Net Brokers
NEWSLETTER: APRIL 2013

Tax Planning Under Sec 80 C – Don’t wait till the end

Most preferred tax saving instruments these days are Public Provident Fund (PPF), Bank Fixed Deposit for 5 Years, Equity Linked Saving Schemes (ELSS) of Mutual Funds and Unit Linked Insurance Plans (ULIP).

- PPF are tax free instruments giving 8.7% annualized fixed rate of interest and carry a 15 year lock in period.
- ELSS are 100% market linked with 3 year lock in period and generally have a potential of delivering more than 12% annualized depending upon the market conditions.
- Bank Deposit of 5 Years gives 9% and the interest is added to the income, thereby making the overall yield unattractive.
- Ulip is market linked with 5 year lock in, but come with heavy front loaded and other miscellaneous charges. Smart investors want to separate their insurance from their investments. They no longer see insurance as an investment; they see insurance as a protection plan. So smart investors go only for pure term insurance and reject ULIPs.

We have observed from last several years that most investors have the habit of completing their Tax planning in last quarter of the Financial Year (January – March). As new Financial Year 2013-14 has started, we urge all the investors to do their Tax Planning in advance. Investors who are risk averse and don’t want equity participation can opt for PPF or any other tax saving debt instrument. Investors who are willing to take risk and believe in the India growth story can opt for Tax Saving Mutual Funds (ELSS) depending upon their asset allocation and financial goals.

Consider SIP for ELSS

One of the better ways to invest in an ELSS is through a Systematic Investment Plan (SIP). We recommend a three-year SIP in an ELSS, whereby every month a fixed sum of money goes into your ELSS. This way investors don’t have to bother to choose a new ELSS every year and the investment continues automatically. Moreover, you free yourself from timing the market and waiting for the last days to come. SIP gives superior returns in the long run as one benefit from Rupee Cost Averaging and Power of Compounding.

Note that an ELSS scheme comes with a lock-in of three years. Every SIP installment gets locked in for three years and the lock-in starts once that particular installment gets invested in. Say, you start a three-year SIP on 1 January 2013. Your last installment will get invested in 1 December 2015. The lock-in of the last installment (made in December 2015) will end only in December 2018. That shouldn’t matter if you do your due diligence and invest in a well-managed scheme. Equities are, after all, long-term investment vehicles; the probability of them making a loss goes down as the time horizon of investment goes up.

For more details on ELSS, contact us on mail@netbrokers.co.in