycles. This helps you get the benefit of purchasing the fund units across market cycles. When the markets are down, you buy more units while you purchase fewer units when the markets are bullish. Therefore, over time, your price of purchase of fund units gets averaged out and turns out to be on a lower side.

### Recommended ELSS Funds:

ELSS Funds	Details		Returns Compounded Annualised % (Point to Point)			
			1 Year	3 Years	5 Years	10 Years
Scheme Name (Growth)	Corpus (In Crs.)	Launch Date				
Mirae Asset Tax Saver Fund - Reg – Growth	10971.85	28-Dec-2015	16.38	21.35	17.88	--
IDFC Tax Advantage (ELSS) Fund - Reg - Growth	3427.63	26-Dec-2008	23.08	21.00	16.14	17.38
Axis Long Term Equity Fund – Growth	32136.06	29-Dec-2009	10.88	17.63	15.43	18.40
DSP Tax Saver Fund – Growth	9855.59	18-Jan-2007	18.67	20.15	14.43	17.17
Kotak Tax Saver Fund - Reg – Growth	2414.85	23-Nov-2005	17.30	18.54	13.74	14.81

Returns as on 2<sup>nd</sup> March 2022. Corpus of IDFC & Kotak as of Feb 2022 and others as of Jan 2022

There are various tax-savings schemes to help you accumulate wealth over time, such as FD, PPF and NSC to name a few. But the returns offered by these schemes are restricted. This is where ELSS stands out – its returns are generally higher, especially when the markets are on the bullish trend. This, coupled with a lock-in period of just three years, makes ELSS mutual funds the best tax-saving investment option. Even the post-tax returns of ELSS are much more attractive than that of any other tax-saving investment option.

Particulars	Returns (p.a)	Lock-in Period	Tax on Return
5 -Year Bank Fixed Deposit	4% to 6%	5 years	Yes
Public Provident Fund (PPF)	7% to 7.5%	15 years	No
National Savings Certificate	6.80%	5 years	Yes
National Pension System (NPS)	7% to 10%	Till Retirement	Partially Taxable
ELSS Funds	15% to 19%	3 years	Partially Taxable

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