

ELSS as an option for tax saving for the salaried class people

ReshmaGA

B.Com IV semester, Department of Management & Commerce Amrita Vishwa Vidyapeetham, Mysuru Campus

Abstract: India has a heavy tax structure compared to other countries. Salaried class of people in India is the people who pay this tax. There are lots of options available for this class of people to save tax. But not many are aware of all the avenues. ELSS is for those who are just starting out their careers. This study makes an attempt to analyze the awareness of people to save tax in ELSS funds. This study also analysis the benefits of saving in ELSS instead of other avenues.

Key Words: Tax saving, Tax benefits, high returns, ELSS.

I. Introduction:

EQUITY LINKED SAVING SCHEME (ELSS)

It is a kind of tax saving scheme. It is offered by mutual funds in India, they offer tax benefits under section 80C of income tax act 1961, and ELSS can be invested using both SIP (systematic investment plan) and lump sums, investment option. There is a 3 years lock in period and better liquidity compared to other options like NSC and public provident fund. The earnings once done with the lock period are 100% tax free. This is an equity diversified fund and investors enjoy both the benefits of capital appreciation, as well as tax benefits. It has both dividend and growth options. For tax purposes, returns from an ELSS scheme are tax free up to 1 lakh. It is also considered as one of the best tax saving instruments. ELSS is an ideal candidate for this recycling of tax saving investments.

II. Literature review

N. Venkatesh Kumar, ABJ Kumar (2012), ZENITH international economics & management research 2 (4), 69-90, Mutual fund is a prospective investment vehicle that caters to the requirement to all categories of investors. Though the funds are customized financial offerings, in a larger perspective, investors tend to rationalize their investment decision based on funds' performance. Fund performance analysis and its determinants were widely analyzed over a longer tenure at market related attributes and fund related attributes, which determines the performance of tax saver funds. An extensive survey of literature has shown that most studies consider mutual funds as a whole rather than focusing on specific category of tax saver fund (Kothari and Warner, 2001). It is seen that past works relating to mutual fund performance can be classified as researching the following: a) general studies to identify factors influencing fund performance b) individual factors influencing fund performance c) studies relating to specific category of funds d) methodological approaches in measuring fund performance.

Krishna Kumar Kadambat, TS Raghavendra, BMSingh (2015)
International journal of recent scientific research 6(5), 4076-4083

Equity mutual funds are one of the important means of pooling risk capital from small investors. In order to encourage such investment culture, the government of India in the year 1992 introduced the equity linked saving scheme (ELSS) mutual funds. Investments into the scheme qualify for tax benefit. The tax benefit comes with certain regulatory provisions. These regulatory provisions make the ELSS funds distinct from diversified equity funds. The regulatory provisions of ELSS funds apparently tend to increase the element of investment risk of these funds as compared to regular diversified equity funds. So the question that arises is, do the historical analysis of the performance of ELSS funds reflect a higher element of investment risk? Do ELSS FUNDS provide a higher risk adjusted return as compared to diversified equity funds and benchmark indexes? This paper tries to answer these questions, by analyzing the investment performance of the population of ELSS funds for 13 a year period starting from 2000-01 to 2012-13 and comparing its performance with 12 top diversified equity funds and 7 benchmark indexes.

Seema Sharma (2015)

International journal of finance and accounting 4(2), 131-139,

Equity linked saving scheme (ELSS) is a type of mutual fund, which invests the corpus in equity and the equity related products. These schemes offer tax rebates to the investors under specific provisions of the Indian income tax act 1961, their growth opportunities and risks are like any other equity oriented schemes. ELSS is open- ended; hence can be subscribed to and exited from at any point of time. The purpose of the study is to find out the perception of investors towards equity linked saving scheme mutual funds with special consideration towards the satisfaction level of the investors through grievance redressal, after-sales services and time taken to redeem the scheme. This study also tries to explore the part of behavioral finance, as the attributes used here explain the human (investor) psychology during the financial market. Therefore a model is developed to explain the impact based these variables on the ELSS mutual fund.

SubrataRoy, shantanuKumarGhosh (2012)

KCA Journal of business management 4 (1)

Abstract this study examined the performance of the open –ended equity linked saving mutual fund schemes (ELSS) in India during the financial distress in 2008-09. In this study, the month end net asset values of selected equity linked saving mutual fund schemes were considered and the data was obtained from the website of mutual funds in India (AMFI) this paper empirically examined risk-adjusted, selectively, diversification and market-timing performances of the open ended (ELSS) mutual fund schemes.

Objectives

The objectives of the study on “ELSS funds “are for the following reasons:

- a) To analyze the awareness level of salaried people about ELSS funds
- b) To evaluate the benefits of ELSS over other saving schemes

III. Methodology

For the collection of the data regarding ELSS MUTUAL FUNDS as an option for tax saving, awareness about ELSS and the investments in ELSS, the data has been collected through primary and secondary sources as follows:

a) Primary data

For acknowledging awareness of ELSS tax saving scheme, primary data has been collected with the help of a close ended questionnaire. Information has been gathered from investors in mutual funds and also by general public. It is just sample of 100 respondents. People with different level of income categorized into male and female, different age groups, different occupations like public sector and private sector, businessmen, homemakers and other professionals. The questionnaire aimed to understand the investors (decision makers) and their opinions regarding ELSS mutual funds.

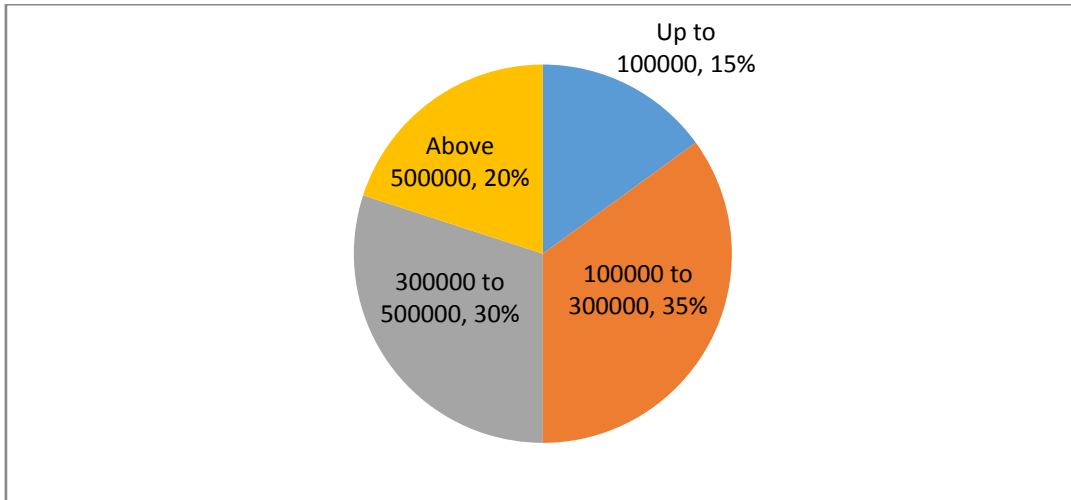
b) Secondary data

This is the second type of methodology attempting to know more about the awareness of ELSS. This data is collected by the source where the data is already available and analyzed by someone. This is also collected from newspapers, magazines, internet, books, study materials, journals etc.

Analysis

1) Annual income of the respondents.

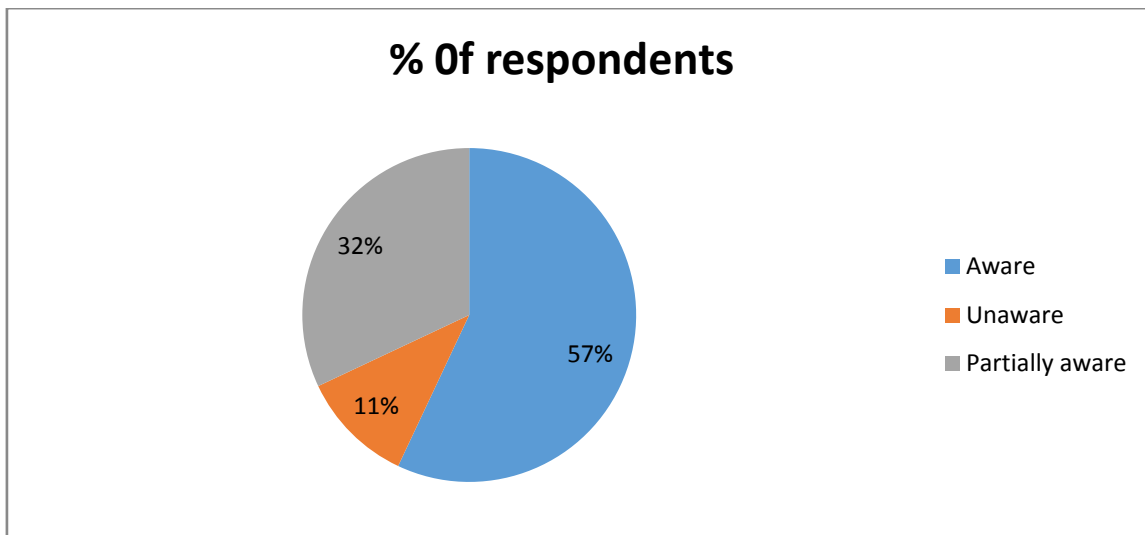
| Sl no | Options(in rupees) | Numbers | % of respondents |
|-------|--------------------|---------|------------------|
| 1 | Up to 100000 | 15 | 15% |
| 2 | 100000 to 300000 | 35 | 35% |
| 3 | 300000 to 500000 | 30 | 30% |
| 4 | Above 500000 | 20 | 20% |



Inference: we can observe that 35% of respondent have the annual income of 100000 to 300000. only 15% of people are having annual income below 100000.

2) Information regarding the awareness of ELSS.

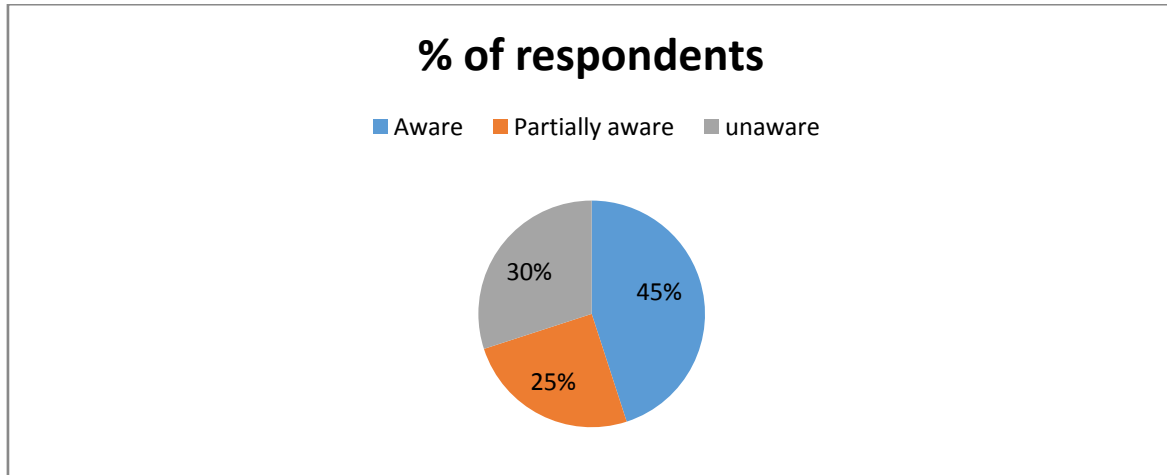
| Sl no | Options | Number | % of respondents |
|-------|-----------------|--------|------------------|
| 1 | Aware | 57 | 57% |
| 2 | Unaware | 11 | 11% |
| 3 | Partially aware | 32 | 32% |



Inferences : this data represents the main point of the study, that is about the awareness of ELSS as option for tax saving. Here in the above pie chart 57% people are aware

3) Awareness of benefits of ELSS over other saving scheme.

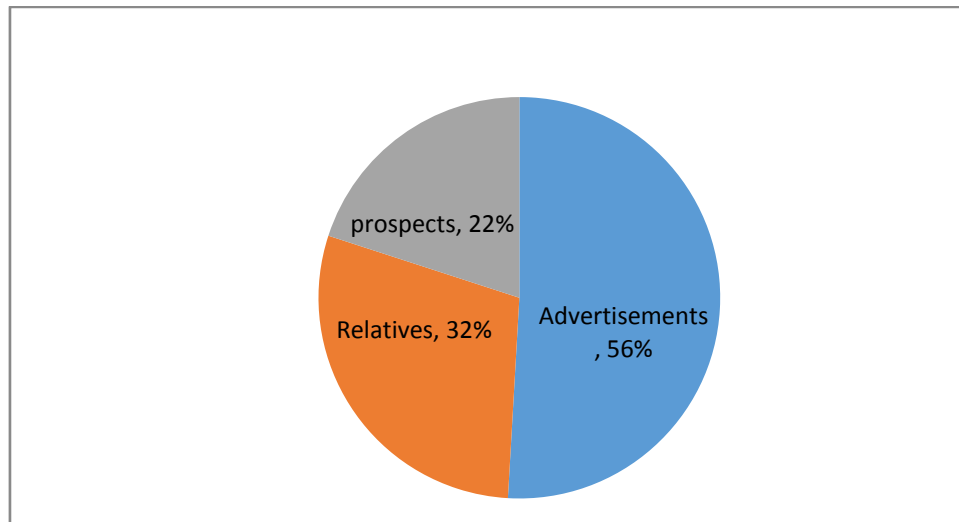
| Sl no | Options | Numbers | % of respondents |
|-------|-----------------|---------|------------------|
| 1 | Aware | 45 | 45% |
| 2 | Partially aware | 25 | 25% |
| 3 | unaware | 30 | 30% |



Inferences: this chart is showing awareness about the benefits of ELSS for tax saving option. As per this, 45% people are aware of the benefits of ELSS. There are some who are partially aware, they are of 25 percentage.

4) Medium available for knowing about ELSS.

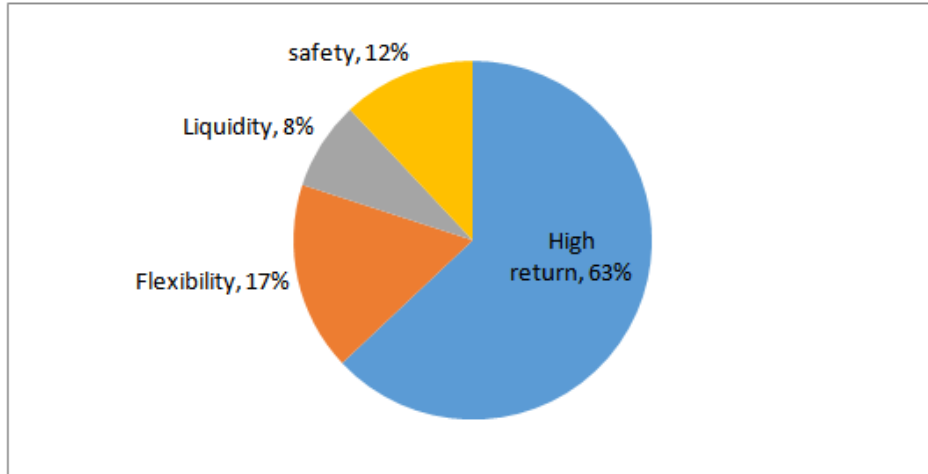
| Sl no | Options | Numbers | % of respondents |
|-------|----------------|---------|------------------|
| 1 | Advertisements | 56 | 56% |
| 2 | Relatives | 32 | 32% |
| 3 | prospects | 22 | 22% |



Inferences: pie charts represent percentage of respondents using different medium for knowing ELSS. Maximum percentage of 56% respondents uses advertisements as medium.

5) The reason for investing in ELSS.

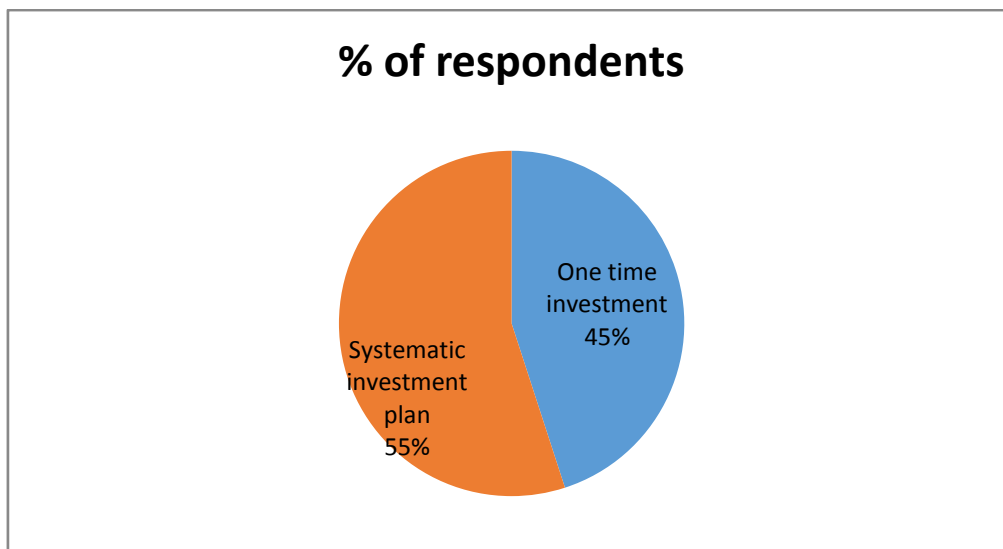
| Sl no | Options | Numbers | % of respondents |
|-------|-------------|---------|------------------|
| 1 | High return | 63 | 63% |
| 2 | Flexibility | 17 | 17% |
| 3 | Liquidity | 8 | 8% |
| 4 | safety | 12 | 12% |



Inferences: this data so collected is disclosing that most of the people expect high return from their investment. Maximum people of 63% invest in ELSS due to high return. Only 8% are investing due liquidity.

6) Mode of investment preferred by respondents.

| Sl no | options | numbers | % of respondents |
|-------|----------------------------|---------|------------------|
| 1 | One time investment | 45 | 45% |
| 2 | Systematic investment plan | 55 | 55% |



Inferences: in the above information it is showing that maximum people are preferring SIP (systematic investment plan) and 45% people prefer one time investment.

IV. Findings

- The maximum percentage of respondents of 35% are earning between 1,00,000 to 3,00,000. The minimum percentage of respondents of 15% are earning annual income below 1, 00,000.
- The main finding for current study is to collect information about percentage of awareness of ELSS among salaried people. Around 57% of people are already aware of ELSS but there are 11% of respondents who are totally unaware of ELSS.
- About 45% is the maximum respondents who are really aware of benefits of ELSS. Minimum 25% of respondents are partially aware of benefits of ELSS.
- It is known that most of the respondents get to know about the scheme through advertisements that is about 56% Of people. Yet there are 22% of minimum people who get to know by prospects.
- This study tells about the reason for investing in ELSS. It tells that 63% as maximum percentage respondents who invest to get high returns. Only 8% of respondents choose ELSS for its benefit of liquidity.

- f) The mode of investment is also vital step, in the case it tells that 55% is the maximum respondents who choose SIP as mode of investment.

V. Suggestions

As per the study on “ELSS as an option of tax saving for salaried class of people” it aimed at know regarding awareness of ELSS, through study it is found that more than 50% of respondents are aware (in macro sense more than 50% of people are aware of ELSS. Yet it is necessary to bring awareness among the people for their own benefits and to evade tax under authorized scheme. The purpose is also of knowing the benefits of ELSS over other saving scheme. Its special feature is 3 year lock-in period where all other schemes are having about 5 years and 15 years of lock-in period.

VI. Conclusions

This study aimed at collecting information regarding the awareness of ELSS as tax saving scheme. In order to analyze the awareness and its benefits over other schemes considered data pertaining to the period of 2012 to 2017. Around above average people are aware of ELSS but only few are aware of benefits of ELSS over other schemes.

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