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Tax-saving benefits under Section 80C

The Income Tax Act of India has a part called the Section 80C wherein taxpayers can save up to Rs 1.5 lakh in income tax by availing tax-saving deductions on certain investments and expenses. This benefit of Rs 1.5 lakh is available to all taxpayers, irrespective of how much they earn or what income tax slab they fall under.

Out of the many tax-saving investments and expenses that are eligible for deductions, a taxpayer can claim the deduction on making specified investments. It is not mandatory to claim a specific number of investments. The entire Rs 1.5 lakh limit can be claimed in any one of the options or across different options. The taxpayer can choose the investments or expenses that they want to use to save taxes.

This choice should be utilized properly and aligned to one's finances in a manner to achieve financial security as well as fulfill long-term financial goals. This is why choosing the right tax-saving options become very critical. A tax-saving investment should ideally serve the dual purpose of saving taxes and building long-term wealth. This is where Equity Linked Savings Schemes (ELSS), also known as tax-saving mutual funds, work best.

These tax-saving mutual funds invest a majority of their portfolio in equities, which allows them to generate higher returns over the long run than other fixed income tax-saving investments. ELSS funds are also the most flexible investment option and have the shortest lock-in period. This is why most investment experts recommend ELSS funds under Section 80C.

Read more about the benefits of ELSS funds.

ELSS funds versus popular tax-saving investments

While the primary reason to invest in ELSS funds is to save taxes, these mutual funds can also help you achieve your long-term financial goals. Because these tax-saving funds invest primarily in equities, they hold the capacity to earn returns that are higher than the prevailing rate of inflation. Other tax-saving investments cannot do this. Equity funds come with market-related risks, but these risks get mitigated over long periods of time and allow the investor to actually earn high returns.

Furthermore, long-term capital gains from ELSS funds are also completely tax-free in the hands of the investor. Additionally, they have the shortest lock-in period and highest flexibility in terms of pausing or changing investments.

The following table shows ELSS funds compared to other popular tax-saving investment options.

Investment	Interest/returns	Lock-in Period	Risk Profile
ELSS funds	12% to 15% (expected)	3 years	Market related risks
PPF	8.1% (guaranteed)	15 years	Risk-free
NPS	8-10% (expected)	Till retirement	Market related risks
Fixed Deposit	7-9% (guaranteed)	5 years	Risk-free
NSC	8.1% (guaranteed)	5 years	Risk-free

As you can see, even though ELSS funds come with equity market-related risks, they can earn a lot more for you. ELSS funds also have a lock-in of only 3 years, which allows you the flexibility to review and change your funds if they are underperforming.

I’ve never invested before. Are ELSS funds good for me?

It would be natural for someone who has just started to work and earn, and never invested in equities before, to get nervous about the ups and downs of the stock markets. Yes, equities are volatile. But they’re volatile in the short-term. And ELSS funds aren’t short-term investments.

The stock markets go up and go down frequently and can be scary when you look at them on week-by-week basis. But over longer periods of time, they don’t fluctuate as much. ELSS funds have a lock-in period of 3 years, which means they’re long-term investments by default. Short-term fluctuations of the stock market will not have an adverse effect on your ELSS fund investments. For most 3-5 year periods, the best ELSS funds have managed to deliver 12-15% returns.

This is why you should invest in ELSS funds to save taxes even when you haven't invested before. Additionally, anyone who has just started working would be young enough to take some risks. The young have fewer responsibilities on their shoulders and longer years to plan for financial goals. This is why you can afford to take equity-oriented risks because the returns and rewards are definitely higher.

I’m already saving taxes. Why should I invest in ELSS funds?

If you’re already availing deductions to save taxes, you’re probably doing so by paying life insurance premium, contributing to public provident fund or putting money in fixed income options like national savings certificate. But if you are not investing in tax-saving mutual funds, you are earning less than you could.

Sure, you will still be saving taxes. But tax-saving shouldn’t be the only reason to invest in tax-saving instruments. By their very nature, tax-saving investments are long-term investments because they typically have long lock-in periods. This forces the investor to stay invested and reap the benefits after many years. But most tax-saving investments are debt-oriented, which means they can't beat inflation. Only ELSS funds can, because of their exposure to the stock market.

This is why you should have a part of your tax-saving portfolio in ELSS funds. If you're already exhausting your Rs 1.5 lakh 80C limit, you can continue the life insurance premium you pay and avail benefits on your children's tuition fees, but you can reduce exposure to fixed deposits or NSC. You can even consider limiting your PPF contribution to allow room for investments in tax-saving mutual funds. A debt-equity portfolio will allow you to earn good returns along with saving taxes.

Which ELSS funds does ClearTax recommend?

The Indian mutual fund industry is made up of 41 fund companies. Between them, there are hundreds of ELSS funds for an investor to choose from. In such a scenario, it is natural for a lay investor to get confused and overwhelmed by the choices. You have decided to invest in ELSS funds to save taxes, but how do you pick the best funds? You can leave that to us.

ClearTax has carefully shortlisted four ELSS funds based on their consistent performance, risk-management capabilities and sectoral allocation. Here is a concise analysis of funds that ClearTax recommends.

Reliance Tax Saver Fund

Expert Ratings		Returns Since Launch
Value Research	Morning Star	
★★★★	★★★★	15.08 % per year
Fund Size (Assets Under Management)		₹ 5500+ Crores

Birla Sun Life Tax Plan

Expert Ratings		Returns Since Launch
Value Research	Morning Star	
★★★★	★★★★★	20.03 % per year
Fund Size (Assets Under Management)		₹ 400+ Crores

DSP BlackRock Tax Saver Fund

Expert Ratings		Returns Since Launch
Value Research	Morning Star	
★★★★	★★★★	13.93 % per year
Fund Size (Assets Under Management)		₹ 1400+ Crores

Axis Long Term Equity Fund

Expert Ratings		Returns Since Launch
Value Research	Morning Star	
★★★★★	★★★★★	17.66 % per year
Fund Size (Assets Under Management)		₹ 10000+ Crores

All of these funds have been assessed by our tax and investment experts. These funds have done well historically, which means they have not only earned returns when the markets go up but also limit the fall in case of a market crash. The funds also have a strong research and management team that ensures their stock picks work out well.

Why should I invest through ClearTax?

No other private player in India knows income tax as well as we do. Over a million taxpayers in India e-file their income tax returns on our platform. And to aid them in saving taxes, we have built a robust tax-saving platform as well.

Investing in tax-saving mutual funds through ClearTax has the following advantages:

Immediate tax saving, long-term wealth creation

Bank grade security

Expert assistance to maximise tax savings

Apart from this, investing through ClearTax is a completely paperless and end-to-end online process. If you’re not KYC compliant, we’ll help you get that done as well. It is the easiest way to invest in the best tax-saving mutual funds.

Need Help?

We're always eager to help you with any financial- or taxation-related quality. You can reach out to us through our customer support page.