Journal of
Business & Financial Affairs

Srivastava, J Bus Fin Aff 2017, 6:1
DOI: 10.4172/2167-0234.1000245

Research Article Open Access

Equity Linked Saving Schemes (ElSS) Vis-A-Vis Fixed Income Schemes under the Income Tax Act 1961

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Abstract

The main focus of each ruling government has always been to improve the level of savings and investments in the economy. The government of India is always concerned about the capital formation by common people through making time to time suitable amendments in tax laws and to promote financial inclusion. There are variety of investment options available in the market but a best investment option can be something which is beneficial to the investor from the point of view of good returns as well as tax saving. This paper compares the Equity Linked Saving Schemes over other fixed income investment options in the light of Income Tax Act 1961.

Keywords: Equity linked saving schemes; Returns; Investments; Deductions and exemptions

Introduction

The objective of the taxpaying investors is to invest their money in an opportunity that not only has tax exemption, but also gets maximum liquidity and better rate of return. Although the biggest problem of a taxpaying assesse is to first plan the tax investments properly so that they can avail maximum deductions as well as exemptions. Most of us consider our tax saving investment as a last minute activity and because of that we are not able to claim proper deductions. Proper planning of investments will not only maximise the return of the investor but also minimise the amount of tax one would pay. There are so many investment options available in Income tax act 1961 like NSCs, PPF, ELSS, 5 year Bank Fixed Deposits, 5 year PO Time Deposits, Infrastructure Bonds, Life Insurance Premium and Provident Fund etc. Equity Linked Saving Schemes can be a better investment option as it is has the shortest lock in period among all other investments available under sec.80C of the Income tax act 1961 plus during past few years the return on Equity Linked Savings Schemes were quite high in comparison to other tax saving investment schemes. ELSS funds offer tremendous flexibility to investors. Since there is no tax on gains from equity funds, after a year, an investor can safely recycle his investments every three years and claim tax benefits on the reinvested amount. Hence this paper will help the common investor in deciding the best investment they should opt to get lucrative returns and tax benefits.

Need for the study

Generally most of the investors invest in tax saving schemes in order to avail tax benefits and also to earn good returns. But it is found that most investors are confused about their mode of investment. Since section 80C of the Income Tax Act 1961, provides lot of options to invest and avail tax benefits, this study is aimed at suggesting the best investment option.

Objectives of the study

1. To discuss the features and current status of tax saving Equity Linked Saving Schemes.

2. To compare Equity Linked Saving Schemes with other investment options eligible for deductions under Income Tax Act 1961.

3. To evaluate various mutual funds on the basis of their past performance.

4. To help the common investor to decide where and when to invest to avail maximum tax benefits.

Review of Literature

The thorough and systematic review of the various research conducted on the above theme is undertaken and some noteworthy contributions has been reproduced.

1. Chandrakumarmangalam and Govindasamy, equity tends to be volatile over the short-term, but the performance tends to get smoothened- out over a longer, three- year time frame. Even the fund manager is not under pressure to take risky, aggressive investment calls to deliver short- term growth, as investors are in the fund for the long haul. The investment objective of the scheme is to generate long-term capital growth from diversified and actively managed portfolio of equity and equity related securities along with income tax rebate, as may be prevalent from time to time [1].

2. Jawahar Babu and Vasu, mutual funds are one of the best investments ever created because they are very cost efficient and very easy to invest in. Investors in India opt for the tax-saving mutual fund schemes for the simple reason that it helps them to save money. The tax-saving mutual funds or the equity-linked savings schemes (ELSS) receive certain tax exemptions under Section 88 of the Income Tax Act. That is one of the reasons why the investors in India add the tax-saving mutual fund schemes to their portfolio. The tax-saving mutual fund schemes are one of the important types of mutual funds in India that investors can opt for. It is suggestible for the investors to choose the right scheme according to their risk apatite tolerance and objective of the scheme [2].

3. Sharmila Kulkarni and Mangesh Jadhav have conducted study

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Received December 13, 2016; **Accepted** February 07, 2017; **Published** February 17, 2017

Citation: Srivastava S (2017) Equity Linked Saving Schemes (ElSS) Vis-A-Vis Fixed Income Schemes under the Income Tax Act 1961. J Bus Fin Aff 6: 245. doi: 10.4172/2167-0234.1000245

on investment pattern of salaried people in Coimbatore district. The study has revealed that the savings and investment pattern differ from person to person and people invest with the objective of safety, liquidity and profitability. Government has also introduced savings schemes to reduce the tax liabilities of the assessee, because the tax payer choose his investment to get tax benefits [3].

4. Sumit, if you are very conservative investor then PPF, NSC, Tax saving FD etc., fixed income products are ideal for you – decent return with no risk. However, if you want growth of your investment with moderate return, then consider ELSS (Equity Linked Saving Scheme) mutual fund – the best market linked tax saving instrument. Equity is undoubtedly has the potential to beat any other fixed income product in longer run [4].

5. Garg and Gupta, an Equity Linked Saving Schemes (ELSS) for tax saving is an innovative financial instrument which provides us with a tax saving under section 80C and also provide capital appreciation in the form of Mutual Fund investment. Risk-averse investor may complain about the volatility factor in equity-linked instrument but the same is taken care of by the mandatory three year lock in period. Long-term capital gains earned on investments from ELSS are tax free. Also dividends earned from ELSS plan are tax free in the hands of the investor [5].

6. Namita, ELSS funds provides tax exemption of the income invested in them u/s 80(c) of Income Tax Act 1961 other than the attractive benefits of mutual fund investment higher returns at low risk, safety, minimum investment, professional management and Transparency etc [6].

7. Suresh Sadagopan, once you have invested in an ELSS, there is no need to withdraw even after the lock-in period is over if the fund is performing well. Some investors are mis-informed that they have to withdraw money in three years. For investors who aren't disciplined and might panic about short-term movements, this (ELSS) works well [7].

8. ELSS mutual funds continue to be a popular investment choice. This is evident from the fact that the first ELS scheme in India was launched in 1993 and today, the investors have more than 35 ELS schemes to choose from, as stated on the SEBI website [8] (sebi.gov.in).

9. Sanriya, ELSS has the potential to give substantially higher returns as compared to that from PPF or NSC over the long term. The returns from PPF or NSC are in the range of 8 per cent and at times may not beat inflation. PPF and NSC have a fixed rate of return somewhere close to 8% to 9% whereas return in ELSS varies depending upon the market fluctuation, however, past performance of some ELSS funds shows an average return of 15% to 25% over a period of time [9].

10. Karan Batra, for investors who have risk taking ability, tax saving mutual funds is advisable as their potential to earn return is higher than PPF or Tax Saving Fixed Deposit. The only drawback of Tax Saving Mutual Funds is that they don't guarantee a fixed return [10].

11. Hemant, for a longer duration, any product which generates returns over and above inflation is good for investor and in the category of tax saving instruments, ELSS funds are best in the lot till date. If an investor's risk profile is moderately conservative then he/she should not invest in ELSS funds, as these are highly volatile and does not guarantee returns. Investors should avoid ELSS funds if they are looking for short term and are not comfortable with equities. However, one should also keep in mind that ELSS funds are not at all bad. In fact, ELSS is the best tax saving option available in India but for those who are looking for long term and have the capacity to digest volatility [11].

12. Patel (2016) the returns from open ended equity linked saving schemes has been in the range of 8.37% to 22% over the five year time period up to 13 June 2011. While for ten year time period it has been in the range of 15% to 31%. Over a long term, equity has the potential to provide much higher returns compared with other saving instruments [12].

Research Methodology

The present study is based on secondary data, which has been collected through government publications, research articles and websites. The study is descriptive in nature and hence no hypothesis is required.

Equity linked saving schemes – An overview

ELSS invests a majority of its corpus in equity and equity related products. An investment in ELSS comes with a lock in period and has tax benefits attached to it. ELSS schemes are open ended that is, investors can subscribe to the fund at any day. NAV or the price of the fund is declared on every business day. This type of mutual fund has a lock in period of 3 years from the date of investment. This means if you start a Systematic Investment Plan in an ELSS, then each of your investments will be locked in for 3 years from the respective investment date. Investors can exit ELSS by selling it after 3 years. For tax purposes, returns from an ELSS scheme are tax free. One can claim up to Rs.150000 of his/her ELSS investment as a deduction from the gross total income in a financial year under Sec 80C of the Income Tax Act 1961. In the case of SIPs, each instalment is treated as a separate investment and will have a three year locking period. So, if you started investing in an ELSS fund in April 2012, you can redeem the units bought in the first instalment only in April 2015. Those bought in May 2013 will be open for redemption only in May 2016. SIP has the benefit of averaging out the cost of investors. As the amount of investment is fixed the units purchases every month varies depending upon the NAV of the fund. At a higher NAV the investor gets fewer units and more number of units at a lower price thus SIPs helps in averaging out the cost of investors. No tax is levied when you redeem your investment after the locking period. If you observe, none of the returns from tax saving investment options other than PPF are tax free. NSC, Tax Saving Bank FD, Tax saving Post office TD scheme etc. are all tax saving options but returns are taxable based on individual tax slabs. However, interest in Public Provident Fund is tax free, but that comes with a 15 year locking period (apart from certain exemptions to withdraw in between) [13].

Above all if one invests in any ELSS, there will be two major legal bodies on investor's side to protect his interest; Association of Mutual Funds in India (AMFI) and Securities and Exchange Board of India (SEBI).

Investment of equity linked saving funds

1. (*a*) The funds collected under a plan shall be invested in equities, cumulative convertible preference shares and fully convertible debentures and bonds of companies. Investment may also be made in partly convertible issues of debentures and bonds including those issued on rights basis subject to the condition that, as far as possible, the non-convertible portion of the debentures so acquired or subscribed, shall be disinvested within a period of twelve months.

(*b*) It shall be ensured that funds of a plan shall remain invested to the extent of at least eighty per cent in securities specified in clause (*a*). The Mutual Fund shall strive to invest their funds in the manner stated above within a period of six months from the date of closure of the plan

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in every year. In exceptional circumstances, this requirement may be dispensed with by the Fund, in order that the interests of the investors are protected.

(*c*) Pending investment of funds of a plan in the required manner, the Mutual Fund may invest the funds in short-term money market instruments or other liquid instruments or both. After three years of the date of allotment of the units, the Mutual Fund may hold up to twenty per cent of net assets of the plan in short-term money market instruments and other liquid instruments to enable them to redeem investment of those unit holders who would seek to tender the units for repurchase.

The growth and dividend options

Similar to other equity funds, ELSS funds have both dividend and growth options. Under the Growth option, the investor will not get any income during the tenure of the investment. At the time of redemption, the investor will get a lump sum amount depending on the then prevailing NAV of the scheme.

Under the dividend option there are two schemes, which are dividend payout and dividend reinvestment respectively. Under Dividend Payout plan the investor will receive dividend income at fixed intervals and under Dividend Reinvestment scheme, the dividend declared by the scheme is reinvested on behalf of the investor at the prevailing NAV on the day of the dividend declaration. The investor can claim additional tax benefits on the reinvested dividend amount.

Benefits of equity linked saving scheme

There are lots of benefits from investing in ELSS. Some of these are as follows:

- The first and most obvious benefit is that the investments are eligible for tax benefits up to Rs. 1.5 lakh.
- The second benefit is that long term capital gains are not taxed.
- Investments in these funds can be made as a means to plan for future expenses like buying a car or paying the down payment for a house.
- These plans allow investors to invest on a monthly basis via an SIP (Systematic Investment Plan) thereby negating the need to invest in one go.
- The funds are not invested in one place; The portfolios are kept diverse so as to minimise the risk of massive losses.
- If you choose not to withdraw the investment, it will continue to grow and turn into savings for a rainy day.
- While you may not be able to withdraw the principal, you can withdraw the dividends earned, even during the lock in period.
- While other investments offer lock in periods of 5-15 years, these mutual funds tend to offers only 3 years of a lock in period. Since these schemes are open ended, investments in them can be made all year round.
- The particular fund that an investor invests in is run by a qualified funds manager thereby negating the need for investors to have knowledge of the markets.

CRISIL – AMFI ELSS fund performance index: Constituent details – June 2016

ELSS funds which are ranked under CRISIL Mutual Fund ranking are part of the index. Eligibility of funds is based on minimum NAV history and a minimum AUM. The schemes that form part of the index as of June 30, 2016 are as follows (Table 1):

Table 1, declares the top ten best Equity Linked Mutual Funds as per rating done by CRISIL Limited on the basis of minimum Net Asset Value history and a minimum Asset under Management. CRISIL Mutual Fund Ranking is the relative ranking of mutual fund schemes within a peer group. The basic criteria for inclusion in the ranking universe are three-year NAV history and assets under management in excess of category cut-off limits and complete portfolio disclosure. Only open ended schemes are considered here.

CRISIL – AMFI ELSS fund performance index: Performance details – June 2016

In Table 2, on an average basis Equity Linked Saving Schemes funds' performance was evaluated, in 3rd year the return was 21.56%, which is extraordinary as compared to any other fixed income investment option, even in 4th ,5th ,6th ,7th and 10th year the return is also quite remarkable as compared to other investment options.

Top 10 equity linked saving schemes (ELSS) and their rate of returns

Below are top ten Equity Linked Saving Schemes (Growth Fund) and its evaluation on the basis of returns has been considered (Table 3).

From above table we can evaluate that even the last ranked ELSS mutual fund (Edelweiss ELSS) has given 18.41% return at the end of third year. The returns from Equity Linked Saving Schemes not only tax free but also they are highest among all other fixed income investment options available under Income Tax Act 1961.

S. No.	Fund Name	Category Name	Scheme Name
01.	Axis Mutual Fund	ELSS Scheme	Axis Long Term Equity Fund
02.	Birla Sun Life Mutual Fund	ELSS Scheme	Birla Sun Life Tax Plan
03.	Birla Sun Life Mutual Fund	ELSS Scheme	Birla Sun Life Tax Relief 96
04.	BNP Paribas Mutual Fund	ELSS Scheme	BNP Paribas Long Term Equity Fund
05.	Canara Robeco Mutual Fund	ELSS Scheme	Canara Robeco Equity Tax Saver
06.	DSP BlackRock Mutual Fund	ELSS Scheme	DSP BlackRock Tax Saver Fund
07.	Franklin Templeton Mutual Fund	ELSS Scheme	Franklin India Taxshield Fund
08.	HDFC Mutual Fund	ELSS Scheme	HDFC Long Term Advantage Fund
09.	HDFC Mutual Fund	ELSS Scheme	HDFC Tax Saver Fund
10.	ICICI Prudential Mutual Fund	ELSS Scheme	ICICI Prudential Long Term Equity Fund (Tax Saving) Saving)

Sources: www.crisil.com/.../CRISIL-AMFI-ELSS-Fund-Performance.

Table 1: AMFI ELSS Fund Performance Index.

Index	1 Year (%)	2 Year (%)	3 Year (%)	4 Year (%)	5 Year (%)	7 Year (%)	10 Year (%)
CRISIL – AMFI ELSS Fund Performance Index	2.00	9.07	**21.56**	17.95	13.22	14.80	13.45

(Returns as on June 30, 2016)
Source: crisil.com.

Table 2: CRISIL - AMFI ELSS Fund Performance Index.

Tax Saving Mutual Fund	Annual Return (%)		
	1 Year	3 year	5 year
Axis Long Term Equity	3.55	**26.06**	18.29
Birla Sun Life Tax Relief 96	6.24	**22.54**	11.54
Birla Sun Life Tax Plan	5.37	**21.06**	13.15
Religare Invesco Tax Plan	2.31	**21.24**	13.09
BNP Paribas Long Term Equity Fund	3.28	**20.45**	14.03
Franklin India Taxshield Fund	2.09	**20.02**	13.65
ICICI Prudential Long Term Equity (Tax Saving)	−0.04	**20.12**	12.82
DSP Black Rock Tax Saver Fund	1.36	**19.26**	11.44
IDFC Tax Advantage (ELSS) Fund	2.91	**19.17**	12.08
Edelweiss ELSS	3.68	**18.41**	11.10

Source: www.bestelss.com.

Table 3: List of ELSS on the basis of returns.

Other investment options and ELSS

Among others we have limited our study to some popular options viz. Public Provident Funds, National Saving Certificate, 5 year bank fixed deposits and 5 year PO Time deposits under the fixed income category.

Public provident funds: Public provident fund (PPF) is the scheme floated under the PPF Act 1968 by the central government. A public provident fund (PPF) account can be opened by resident Indian individuals either in their own name or in the name of minor child. It can be opened by both salaried and non-salaried individuals. Minimum amount to be invested in PPF investment is Rs. 500 and Maximum investment is Rs. 1, 50,000 as per budget 2014. Amount invested more than Rs. 1, 50,000 will not be eligible for interest and for tax benefit under Sec 80C. Public Provident Fund is an EEE scheme (Exemption during investment under Sec.80C, Interest earned during PPF tenure and Maturity amount is also tax free). One can open a PPF account by visiting the nearest Post Office or select nationalized banks and now with ICICI bank also.

One can have guaranteed and tax free returns by investing in a PPF account. Currently, deposits under PPF earn interest of 8.10% per annum. The lock in period of the PPF scheme is 15 years and can be extended again for five years after maturity if the investor wants to do so. Partial withdrawals can be made on the commencement of the seventh year. Since, the return in PPF is guaranteed and is backed by the government, there is low risk associated with repayment. However, any investor who parks too much money in fixed-income assets can face other types of risk such as inflation risk. A high rate of inflation would decrease the value of savings. There is also an issue of liquidity as the investor might need the money for some emergency; it would be difficult because the PPF has a lock-in period of 15 years.

Since the government is now moving on revising interest rates on fixed schemes every quarter, the new interest rate on public provident fund (PPF) scheme has been cut to 8.1% for the period April 1 to June 30, from 8.7%.

Apart from declining interest rates another disadvantage of PPF is, if you forget to contribute the minimum amount in any year then the account will be deactivated. To activate you need to pay Rs. 50 as penalty for each inactive year also you need to pay Rs. 500 for each inactive year's contribution.

Financial Years	Rate of Return
2011-12	8.6%
2012-13	8.8%
2013-14	8.7%
2014-15	8.7%
2015-16	8.7%
2016-17	8.1%

Source: valueresearchonline.com.

Table 4: Past Trends of Public Provident Fund in India.

Provident funds are very good from the point of safety and exemption benefits but when it comes to liquidity and returns it is not as good as Equity Linked Saving Schemes as is obvious from Tables 2 and 3.

From Table 4 we can see the level of reduction in interest rates, in year 2013-14 it was 8.7% which was higher than 8.6% in 2011-12. During 2013-14, 2014-15 and 2015-16 the return was constant i.e., 8.7% but now as from April 2016 the government has reduced it to 8.1%. So, on the past trend basis the returns are only satisfactory.

National saving certificate: The National savings certificate (NSC) is eligible for tax deduction under Section 80C for an investment of up to Rs 1, 50,000. One can invest in 5-year or 10-year NSCs. Although 10year NSC is discontinued now (The move was approved and notified by the ministry of finance on 1st December 2015 and the postal department stopped issuing these certificates after 20th December 2015).

NSCs scheme is launched by the government to promote the habit of saving amongst the common man and to channelize these savings in the right direction for the benefit of the whole country. Under this scheme, deposits are accepted by the government through Post Office. The certificates that are issued by the Department of Post, Govt of India are accessible at almost all the post offices of the country.

Although the interest on National Saving Certificate is taxable, but interest is not paid to account holder as it is reinvested during the tenure of the scheme. A taxpayer can claim the deduction of interest amount u/s 80C. The taxpayer will first have to show this interest earned as income and then claim this as a deduction u/s 80C. Only the interest of the final year when the NSC matures does not acquire tax deduction since it does not get reinvested, instead it is paid to investor along with the interest amount of earlier years plus the capital amount. TDS is not applicable on the National Saving Certificate (NSC) which is a benefit for low income investors. The NSC is issued in denomination of Rs. 100, Rs. 500, Rs. 1000, Rs. 5000 and Rs. 10000. The maximum amount to be invested in NSC is Rs.100 and there is no maximum limit on the amount to be invested in the NSC. The government of India decides the interest rate of NSC.

From Table 5, we can analysis that the returns has been reduced, as in 2015-16 it was 8.5% and in 2016-17 its 8.1%. National saving certificates can be suitable for those investors who come under the lower tax bracket, since returns from them are taxable at applicable slaps of Income Tax Act 1961. Moreover, it may be suitable for those investors who have lesser risk appetite and who wants to invest for shorter tenure as compared to Public Provident Funds.

Five year's bank fixed deposits: Tax Saving FD scheme was introduced in Budget of 2006, it's also known as Tax Saving Deposit Scheme 2006 (Notification Number 203/2006 and SO1220 (E) dated 28/07/2006). Bank fixed deposits taken by an individual/HUF for 5 years and up to Rs. 1,50,000 will be eligible for exemption. The interest rates on tax saving fixed deposits are generally calculated on a quarterly basis and the interest is reinvested into the fixed deposit. Such deposits are only available for 5-year tenures and can be opened with any bank, except cooperative and rural banks.

Depositing money in bank fixed deposits (FDs) doesn't help much. They give low returns and still lower inflation-adjusted returns. Therefore, to consider them as an alternate to equity investments is not right. While equities help in generating high real returns over the long term, FDs as a typical debt asset help in preserving one's capital only. The returns on bank deposits differ from bank to bank. So any fluctuations in Reserve Bank of India Policies for bank can be a threat as well as treat for people investing in five years fixed deposits of banks.

The tax saving fixed deposit gives a fixed interest rate. The rate of interest is applicable as per prevailing 5 year deposit rate. The rate does not change during the deposit period. The interest rate on tax saving FD is decided by the banks and interest on them is compounded quarterly. Senior citizens get a higher interest rate. The greatest disadvantage with them is that the interest is taxable which provides very low post tax returns.

TAX saver fixed deposits interest rate comparison: Given below is a clear comparison of interest rates of the top 5 Tax Saver Fixed Deposit schemes in India:

From Table 6, we can easily figure out that the interests' rates are lower as compared to Equity Linked Saving Schemes. Maximum interest rates offered by the banks are only 7.50% which is lower than even to PPFs and NSCs. This is categorically not advisable because the post-tax returns do not even match the inflation rates in our country.

Five year PO time deposits: This scheme is generally meant for very small investors and farmer who are out of the income tax net and people who wants safe and convenient returns. Here, the deposits can be from 1 year to 5 years, the applicable rate of interest at present is from 7.1% to 7.9% depending on the length of the deposit. Investors in the higher tax bracket can avail section 80C benefit only when they invest for 5 years.

Since, interest is taxable; this is hardly popular among the income tax payee's. If this is compared with other investment options, will occupy the last place in the preferences of the inventors.

From Table 7, the pattern of interest rate can be seen; the interest rates are continuously in declining mode which is not good for the capital appreciation of common investors.

Comparative analysis of ELSS *vs.* other fixed income investment options: Every investment option available in Income Tax Act 1961 is different from each other. There is no ideal investment option available in the market, but a proper comparison of various options will definitely help the respective investor to choose the best according to their risk appetite, liquidity and returns.

Following table compares the various investments such as Equity Linked Saving Schemes, Public Provident Funds, National Saving

Instrument	Old Rate (April 1, 2015 To March 31, 2016)	New Rate (April 1, 2016 to June 30, 2016)
5 years NSC	8.5%	8.1%

Source: Ministry of finance.

Table 5: Trend of National Saving Certificates in India.

Bank	Name of the Tax Saver FD scheme	General Rate of Interest 2015-16	Rate of Interest for Senior Citizens
Axis Bank	Axis Bank Tax Saver Fixed Deposits	7.25% p.a	7.75% p.a
ICICI Bank	ICICI Bank Tax Saver Fixed Deposits	7.50% p.a	8.00% p.a
HDFC Bank	HDFC Bank Tax Saver Fixed Deposits	7.50% p.a	8.00% p.a
SBI Bank	SBI Tax Saving Schemes	7.00% p.a	7.25% p.a
IDBI Bank	Suvidha Tax Saving Fixed Deposit Scheme	7.50% p.a	8.00% p.a

Source: BankBazaar.com.

Table 6: Comparison of interest rates of top 5 Tax Saver Fixed Deposits Schemes in India.

Maturity Period	2016-2017	2015-2016	2014-2015	2013-2014
1-year time deposit	7.1	8.4	8.4	8.2
2-year time deposit	7.2	8.4	8.4	8.2
3-year time deposit	7.4	8.4	8.4	8.3
5-year time deposit	7.9	8.5	8.5	8.4

Source: valueresearchonline.com.

Table 7: Time Deposit Interest Rates over the years.

Parameter	PPF	NSC	5year Bank Fixed Deposits	5year Post Time deposits	ELSS
Tenure	15 years	5 years	5 years	5 years	3 years
Minimum Investment	Rs.500	Rs.100	Rs.100	Rs.200	Rs.500
Maximum Investment	Rs.1,50,000	No Limit*	No Limit*	No Limit*	No Limit*
Amount eligible for deduction under section 80C	Rs.1,50,000	Rs.1,50,000	Rs.1,50,000	Rs.1,50,000	Rs.1,50,000
Taxation of returns	Exempt	Taxable	Taxable	Taxable	Exempt
Safety/Rating	Safe	Safe	Safe	Safe	Moderate Risk
Tax status on Maturity	Fully Exempted	Taxable	Taxable	Taxable	Fully Exempted
Benefit to assessee	Can be on own name, spouse, child (major/minor, dependent /independent)	Own name only.	Own name only. Can be on joint name but in this case first name should be of tax assessee only.	Own name only. Can be on joint name but in this case first name should be of tax assessee only.	Own name only. Can be on joint name but in this case first name should be of tax assessee only.

*There is no upper limit on investments. However, investment of only upto Rs. 1,50,000 per year are allowed to be claimed as deduction under section 80C of the IT Act.

Table 8: Comparative analysis of ELSS v/s fixed income investment option.

Certificates, Five year Bank Fixed Deposits and Five year Post Office Time Deposits along various parameters.

From the above Table 8, it can be derived that, Equity Linked Saving Schemes has the shortest lock in period among other available investment options. Although Equity Linked Saving Schemes are quite risky as compared to other investment options due to its direct relation with share markets but still the past returns history are remarkable. Considering all pros and cons it is evident that ELSS is the best investment option from returns point of view and available benefits under Income Tax Act 1961.

Concluding Remarks

ELSS funds are a good option for a long term investor. It helps create wealth in the long term by participating in the equity market and in the short term it helps you save tax. It offers returns higher than traditional avenues like fixed deposits, it has a moderate lock-in period of three years, and though the risk element is prominent, history has shown that most ELSS schemes have been safe and investors have rarely lost their money. Investors in 20% or 30% tax bracket should invest in ELSS, in order to maximize their post-tax returns. Young investors too can opt for ELSS, since they usually have high risk tolerance and a sufficiently long time horizon to ride out the volatilities associated with equity investments. Equity investments normally outpace inflation in the long run.

The following concluding remarks can be made:

1. It is very important for the investor to evaluate the fund portfolio before investing in ELSS.

2. In dividend option one gets the dividends at particular intervals which maintain the liquidity, because even in lock in period one gets the returns, so investors with small money should always opt for dividend option. Dividend income is exempt under Income Tax Act 1961.

3. Investors who have no or little knowledge about the stock market should invest through ELSS in order to maximize their return and avail tax benefits.

4. The combination of ELSS with SIP gives the chance to an investor to average out market fluctuations.

5. ELSS is very beneficial for both small and large investors. Growth option and dividend option gives an investor a chance to opt for scheme according to their convenience and choice.

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