A

PROJECT REPORT

ON

"PREFERENCE OF ELSS VS. OTHER UNDER SEC.80C INVESTMENT AVENUES"

AT

BLUECHIP CORPORATE INVESTMENT CENTRE PVT.LTD.

NASHIK.

Submitted to:

University of .

In partial fulfillment of

Master in Business Administration

PROJECT GUIDE:

PROF. ________.

BY

________________.

MBA (FINANCE)

(INSTITUTE NAME)

(20 -20)

DECLARATION

This is to declare that I, ____________________, student of Management of Business Administration (20 –20), **I.M.R.T. NASHIK** have given original data and information to the best of my knowledge in the project report title,
"PREFERENCE OF ELSS VS. OTHER UNDER SEC.80C INVESTMENT AVENUES" under the guidance of our Director ________ and that, no part of this information has been used for any other assignment but for the partial fulfillment of the requirement towards the completion of the said course.

I have prepared this report independently and I have gathered all the relevant information personally. I have prepared this project for **M.B.A.** for the year **20 –20** .

PLACE : (Name)

DATE : / / M.B.A.- II

(FINANCE)

ACKNOWLEDGEMENT

It is a great pleasure to me in acknowledging my deep sense of gratitude to all those who have helped me in completing this project successfully.

First of all I would like to thank Pune University for providing me an opportunity to undertake a project as a partial fulfillment of MBA degree.

Special thanks to **Mr.__________(City Head)** for providing me an opportunity to work with Bluechip Corporate Investment Centre Pvt. Ltd. Nashik, and providing me necessary information about their organization, their operations and providing guidance in developing my project.

I greatly appreciate the staff of the surveyed business unit, who responded promptly and enthusiastically to my requests for frank comments despite their congested schedules. I am indebted to all of them, who did their best to bring improvements through their suggestions.

I would like to thank our Director and Project guide **Prof. __________** whose valuable guidance and encouragement at every phase of the project has helped to prepare this project successfully.

Finally, I would like to express my sincere thanks to my family, all the faculties, office staff, and library staff of my college and friends who helped me in some or other way in making this project.

PLACE : (Name)

DATE : / / M.B.A.- II

(FINANCE)

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TOPIC PAGE NO.

CHAPTER 1

INTRODUCTION

1.1 OBJECT OF THE PROJECT

As per mandatory requirement of Pune University, I have undertaken this project as a part fulfillment of Master of Business Administration curriculum within 2 months training at

BLUECHIP CORPORATE INVESTMENT CENTRE PVT.LTD.NASHIK.

Each management student learns a lot during his 2 years of MBA programmer, but the perfection in his learning can't be even imagined until & unless there is a practical training. The (summer) project provides required practical training to student.

1.2 SELECTION OF THE TOPIC

Topic selection is one of the most or one of the important aspects of out project. As it decides the course of action, to be followed. The topic selected should be such that it helps in understanding the Financial Institution concepts clearly, as was given the topic by the company

The topic given by my project guide was

'PREFERENCE OF ELSS VS. OTHER UNDER SEC.80C INVESTMENT AVENUES '

This covers all the things related to the investment avenues provided by the financial farm. The topic was to collect the financial information from the financial farm so as to find out the investment avenue of the Financial Institution.

1.3 OBJECTIVE OF THE STUDY

Objective of the research should be well defined as it gives the direction to the study and research. Objectives are important to solve the research problem systematically. The first step in research plan is therefore to define the research objectives. The objectives of the project are divided in two parts that are primary objectives and secondary objectives.

The objectives of study are well defined in the following points:

Primary objectives:

- To study the features of ELSS scheme of mutual funds.
- To study the preference of ELSS over other 80C investment avenue
- To make a comparative study of the various investment options available with the investor and categories the same for an efficient investment.

Secondary objectives:

- To access the merits of different 80C investment alternatives from investor point of view.
- To study the various investment avenues, eligible for deduction under sec.80C of Income Tax Act, 1961.

1.4 RESEARCH METHODOLOGY

Introduction

Research methodology is a systematic structure of investigation undertaken in order to discover new facts. Research methodology provides a frame work to conduct a research.

Research Methodology is a way to systematically solve the research problem. It may be understood as a science of studying how a research is done scientifically. Various steps are generally adopted by a researcher in studying this research problem along with logic behind them is studies.

Research plan:

1. Define Research objectives.
2. Data collection.
3. Data analysis.
4. Present the finding.

Research objectives:

The scope of the study is concentrated on ELSS scheme of Mutual Fund. The study includes the comparison of different 80C investment avenues. The research is done on what is the awareness of ELSS scheme of mutual fund and other under sec. 80C investment avenues among investors.

Research objectives of the study both primary and secondary are well defined in the previous chapter.

Data source

The data collected for the project was in the form of written as well as verbal information.

- **Primary data:**

  Primary data are those which are collected for the first time hence which are fresh and thus, happen to be original in character. Primary data is collected through direct communication with the respondents.

- **Secondary data:**

  The secondary data are those which have already been collected by some other agency and which have already been processed. The sources of secondary data are magazines, newspapers, books, journals etc.

  The secondary data for the study was collected as follows:

  Information regarding mutual fund is taken from AMFI Workbook and amfiindia.com.

  The information about Section 80C of Income Tax Act is taken from the 'Income Tax – Dr. Vinod Singhania'

  The data showing performance of different ELSS schemes is collected from the respective websites.

  Information about other under sec 80C investment avenues like LIC, PPF, NSC, ULIP etc. is collected from books, newspapers and websites.

  The information regarding company and services provided by the company was collected from the company's website.

1.5 LIMITATION OF THE STUDY

- The project is based on the situations prevalent at the time of practical training. Hence it may not apply to different situations.
- The time span for the project was very short, which itself acts as a major constrain.

CHAPTER 2

PROFILE OF THE ORGANISATION

2.1 HISTRY OF ORGANAISATION

Simplicity has been the philosophy of Bluechip all along. Be it with respect to investments, building relationships or even our name. This belief in simplicity, accompanied by advisory experience and knowledge of the retail investors' unique needs, has made Bluechip India's largest Retail Investment Advisory House.

Incorporated in 1989, in Fort–Mumbai, today we have 228 offices spread across major Indian cities such as Anantapur, Calicut, Mumbai, Chennai, Bangalore, Hyderabad, Pune, Ahmedabad, Coimbatore, Kolkata, Erode, Cochin, Delhi, Madurai, Baroda, Salem, Vizag, Thrichur, Trichy, Chandigarh, Vijayawada, Kottayam, Vellore, Nagpur, Tirunelveli, Puducherry, Bhubaneswar, Nasik, Trivandrum, Mangalore, Mysore, Guntur, Warangal, Rajahmundry, Jalandhar, Ludhiana, Siliguri, Hubli, Tirupati, Palakad, Tirupur, Anand, Durgapur, Kolhapur, Surat, Ratnagiri, Rajapalayam, Kollam, Thanjavur, Nagarcoil, Kanchipuram, Hosur, Nellore, Cuttack, Aurangabad, Guwahati, Jamshedpur, Thiruvalla, Karur, Asansol, Raipur, Belgaum, Tuticorin, Kumbakonam, Ranchi, Patiala, Mehsana, Kannur, Sangli, Kakinada, Gurgaon, Pattukottai, Jalgaon, Goa, Satara, Pudukottai, Chidambaram, Pathanamthitta, Rourkela and Lucknow and soon to be present in many more cities.

Our straightforward, easy approach to investments, unbiased opinion on products, personalized attention, along with diligent post investment service has earned us the respect of over 4 lakh families in India, who invest regularly through us in a range of financial products like Mutual Funds, Life Insurance, new equity IPO's, Post Office Savings Schemes, Govt. Of India Bonds, Corporate Fixed Deposits, etc.

Our advisory services are based on understanding of the financial markets and more importantly, of our investors. We take care to thoroughly understand our investors' profile, their investment needs and objectives. We analyze their appetite for risk and construct investment portfolios based on the information. Every customer gets personalized, individual attention from Bluechip, irrespective of their investment size.

We pioneered the "Home Advice" service, by which our investors can choose to avail expert advisory services at their doorstep thereby making it so much easier and convenient for them to invest. On a daily basis, more than 4000 investors across India are availing this unique service today.

Our in-house publication "Bluechip Bulletin" is the most preferred investment advisory newsletter amongst retail investors and is sent to more than 5 Lakh investors every month.

Our website www.bluechipindia.co.in is the most preferred financial products information portal giving you updates on various products , viz., mutual fund, life insurance etc. The financial calculators on the website help you analyse simple / annualised / CAGR Returns as well as SIP Returns of almost all mutual fund schemes. You can also register on our website and update your portfolio in the 'MY PORTFOLIO' column. This column will provide you detailed analysis of your portfolio which can be downloaded and saved by you which will help you to take a better decision regarding your investments.

Bluechip's expert advisory services combined with hassle free investment solutions is aptly reflected in our credo – **"Expert Advise, Easy Investing"** , which not only emulates our philosophy but also captures the experience that has been the hallmark of 18 years of partnering with YOU, OUR INVESTOR.

Philosophy

Company believes in…

- having single window, multiple solutions that are integrated for simplicity and sapience
- making innovations, accessions, value-additions, a constant process
- Providing customers with solutions for tomorrow which will keep them above the curve, today.

Vision

To be the leader in the business through,

- Total Customer Satisfaction
- Commitment to Excellence
- Determination to Succeed with strict adherence to compliance
- Successful Wealth Creation of our Customers

Mission

Ensure creation of the desired value for our customers, employees and associates, through constant improvement, innovation and commitment to service & quality. To provide solutions which meet expectations and maintain high professional & ethical standards along with the adherence to the service commitments.

Divisions

Bluechip Invest has two broad distinct divisions of business as follows

1. BLUECHIP FUNDZ NETWORK

Bluechip Network, started in 1990, is a dedicated channel for providing independent financial advisors or IFA's with a complete business platform for the strengthening and development of their advisory practice. Bluechip offers advisors under its network will all the products; support and services that enables them add considerable value to their business, emerge as a 'new age professional financial advisor' and compete confidently in the industry. Bluechip Fundz Network is a unique, first time in India concept that offers such comprehensive business platform to independent financial advisors.

2. BLUECHIP WEALTH ADVISORS

Established as a distinct entity, Bluechip Wealth Advisors Pvt. Ltd. seeks to offer comprehensive financial planning and portfolio advisory services to premium clients. With Bluechip Wealth Advisors, Bluechip seeks to leverage the strong financial advisory and portfolio management skills gained in over a decade of experience in the industry. Bluechip Wealth Advisors offers its clients with quality, unbiased, need-based advisory services & investment solutions.

Apart from these two divisions, Technology has traditionally been Bluechip's key strength. Their offering on the technological front is unmatched, vibrant, and comprehensive in nature. Finlogic Technologies (India) Pvt. Ltd. does all the development & support work in-house on a continuous basis. It has successfully developed & implemented a powerful support system for the mutual fund distribution business at Bluechip.

2.2 SERVICES OF THE ORGANAISATION

Bluechip offers advisory and distribution services on the Mutual funds – covering all AMCs & all schemes. Bluechip's main focus is on mutual funds advisory and distribution. At Bluechip , we believe that mutual funds, as an asset class, can be looked at for almost all of the financial needs.

Bluechip has set strict processes in place to deliver quality services to customers. At Bluechip strict quality service standards are set and a well-defined process is established and followed religiously by their quality customer service teams. Various statistics are analyzed on an ongoing basis to improve the service standards.

2.3 MANAGEMENT OF THE ORGANAISATION

The management at Bluechip brings together a team of people with wide experience and knowledge in the financial services domain. The management provides direction and guidance to the whole organization. The management has strong visions for Bluechip as a globally respected company providing comprehensive services in financial sector. The 'Customer First' philosophy is deeply ingrained in the management at Bluechip . The aim of the management is to bring the best to the customers in terms of 'Range of products and services offered' and 'Quality Customer Service'.

All the key members of the organization put in great focus on the processes & systems under the diverse functions of business. The management also focuses on utilizing technology as the key enabler for all the activities and to leverage the technology for enhancing overall customer experience.

CHAPTER 3

PROJECT ANALYSIS

3.1 SELECTION OF TOPICS, IMPORTANCE PURPOSE, DEFINITIONS

Times have changed and investor has a variety of investment choices before him. So, it is necessary to consider investment options carefully. While a good rate of return is very important, to help him to fight inflation, a tax break provides an added incentive.

Therefore it is necessary to compare different investment options and select the suitable one accordingly. For evaluating an investment avenue the following attributes are relevant: Rate of return, Risk, Marketability, Tax shelter, Convenience.

Investor certainly looks for the best returns on different options. However to determine which option is better, the comparison should also be made in terms of other benefits that the investor ought to look for in any investment. Besides returns other potential benefits of any investment also include the safety of the capital, the risk or the stability of the returns, the liquidity or access to the funds when needed, and the convenience with which the investment can be managed.

This project studies the benefits and limitations of different 80C investment avenues. The comparison of different eligible investment options is done on qualitative as well as quantitative basis. For the purpose of study of ELSS scheme of mutual funds, four schemes of different mutual fund companies are selected randomly and their performance is studied.

For this purpose it very necessary to understand what the mutual fund is and the background of the mutual funds. Along with that it is also necessary to know the provisions of Section 80C of Income Tax Act, 1961.This introductory part of the project is therefore divided in to two main parts. First is introduction about mutual funds. This part covers the concept of mutual funds in brief and also gives the idea about mutual fund market in India. The second part is introduction about Section 80C, which covers the features of the said Section and the provisions given thereon.

- **About Mutual Funds:**

Mutual Fund is trust that pools the savings, which are then invested in capital market instruments such as shares, debentures and other securities. In simple words, Mutual Fund is a pool of money, collected from investors, and is invested according to certain investment objectives. Thus it is a collective investment vehicle in which the ownership of fund is joint or mutual. This enables the investor to hold a diversified investment portfolio even with a small amount of capital. Mutual Funds are also known as Financial Intermediaries.Worldwide, the Mutual Fund or Unit Trust as it is called in some parts of the world, has a long and successful history. The popularity of mutual fund has increased manifold. In developed financial markets like, the United States, mutual funds have almost overtaken bank deposits and total assets of insurance funds. As of date, in US alone there are over 5000 Mutual Funds with total assets of over 100 lakh crores.

In India, the mutual fund industry started with the setting up of UTI in 1964.The objective then was to attract the small investors and induce them to market investments. Public Sector Banks and Financial Institutions began to establish mutual funds in 1987, when government started allowing other sponsors also to set up mutual fund. This class of intermediary institutions has immerged as a good alternative to direct investing in capital markets. The private sector and foreign institutions were allowed to set up mutual funds in 1993.Today there are 32 Mutual Funds and over 200 schemes with total assets of approximately Rs. 2,50,000 crores. This fast growing industry is regulated by the Security Exchange Board of India (SEBI).

- **About Sec.80C of Income Tax Act 1961:**

  Deductions available under sec.80C are of special nature and are allowed to certain specified categories to taxpayers. Deductions under sec.80C are in relation to various investments and payments. The purpose of these deductions is to encourage savings, industrialization and to assist the taxpayers in meeting their essential expenditures. These deductions have to be made from the Gross Total Income in order to arrive at Net Income. A new sec.80C has been inserted from the assessment year 2006–2007 onwards.Sec.80C provides deduction in respect of specified qualifying amounts paid or deposited by the assesses in the previous year.

- **Salient features of Section 80C:**

1. Under sec.80C deduction is available from gross total income.
2. Deduction under sec.80C is available only to an individual or a Hindu Undivided Family.
3. Deduction is available on the basis of specified qualifying investment / contribution / deposits / payments made by the taxpayer during the previous year.
4. The gross qualifying amount would be allowed as deduction irrespective of the fact whether (or not) such amount is paid or deposited by the taxpayer out of his income chargeable to tax.
5. The maximum amount deductible under sec. 80C can not exceed Rs. 1 lakh.
6. Section 80C deduction is allowed irrespective of assessor's income level. Even persons with taxable income above Rs. 10, 00,000 can avail benefit of section 80C.
7. There are no sectoral caps (except in PPF) on investment in the new section and the assesses is free to invest Rs. 1, 00,000 in any one or more of the specified instruments.

- **Following is the list of Specified** Investment Schemes u/s 80C:

1. Life Insurance Premiums
2. Contributions to Employees Provident Fund/GPF
3. Public Provident Fund (maximum Rs 70,000 in a year)
4. National Saving Certificate.
5. Unit Linked Insurance Plan (ULIP)
6. Repayment of Housing Loan (Principal)
7. Equity Linked Savings Scheme (ELSS)
8. Tuition Fees including admission fees or college fees paid for Full-time education of any two children of the assesses (Any Development fees or donation or payment of similar nature shall not be eligible for deduction).
9. Infrastructure Bonds issued by Institutions/ Banks such as IDBI, ICICI, REC, and NHAI.

EQUITY LINKED SAVING SCHEME (ELSS) OF MUTUAL FUND

Introduction

Times have changed and so must the investor. There are varieties of new investment options that can help one fight against rising inflation and save tax. While a good rate of return enables one to fight inflation, tax saving is a very important part of financial planning, too. Because, at the end of the day, post tax returns are what really matter. It determines the actual income that is available for spending or reinvesting.

With effect from the financial year 2006–07 (which will end on March 31, 2007), investor can benefit from the new Section 80C, which gives taxpayers a deduction from taxable income up to Rs 1,00,000 per year on investments made in specified tax-saving instruments which includes ELSS. The major advantage is that there is no sub – limit for ELSS, and you can invest the entire Rs.1, 00,000 in this instrument and get a deduction. Also, the deduction under Section 80C is available to any individual or HUF, irrespective of the income levels.

Budget 2007 has offered a phenomenal combination of tax benefits on equity investing through equity tax saving mutual funds, which, when combined with a systematic investment plan, is a surewinner!

Equity Linked Savings Schemes (ELSS) provides an ideal way to save tax and earn equity linked return on the investment. These are, basically, equity – diversified mutual fund schemes and have a lock in period of three years. Usually, more than 80 per cent of the money invested in ELSS goes into equity and related instruments. ELSS schemes of mutual funds have been introduced, to give a steady boost to equity markets and, therefore, the government has provided tax concessions to those who invest in this instrument. According to the newly introduced section 80C of the Income-tax Act, an investment in ELSS, up to a maximum of Rs.1 lakh per financial year, is eligible for deduction from taxable income.

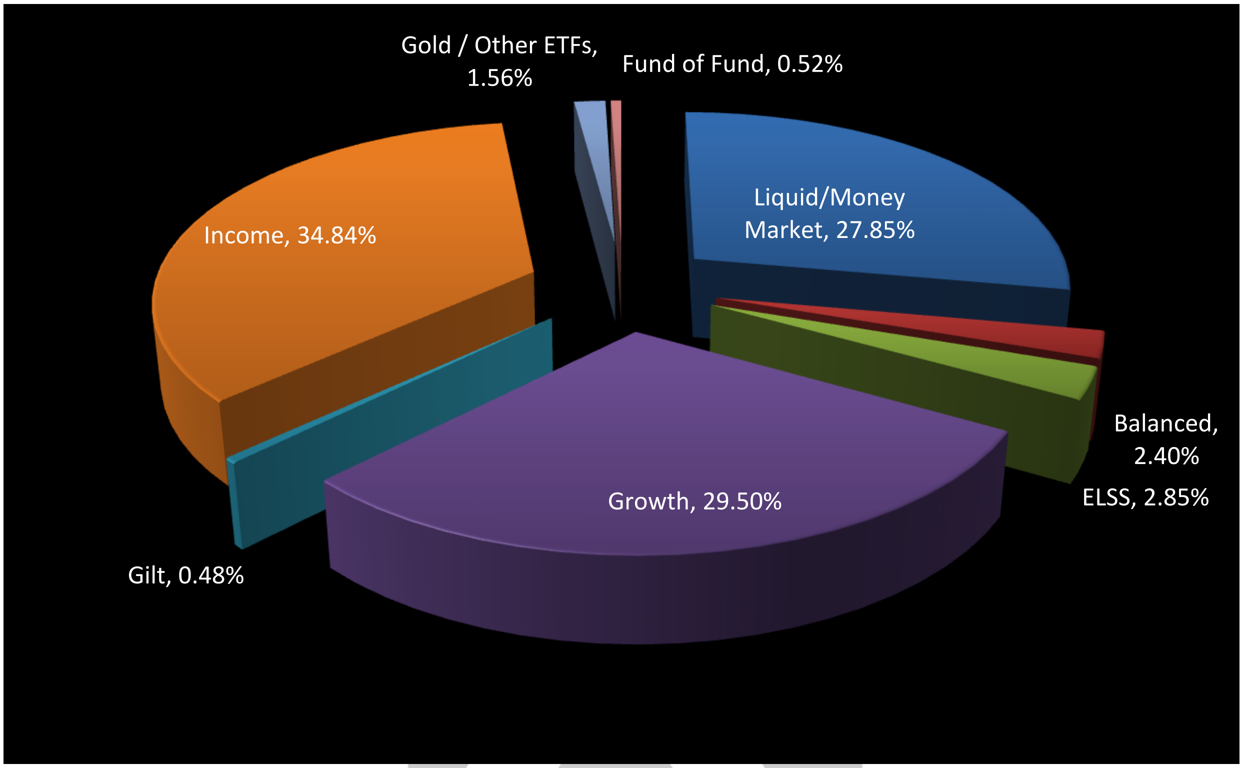
As the name of the scheme very clearly suggests, it is a savings scheme that's linked to equity. And these are the two most important facts to remember even after investing in an ELSS. A savings scheme must necessarily be for the long term, and because it's equity-linked, there is a certain amount of risk involved. As the fortunes of these instruments are tied to the equity market, they have a high risk – high return profile. However, as these funds are professionally managed and as they have a 3 year lock – in period, fund managers are able to make long – term calls on the scrip's that look like winners. Unlike open – ended funds that are bogged down with redemption pressures, these schemes enjoy the best of both, returns and capital appreciation.

The investor looking for capital growth should consider ELSS. ELSS gives high returns than any other 80C investment option. It also provides liquidity as its lock in period is moderate i.e. three years. Though the history of ELSS shows that it is not in loss since long time, one should take into consideration that ELSS invests in market and hence it is subject to market risk.

Following table gives the idea about the existence of ELSS scheme of mutual funds in the Mutual Fund industry in India.

Name of the scheme	AUM in %
Liquid/Money Market	27.85
Balanced	2.40
ELSS	2.85
Growth	29.50
Gilt	0.48
Income	34.84
Gold / Other ETFs	1.56
Fund of Fund	0.52

The same table has been put into the chart. The chart shows **Assets Under Management** of different mutual fund schemes, as on July 31, 2007.



Features of the ELSS scheme of mutual funds

1. It is basically equity diversified mutual fund scheme.
2. The money invested in ELSS goes into equity and related instruments and therefore they are subject to market risk.
3. Moderate Lock in period i.e. of three years.
4. Investment in ELSS offers 100 per cent tax deduction up to Rs 1, 00,000 per year.
5. From all classes of investments, which are eligible for a tax rebate, the returns from ELSS have been the highest.
6. Though the risk element is prominent, history has shown that most ELSS schemes have been safe and investors have rarely lost their money.
7. Dividends from mutual funds are fully exempt from income tax under Section 10(33).

Benefits of Equity Linked Saving Scheme

What does anyone want from a tax-saving instrument?

In an ideal world, we all want high returns, full safety, 100 per cent tax deduction and no lock-in period. But that is in an ideal world, and as we all know that, such instruments do not exist in the real world. The Equity–linked Savings Scheme (ELSS) is one such instrument that comes close to this.

Following points will explain the benefits of investing in ELSS:

1. **Benefiting from playing long term:**

One of the basic tenets of investing in equity is to think long – term. This doctrine stays even while investing in equity funds. Investment in ELSS schemes offers one such avenue. The investor benefit on account of a three year lock – in period that gives the fund enough time to take both the upswing as well as downswing of the market conditions in its stride. As the funds shall remain with the fund manager for at least 3 years, the fund manager too has enough leeway to play with a fixed corpus and can take long – term calls on any scrip. This is generally not the case with any normal open – end scheme and so the performance could vary in short – term.

2. **The tax advantage:**

Compared to that ideal world investment, an ELSS, we see, can deliver high returns but little safety. But what about the tax angle? Now, with effect from the current financial year (which will end on March 31, 2007), we can benefit from the new Section 80C, which gives taxpayers a deduction from taxable income of up to Rs. 1,00,000 per year on investments made in specified tax – saving instruments. The list is the same as the one under Section 88, and equity – linked savings schemes figure prominently. The major advantage is that there is no sub – limit for ELSS, and you can invest the entire Rs 1, 00,000 in this instrument and get a deduction. Also, the deduction under Section 80C is available to any individual or Hindu Undivided Family, irrespective of the income levels. Dividends from mutual funds are fully exempt from income tax under Section 10(33).Also the dividends from mutual funds are fully exempt from income tax under Section 10(33).

3. **Minimizing Risk:**

Although ELSS offers tax benefits, with equity market linked returns, there is no running away from the fact that they are subject to equity market risk. As we all know, the equity market can be very volatile and fluctuate not only due to fundamentals but also sentimental factors. Diversifying the portfolio across sectors and scrip's is one way of minimizing the risk which is already done with the investment in mutual funds. What one can do is diversify the investment across time periods. SIPs are a tried and tested method of minimizing risk and yet enjoying good returns, by regular, periodic investment, over a long horizon. SIPs along with the tax benefit that can be availed of by investing in ELSS, makes this investment option very attractive. Instead of simply putting in a chunk of Rs 1 lakh at the end of each fiscal year, if you develop a healthy saving habit, you could invest a fixed amount every month and benefit from the advantages of both SIPs and the tax rebate.

4. **Higher Returns:**

Rising inflation and uncertainty on the interest rate front have rendered debt funds lackluster. Interest rates on other investment avenues, such as bank deposits, are yielding lower returns and hence, investing in equities seems more attractive. Top performing ELSS has delivered returns of more than 70 per cent for last three years. Therefore, Equity Linked Saving Schemes (ELSS), with its lock in period of three years, meets all your investment objectives, especially in volatile times. It can help you to save on tax and earn high returns. Thus, it is an ideal option for investors, with a long-term horizon, who are considering investing in equity mutual funds.

There will still be a whole list of approved instruments, under the Section 80C, in which the savings must be canalized, in order to benefit from the tax break. However, the most important benefit is that there is no Sectoral caps. To make the most of this benefit, the best strategy would be to invest in Equity Linked Savings Schemes (ELSS) of mutual funds, through the Systematic Investment Plans (SIP) route. If you invest in ELSS through the SIP route, it will give you the best combination of low risk and good returns, along with tax benefits.

5. **Investment in Mutual Fund reduce Tax Liability By 20%** :

Under section 80CCB, a deduction shall be allowed in the case of an assesses, being an individual or a Hindu undivided family, in relation to the investment made in the units of any plan, framed in accordance with the Equity Linked Savings Scheme, of the Mutual Funds specified under clause (23D) of section 10 or Unit Trust of India.

When any amount in respect of which deduction has been allowed is returned to the assesses either by way of repurchase of the units by the Fund or the Trust or on the termination of the plan, it will be deemed to be his income for the previous year in which the amount is returned. Further, where a Hindu undivided family has affected a partition after a deduction has been allowed to it on an amount invested in accordance with the Scheme, such amount on its return shall be deemed to be the income of the recipient.

The difference between the repurchase price of the units and the amount invested therein by the assesses shall be deemed to be the capital gains and taxed accordingly. Section 194F provides for deduction of tax at source at the time of payment of any amount on account of the repurchase of units or on the termination of the plan, at the rate of 20 per cent thereon.

Other Benefits:

Nomination facility is available with ELSS. The units can be easily transferred by filling out a transfer form. In the case of open – ended schemes, the units can be sold anytime after the initial lock-in period of three years. In the case of closed-end schemes, the units can be sold only on the due date specified. During volatile times, equity fund managers stress the need for a long – term investment approach, as it offers more returns.

Limitations of ELSS

1. ELSS is subject to market risk. If the returns are high, so are the risks.
2. Difficult to choose the right fund (But not if you use the services of the Matchmaker)
3. Ultimately, investor is the judge of where to invest and what suits his portfolio best. Before taking an investment decision, investor should remember that the EET (exempt – exempt – tax) sword is hanging over our heads. The government has given advance warning that tax-saving investments will be taxed when investor gets his money back.

IN BRIEF,

- Sectoral caps have been removed for investments under Section 80C.
- ELSS offers the best returns from all instruments under Section 80C.
- The Systematic Investment Plan route has a number of time – tested benefits. SIP in an ELSS allows you all the benefits of systematic investment with a tax break.
- ELSS is basically an equity diversified mutual fund scheme having a lock in period of three years.
- Dividends from ELSS are fully exempt from tax.
- Investor is liable to pay capital gain tax on return of the amount invested.

The ELSS schemes of different mutual fund companies are studied in the next chapter. The next chapter studies the features and performance of different ELSS schemes.

3.2 PRESENTATION OF THE DATA IN TABLES, GRAPHS, DIAGRAMS

ELSS SCHEMES OF DIFFERENT MUTUAL FUND COMPANIES

To study how the ELSS is performing in the market, the four ELSS schemes of different Mutual Fund companies are selected at a random basis. The names of the schemes selected are:

1. Principal Tax Savings Fund
2. Birla Sun Life Tax Relief '96
3. SBI Magnum Tax gain Scheme 1993
4. HDFC TaxSaver

The above mentioned schemes and their performances are discussed in this chapter. The absolute percentage of returns given by the schemes for last five years is taken in to consideration to evaluate scheme's overall performance.

1. Principal Personal Tax Saver Fund

- **Investment Objective:**

The investment objective is to build a high quality growth-oriented portfolio and provide long-term capital gains to the investor. The fund aims at providing returns through capital appreciation.

- **Asset Allocation:**

Instrument	% of Portfolio of Plan A & B	Risk Profile
Equities & Equity related securities	Not less than 80%	Medium to High
Debt & Money Market instruments(including securitized Debt)	Up to 20%	low to medium risk

- **Scheme Highlights:**

1. Open – ended Equity – linked Savings Fund

2. The fund offers the following facilities: Systematic Investment Facility, Systematic Withdrawal Facility, Switch Facility and Systematic Switching Facility.
3. This fund offers the option of opting for a Personal Accident Insurance plan.

- **Launch Date:** Mar 31, 1996.
- **Minimum Application:** For a New Investor: Rs.500, For an Existing Investor: Rs.500
- **Entry Load:** 2.25%
- **Exit Load:** Nil
- **Fund Class:** Equity Tax Saving
- **Performance of Principal Personal Tax Saver Fund for last five years**

Absolute Returns (in %)					
Year	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Annual
2008	− 33.9	− 13.7	−	−	−
2007	− 3 .4	28.6	15.7	29.3	85.5
2006	24.2	− 19.5	11.9	18.6	37.3
2005	0.9	0.8	21.5	3.0	32.3
2004	− 4.7	− 16.2	18.9	21.4	22.0
2003	− 13.1	20.2	26.8	34.2	89.1

The performance of 'Principal Personal Tax Saver Fund', the ELSS scheme of Principal Mutual Fund Company for last five years is shown in the chart below:

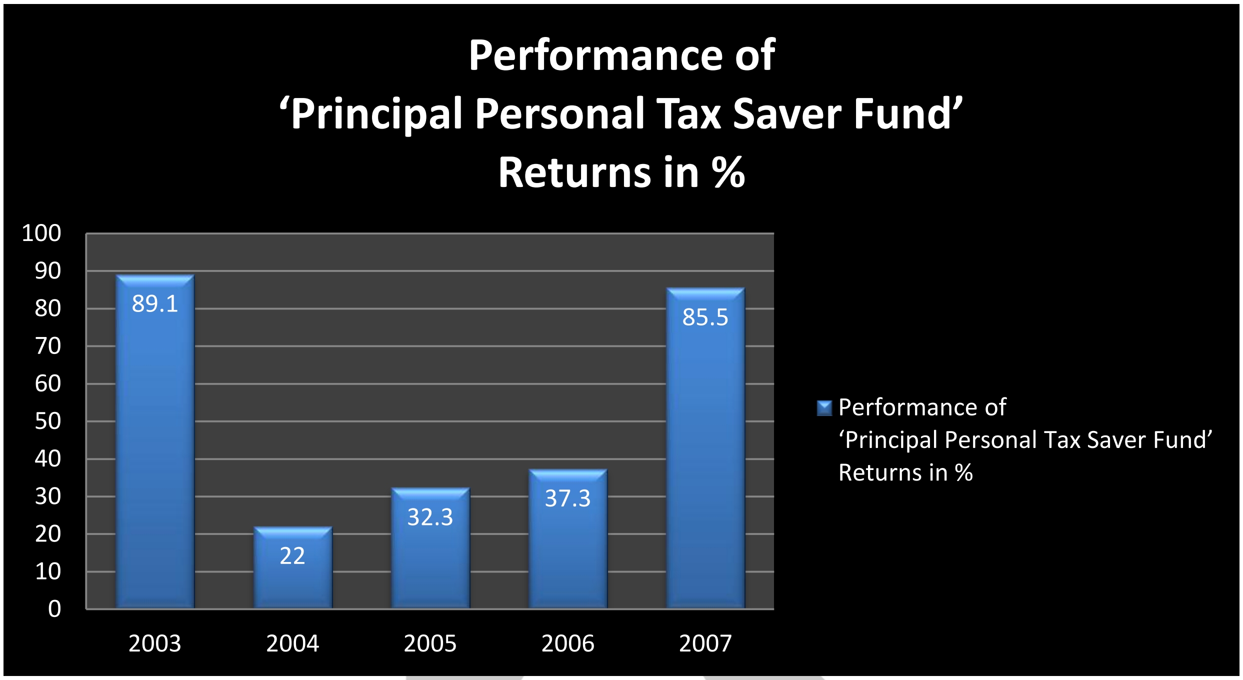


Fig. 1.1

In the Fig. 1.1,

Y – axis shows the returns in percentage and the years are given along the X – axis. The performance of the scheme for different years is shown on the bars.

2. Birla Sun Life Tax Relief '96

- **Investment Objective:**

Birla Sun Life Tax Relief'96 is an open – end Equity Linked Savings Scheme (ELSS) with the objective of long term growth of capital through a portfolio with a target allocation of 80% equity, 20% debt and money market securities.

- **Asset Allocation:**

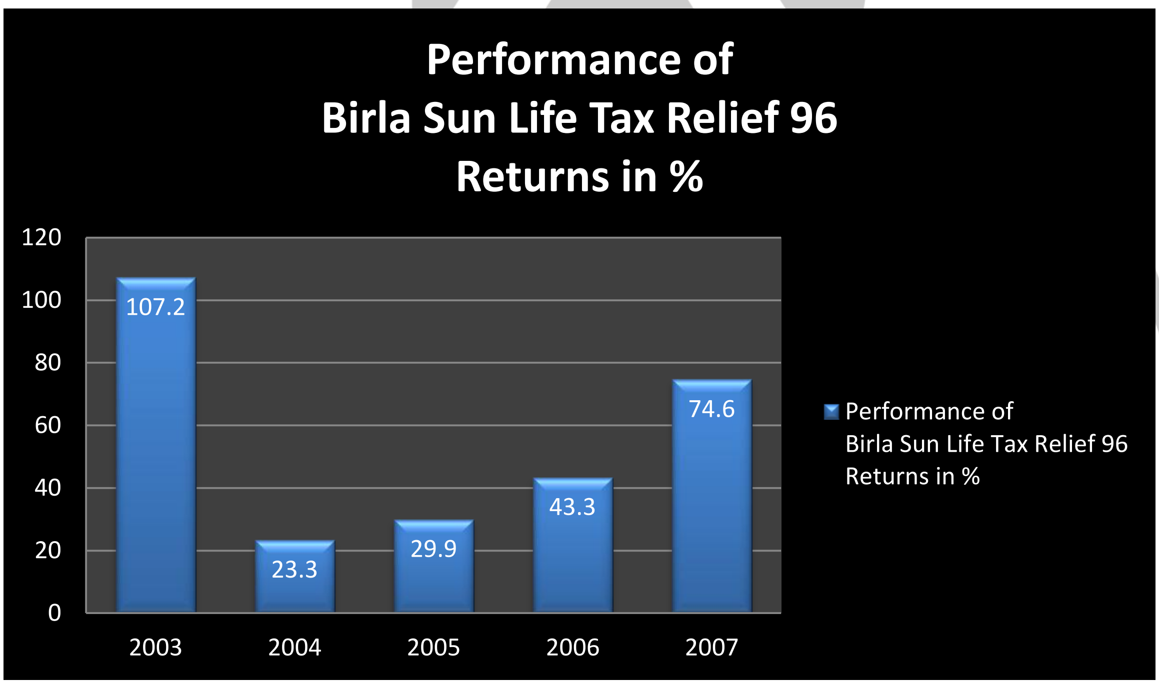
Instrument	% of Portfolio of Plan A & B	Risk Profile
Equities & Equity related securities	80 – 100%	Medium to High
Debt & Money Market instruments	0 – 20%	Low

- **Scheme Highlights:**
  1. An Open ended Equity Linked Savings Scheme (ELSS)
  2. Investment Style: Growth
  3. Benchmark: BSE 200
- **Launch Date:** 29 – Mar – 1996
- **Minimum Application:** Rs.500/ – and in multiples of Re. 1/ – thereafter
- **Entry Load:**
  1. For Purchase / switch in of units less than Rs. 5 Crores in value: 2.25%
  2. For Purchase / switch in of units equal to or greater than Rs. 5 Crores in value: NIL
- **Exit Load:** Nil
- **Fund Class:** Equity Tax Saving

- **Performance of Birla Sun Life Tax Relief 96**

Absolute Returns (in %)					
Year	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Annual
2008	– 32.5	– 25.7	–	–	–
2007	– 0.5	24.0	18.1	28.5	74.6
2006	24.5	– 18.3	21.8	13.0	43.3
2005	– 11.1	7.4	22.2	6.8	29.9
2004	3.8	– 16.0	15.0	17.9	23.3
2003	– 5.4	24.9	29.6	33.4	107.2

The performance of 'Birla Sunlife Tax Relief 96', the ELSS scheme of Birla Sunlife Mutual Fund Company for last five years is shown in the chart below:



In the fig. 1.2,

Y – axis shows the returns in percentage and the years are given along the X – axis. The performance of the scheme for different years is shown on the bars.

3. SBI Magnum Tax gain Scheme 1993

- **Investment Objective:**

The prime objective of scheme is to deliver the benefit of investment in a portfolio of equity shares, while offering tax rebate on such investments made in the scheme under section 80 C of the Income-tax Act, 1961. It also seeks to distribute income periodically depending on distributable surplus.

- **Asset Allocation**:

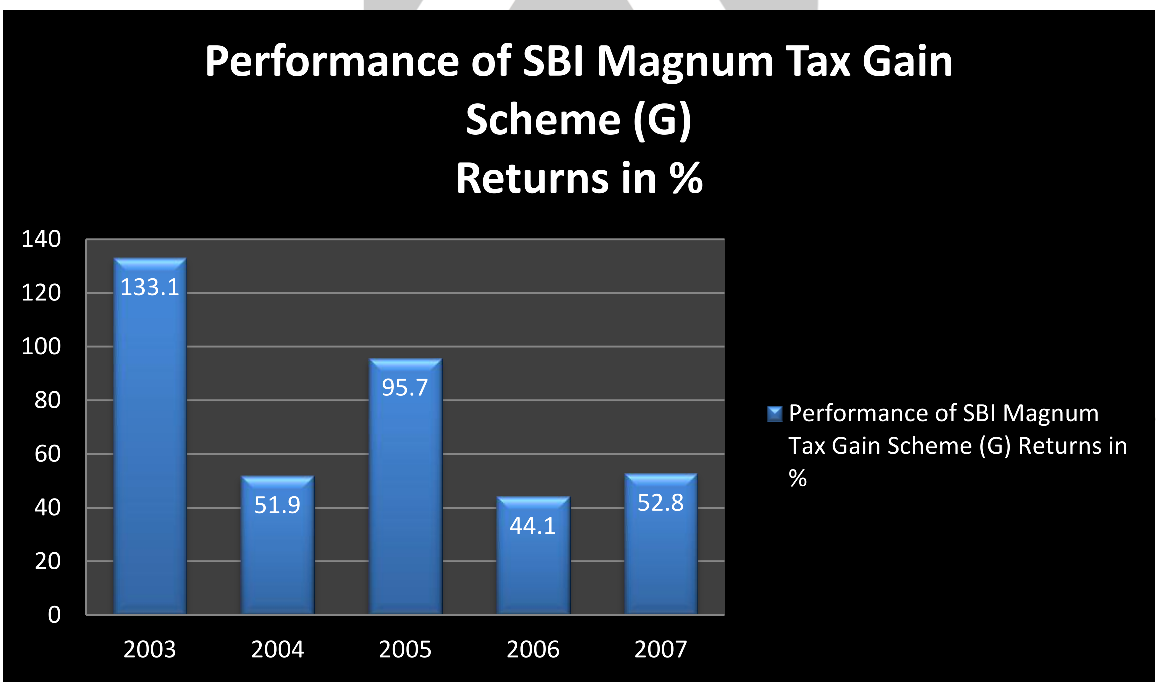
Instrument	**% of Portfolio of Plan A & B**	**Risk Profile**
Equity,PCD's and FCD's and bonds	80 –100%	Medium to High
Money market instruments	0 – 20%	Low

- **Scheme Highlights**:
  1. There is a statutory lock–in period of three years for investments in a Tax Saving Scheme (irrespective of the fact whether the investors claim the rebate u/s 80C or any other section or not).
  2. Dividends may be declared depending on distributable profits of the scheme. Facility to reinvest dividend proceeds into the scheme at NAV.
  3. Switchover facility to any other open-ended schemes of SBI Mutual Fund at NAV related prices available after the statutory lock– in period.
- **Launch Date:** March 31, 1993
- **Minimum Application:** Rs. 500 and Multiples of Rs 500
- **Entry Load:** Investments below Rs. 5 crores – 2.25% Investments of Rs.5 crores and above – NIL
- **Exit Load:** Nil
- **Fund Class:** Equity Tax Saving

- Performance of SBI Magnum Tax Gain Scheme (G)

Absolute Returns (in %)					
Year	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Annual
2008	– 25.9	– 16.8	–	–	–
2007	– 5.6	16.4	14.8	21.9	52.8
2006	19.3	– 13.7	16.2	17.0	44.1
2005	15.1	20.3	26.2	7.1	95.7
2004	– 8.0	– 10.2	29.3	32.5	51.9
2003	– 1 5.4	33.2	32.3	52.4	133.1

The performance of 'SBI Magnum Tax Gain Scheme (G)', the ELSS scheme of SBI Mutual Fund Company for last five years is shown in the chart below:



In the fig.1.3,

Y –axis shows the returns in percentage and the years are given along the X – axis. The performance of the scheme for different years is shown on the bars.

4. HDFC Tax Saver

- **Investment Objective:**

  The investment objective of the Scheme is to achieve long term growth of capital.

- **Asset Allocation:**

SR.NO.	ASSET TYPE	(% OF PORTFOLIO)	RISK PROFILE
1	Equities and Equity Related Instruments	Minimum 80%	Medium to High
2	Debt & Money Market Instruments *	Maximum 20%	Low to Medium

- **Scheme Highlights:**
  1. Open Ended Equity Linked Savings Scheme with a lock-in period of 3 years
  2. Dividend Plan, Growth Plan. The Dividend Plan offers Dividend Payout and Reinvestment Facility.
- **Launch Date:** December 18, 1995
- **Minimum Application:** For new & existing investors Rs.500 and in multiples thereafter.
- **Entry Load:**
  1. In respect of each purchase / switch-in of Units less than Rs. 5crores in value, an Entry Load of 2.25% is payable.
  2. In respect of each purchase / switch-in of Units equal to or greater than Rs. 5 crores in value, no Entry Load is payable.
- **Exit Load:** Nil
- **Fund Class**: Equity Tax Saving

- Performance of HDFC Tax Saver (G)

Absolute Returns (in %)					
Year	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Annual
2008	– 26.1	– 15.9	–	–	–
2007	– 9.8	21.9	11.5	16.4	37.7
2006	19.9	– 14.2	13.7	11.2	33.9
2005	7.8	13.8	25.4	8.7	74.3
2004	– 5.2	– 8.3	28.9	26.2	47.6
2003	– 2.3	31.3	24.7	36.1	119.2

Performance of 'HDFC Tax Saver (G)', the ELSS scheme of HDFC Mutual Fund Company for last five years is shown in the chart below:

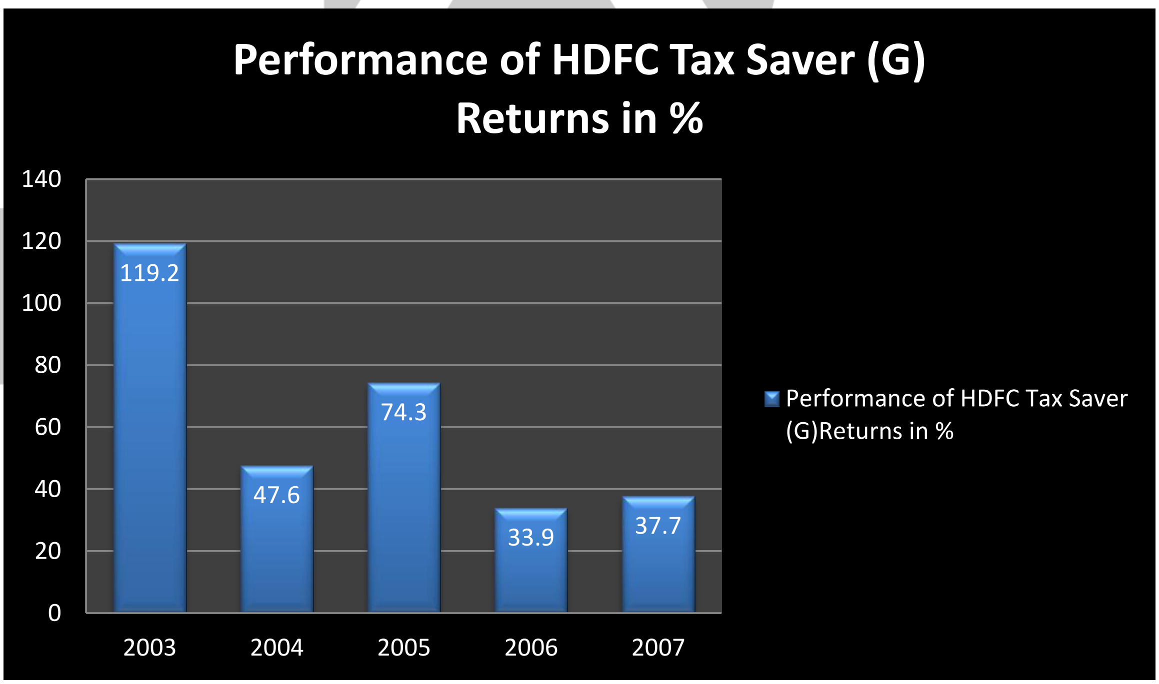


Fig 1.4

n the Fig.1.4, Y – axis shows the returns in percentage and the years are given along the X– axis. The performance of the scheme for different years is shown on the bars.

ANALYSIS

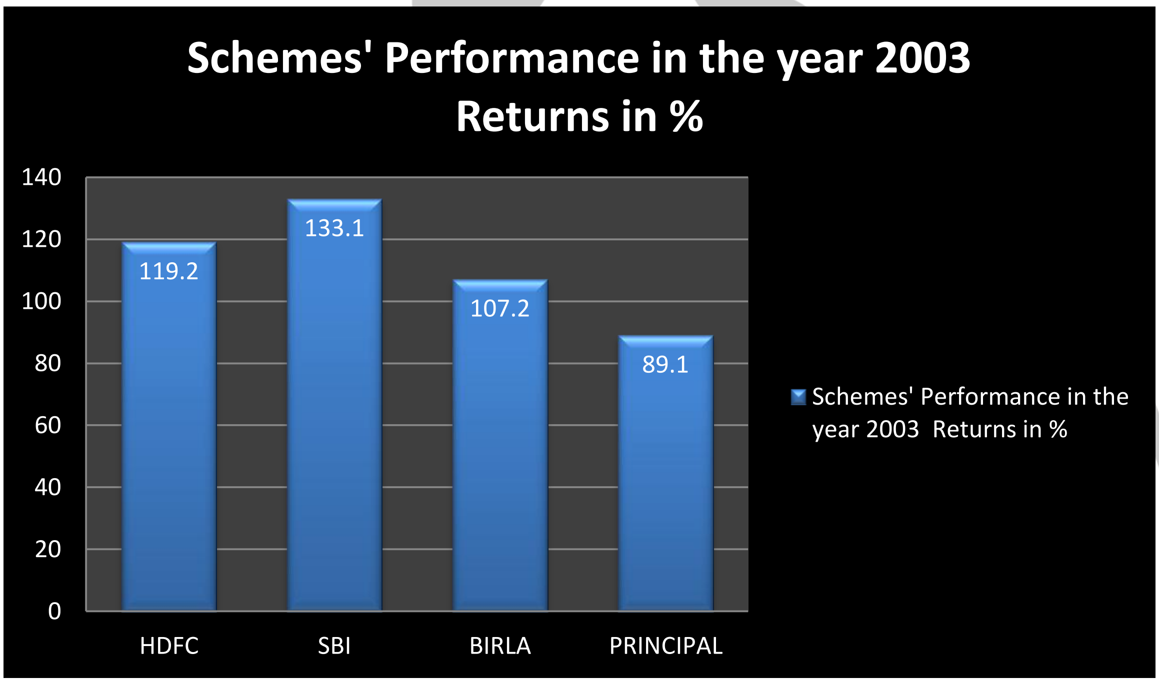
The following points have been observed:

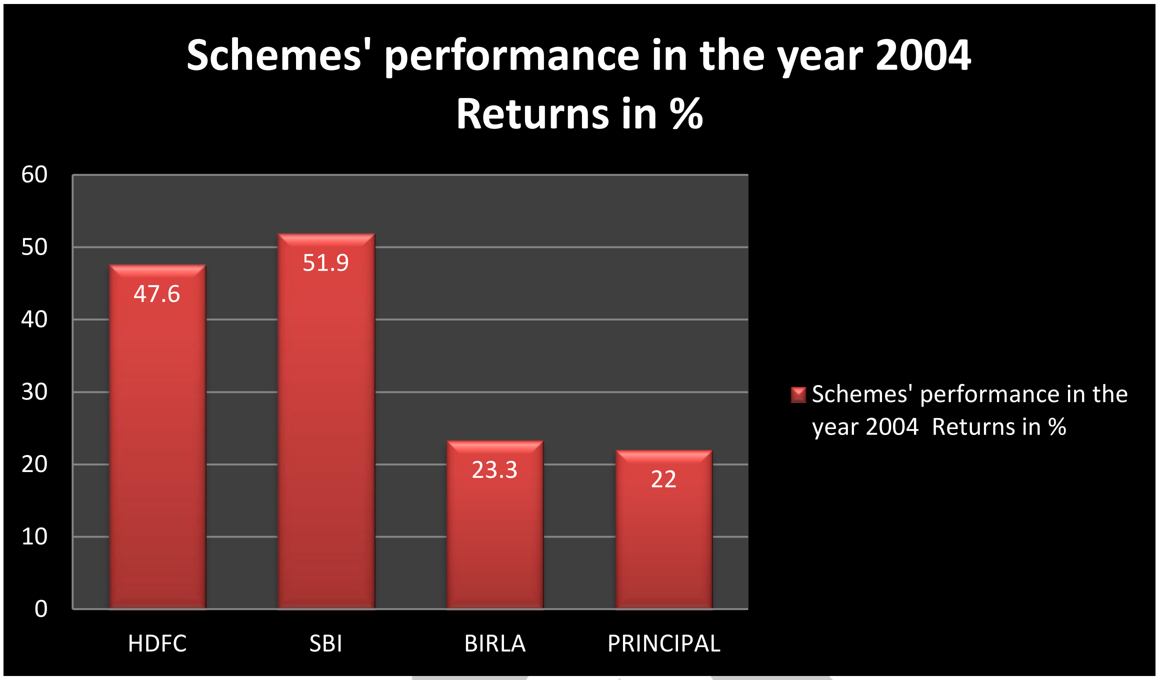
- There are many fluctuations in the performance of all the schemes. The rate of return was different for different years.
- It has been observed that, all the schemes have given highest returns in the year 2003.
- The performance of all these schemes is very good. Almost all these schemes have given more than 40% returns in last five years.

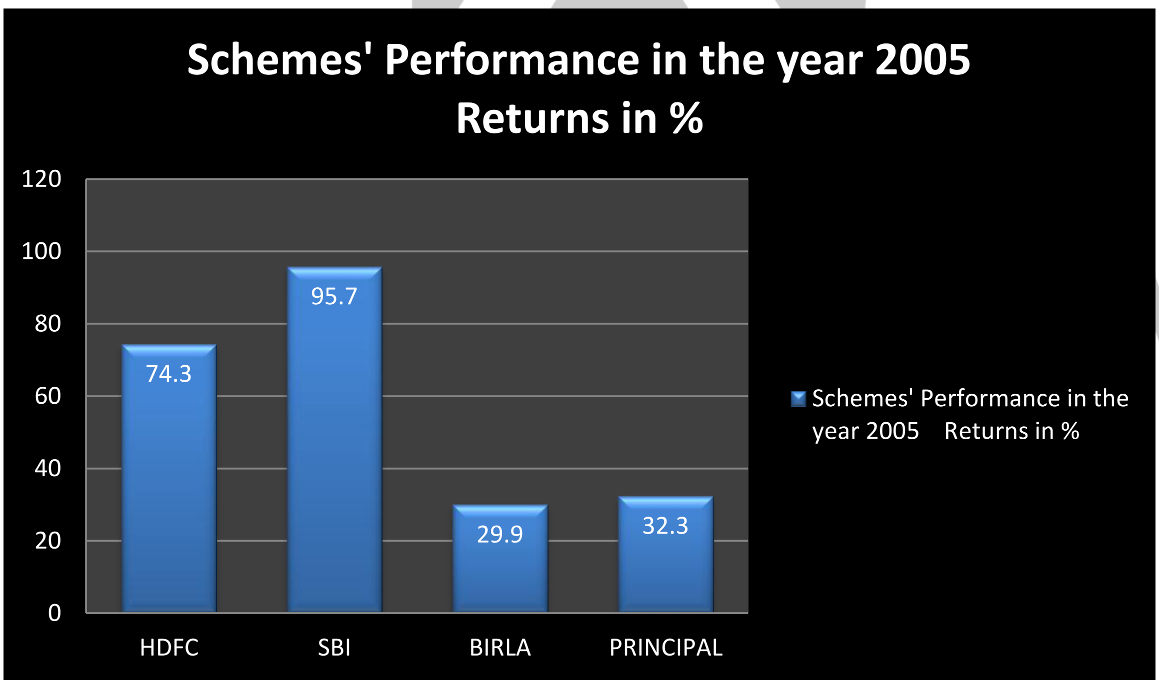
So far we have seen the performance of four ELSS schemes of different mutual funds. The same is tabulated below in order to compare their returns over a period of five years. In the table, the asset size of each scheme is given along with the returns in percentage that the scheme has given for last five years that is from the year 2003 to 2007.

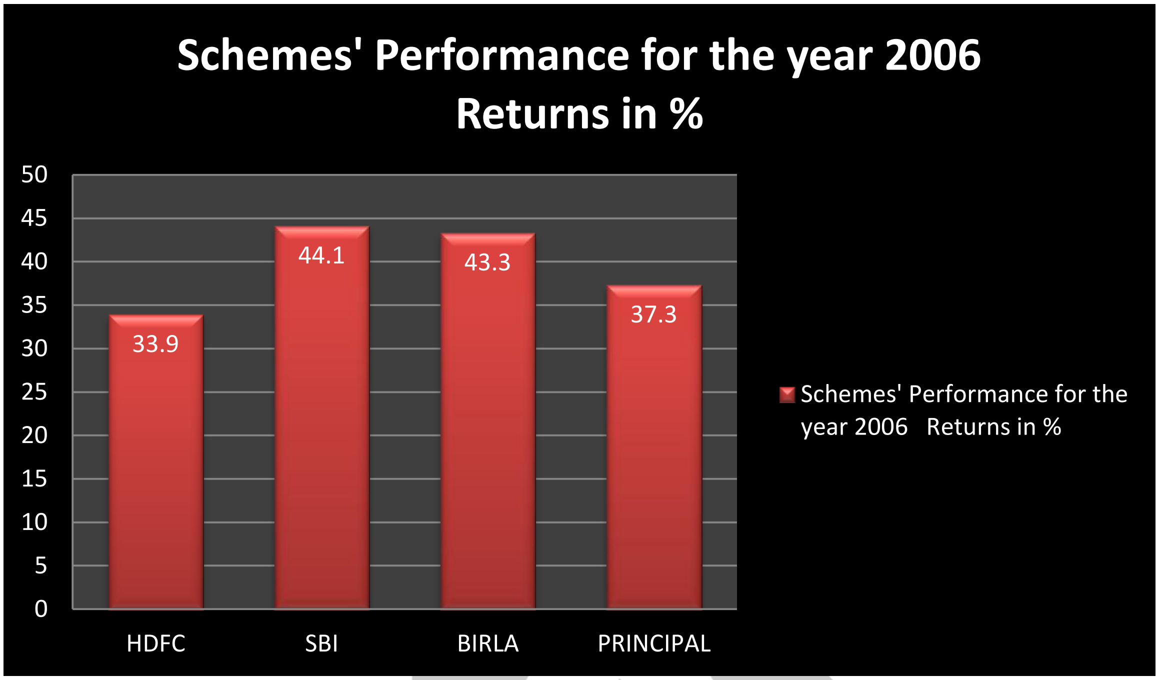
Equity Tax Saving scheme	**Asset Size (Rs. cr.)**	Annual return in %				
		2003	**2004**	**2005**	**2006**	**2007**
HDFC Tax Saver (G)	1,159.08	119.2	47.6	74.3	33.9	37.7
SBI Magnum Tax Gain (G)	2,886.13	133.1	51.9	95.7	44.1	52.2
Birla Tax Relief 96	507.65	107.2	23.3	29.9	43.3	74.6
Principal Personal Tax Saver	403.67	89.1	22	32.3	37.3	85.5

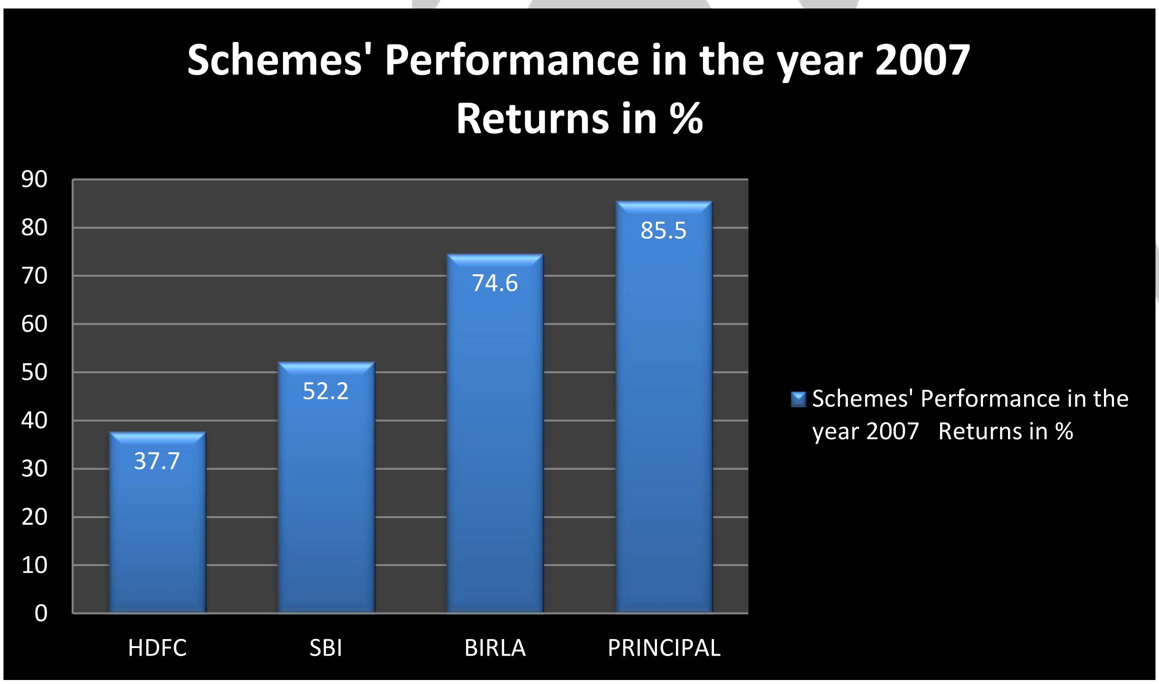
If we rank the schemes on the basis of their fund size the SBI scheme will be ranked first as its asset size is highest and the returns given by the scheme are also highest. The rate of return for all the schemes and for all the period is different and fluctuating all the way. There are some ups and downs in the returns over a period of five years. It can be understood simply by observation of this chart that the rate of return of any of the scheme is higher than the other 80C investment avenues. The information in the table has been put into charts to make the assessment of the performance simple.




Schemes' performance in the year 2004
Returns in %
60
50
40
30
20
10
0
47.6
51.9
23.3
22
HDFC
SBI
BIRLA
PRINCIPAL
Schemes' performance in the year 2004 Returns in %


Schemes' Performance in the year 2005
Returns in %
120
100
80
60
40
20
0
74.3
95.7
29.9
32.3
HDFC
SBI
BIRLA
PRINCIPAL
Schemes' Performance in the year 2005 Returns in %





The performance the selected ELSS schemes of mutual fund is shown in the charts above.

The analysis of the performance of these schemes is stated in the following points:

1. It is observed that SBI Magnum Tax Gain (G) scheme of SBI Mutual Fund has given maximum returns over a period of five years. In the comparison of these four schemes SBI Magnum Tax Gain (G) ranks first in terms of returns.
2. The size of Scheme of SBI Mutual Fund is also largest as compared to other three schemes.
3. Next to SBI Mutual Fund's scheme the performance of other schemes is also very good.
4. It is observed that all the schemes have given fair returns in the last five years. The investors in these schemes have earned good returns.
5. If we have a look at the percentage returns of any of these schemes in any of the year, it is observed that the percentage of returns is higher than any other 80C investment avenue. The ELSS schemes of mutual fund are performing well in the market and no doubt they have given very good returns in the past. The only thing is that the selection of a right fund is in the hands of the investor.

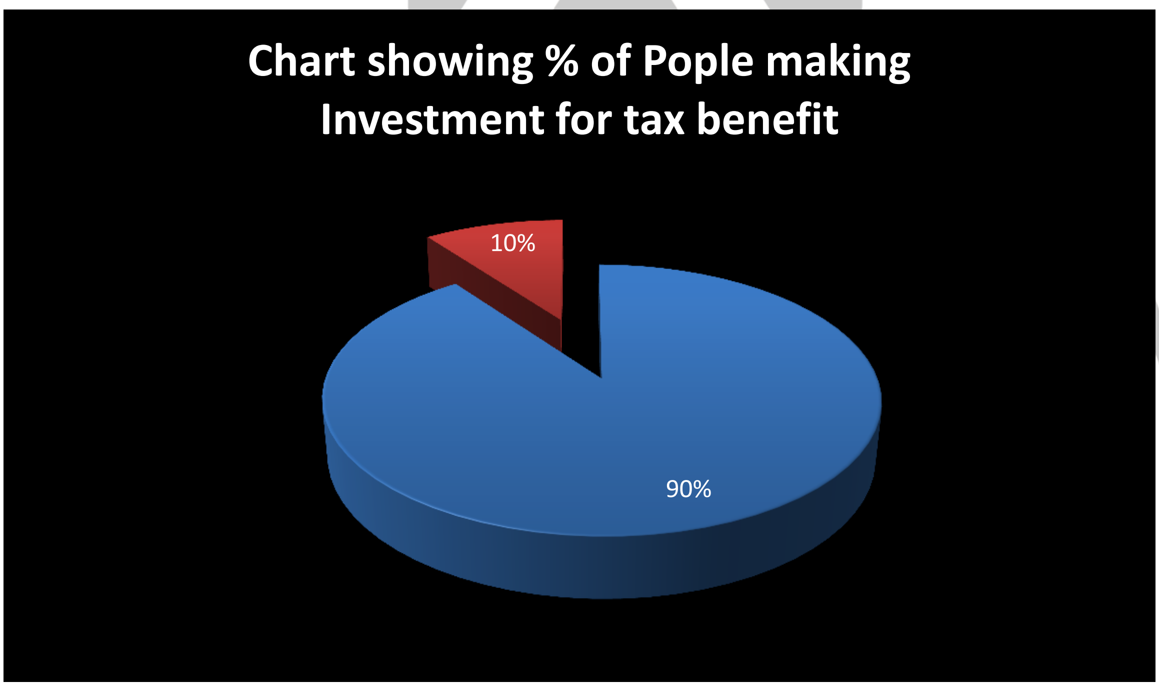
3.3 DATA ANALYSIS AND INTERPRETATION

During the research, people were asked questions based on the investment in order to understand their knowledge and preferences about various investments. Feedback from the 100 respondents during the research is discussed using chart diagrams:

1 Investment for tax benefit

The following chart states the percentage of people who invest for tax benefit.

Chart showing % of People making investment for tax benefit



SOURCE : Questionnaire

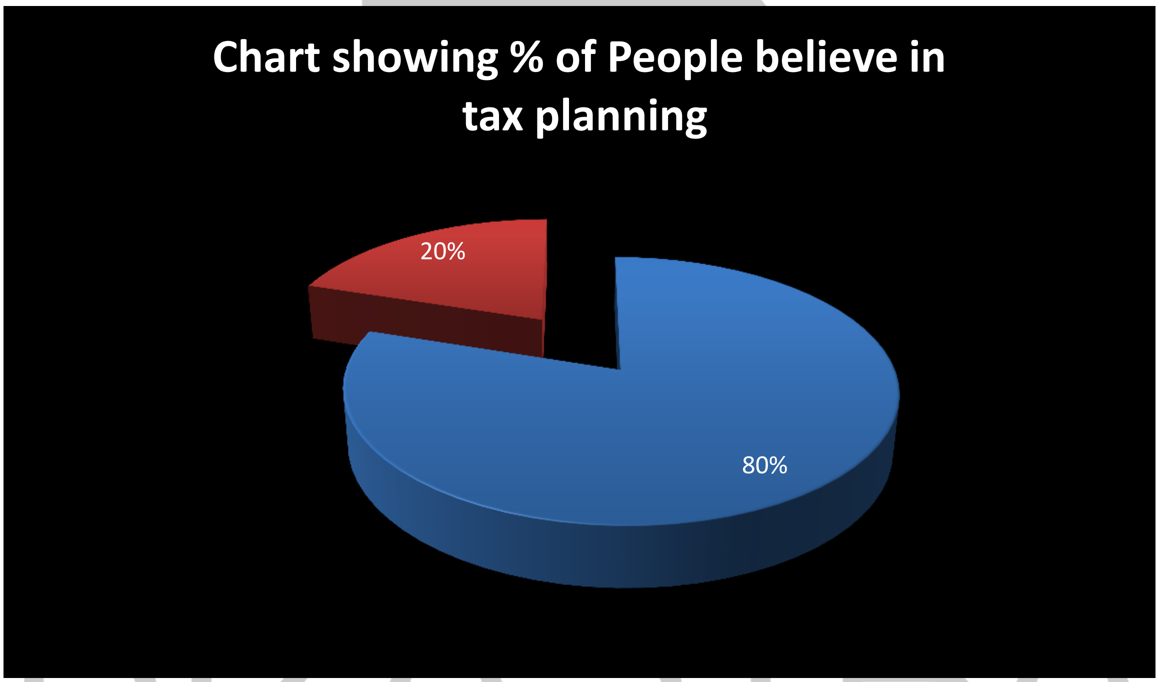
It has been observed that 90% people make investment for getting the tax benefit.

The people in this category are mainly from the salaried class with different income levels starting from Rs.200000 and above.

2. Financial planning for tax benefit

Following chart shows the % of people who believe in financial planning before investing their money:

Chart showing % of People believe in tax planning



SOURCE : Questionnaire

Investors believe in financial planning because it helps in preparing investment portfolio. With the help of financial planning it becomes easy for the individual investor to decide where the money should be invested as per his requirements.

With the help of planning the objective of investment is very clearly understood by the investor. Financial planning also gives the direction to the investment decisions.

The above chart shows that the 80% people make the financial planning for getting tax benefit.

3. Basis for investment decision

The objective of the investor is very clear that he wants the tax deduction. But along with that the basis for investment decision is also important.

The investments are made on the basis of certain parameters. The main parameters are return, risk, time, insurance, liquidity.

The preferences about the investment parameters. The different parameters are ranked as per their priority. The results are shown in the following table.

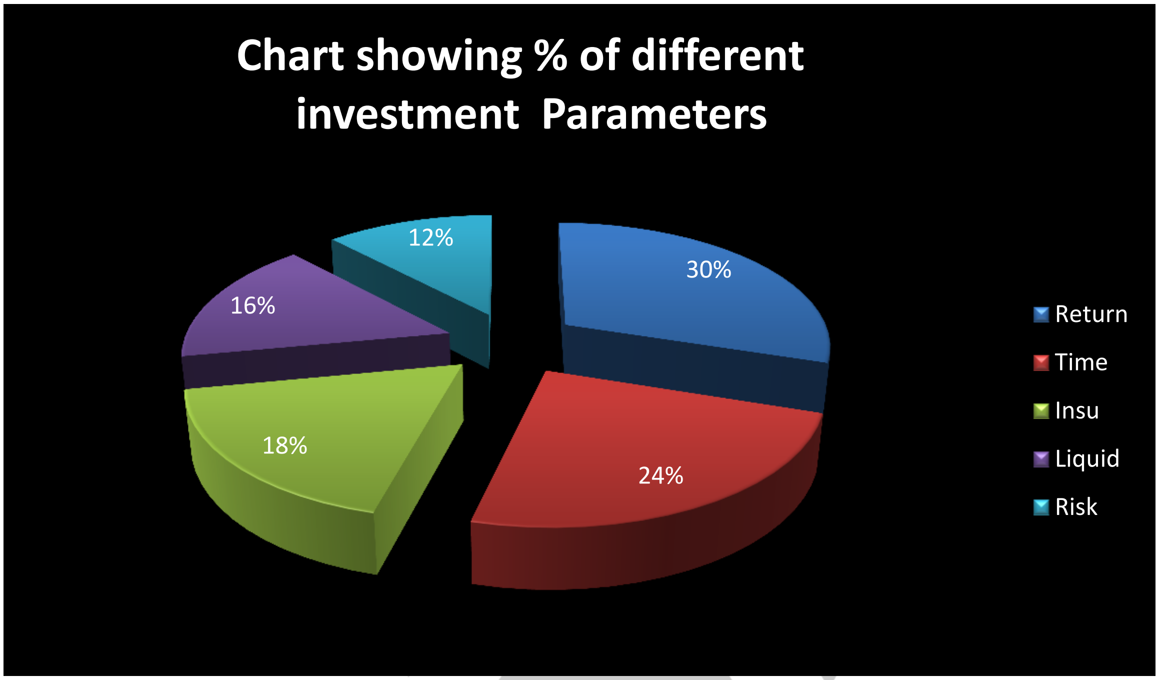
Basis for investment decision	Investors preference (Figures in %)	Rank given on the basis of preference
Return	30%	1
time	24%	2
Insurance	18%	3
liquidity	16%	4
Risk	12%	5

It is been observed that maximum preference is given to the return on investment. The ranks are given to these parameters according to the preferences.

According to the research Return is the main parameter for the investment decision. Hence it has been given the first rank by the people.

To make it simpler the data has been put into the chart which shows the % of the investor's preference to different parameters.

Chart showing % of different investment parameters



From the above chart it is observed that 'return' is the important factor and is preferred first by the investors. The investment options available under Section 80C are of low risk profile hence the risk factor has been given the last rank.

The other parameters such as time, insurance, and liquidity are also essential to be considered while investing and are therefore they are given the moderate preference by the people.

4. Preference of investment

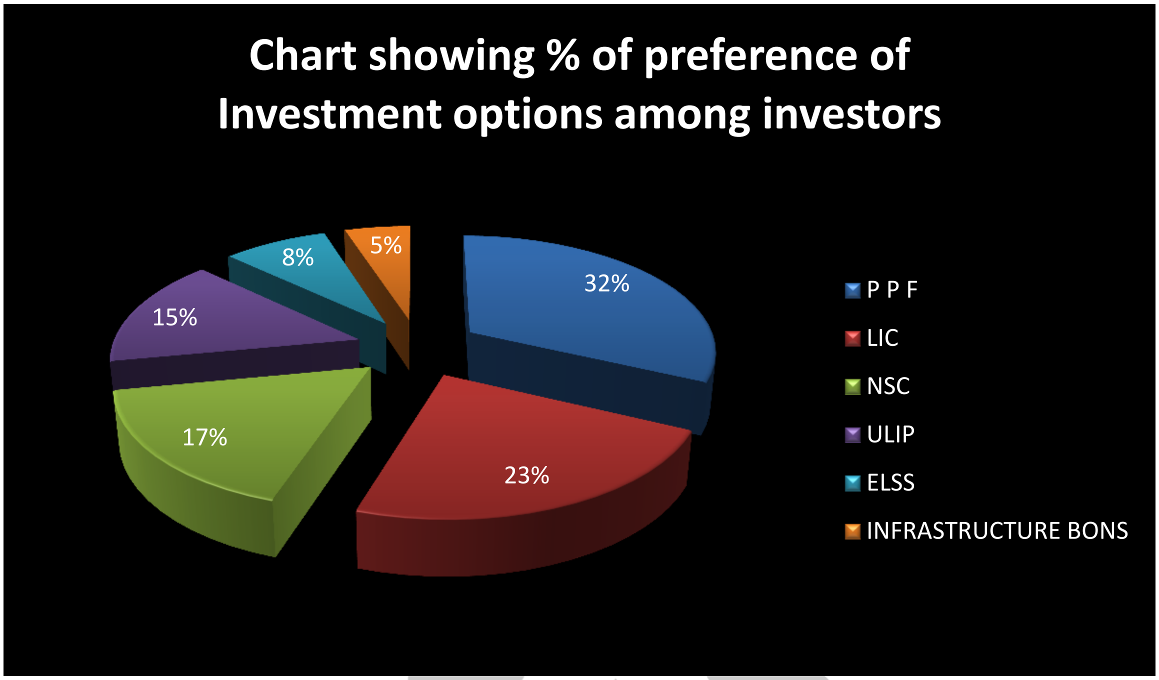
There are many investment options available for the investor. They were which investment option they prefer especially for enjoying tax benefit. And their feed back is shown in the table given below.

Investment option	Investors preference (Figures in %)	Rank given on the basis of preference
PPF	32	1
LIC	23	2
NSC	17	3
ULIP	15	4
ELSS	8	5
Infrastructure Bonds	5	6

In the above table the % of people for their preference of a particular investment is given and the investment options are given ranks accordingly.

The same information has been put into a chart.

Chart showing % of preference of investment options among investors



SOURCE : Questionnaire

In the chart different investment options are shown with the % of people who prefers a particular investment alternative. The findings are given in the points below.

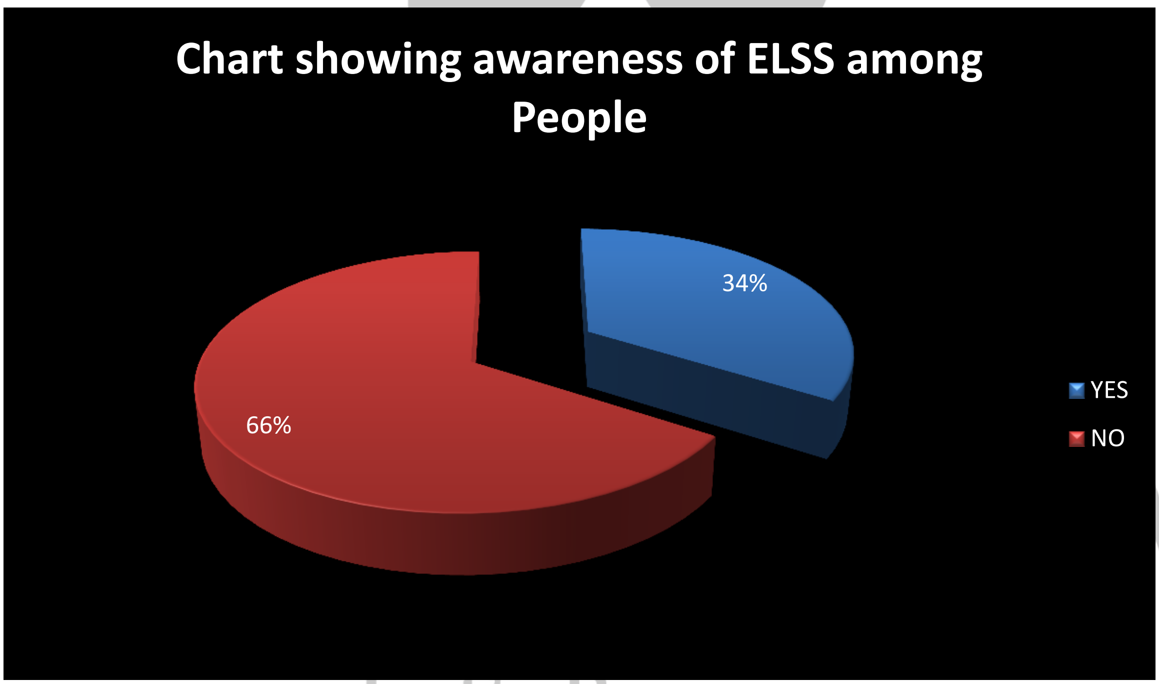
Findings:

- It has been observed that PPF LIC and ULIP are the popular investment options while NSC ELSS and Infrastructure Bonds rank below that.
- The awareness of mutual fund is very less among people and therefore very few people know about ELSS scheme of mutual fund. ELSS is the only 80C investment avenue which gives higher returns than any other investment option and also proves suitable when other parameters are taken into consideration. , only 8% people prefer ELSS for investment. The historical records of ELSS also show that it has given fair returns over a period of time.
- The next two findings show the awareness of ELSS among investors and how many of them actually invest in ELSS.

5. Awareness of ELSS

The chart shown below states the % of people who know about ELSS scheme of mutual fund. And it has been observed that only 34% people know about ELSS. The reason behind is the lack of awareness of mutual funds.

Chart showing awareness of ELSS among people

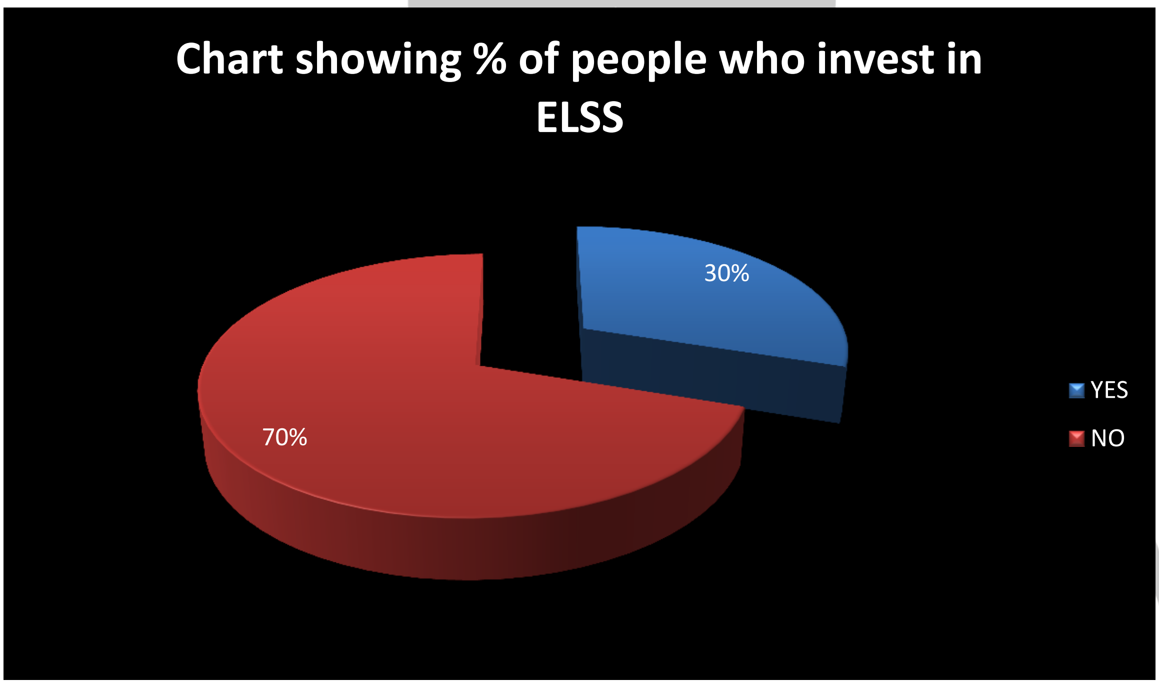


SOURCE : Questionnaire

6. Investment in ELSS

Though ELSS gives many advantages over other 80C investment avenues and is proved to be the best option for investment under Section 80C, due to lack of awareness only 30% people invest in ELSS scheme of mutual fund. Following chart shows the % of investors who invest in ELSS:

Chart showing % of people who invest in ELSS



SOURCE : Questionnaire

FINDINGS AND CONCLUSION

The features of ELSS schemes, their benefits and limitations are studied in the project.
The benefits and limitations of various 80C investment avenues are also studied in the project.
ELSS and other 80C investment avenues are compared on different parameters.
The findings and conclusion are as follows:

- All the 80C investment avenues are having low to medium risk profile that is why people give less importance to the risk factor. But also there are investment options like ELSS where the risk factor should be considered.

- From this study it becomes very clear that the people give the preference to the returns on investment. Time duration also plays important role in the investment. Investment for long term surly gives fair returns. On the other hand it looses in terms of liquidity.

- While investing in insurance the need for insurance should be evaluated but still investor's approach towards insurance is as an investment option rather than the insurance.

- As most of the 80C investment avenues having lengthy lock in period, the investor also have to take into consideration the other factors like inflation. While a good rate of return enables one to fight against rising inflation.

- Top performing ELSS has delivered returns of more than 70 per cent for last three years. Therefore, Equity Linked Saving Schemes (ELSS), with its lock in period of three years, save tax and meets all your investment objectives. Thus, it is an ideal option for investors, especially in volatile times.

- Though the Equity linked Saving Schemes is the best option for investment very few people actually invests in the ELSS. The main reason behind that is many people prefer to invest in traditional investment avenues as they feel the risk factor is very low in it. The other reason is the lack of awareness of the mutual funds among investors.

3.4. INFORMATION COLLECTED

OTHER 80C INVESTMENT AVENUES

1. Life Insurance Policy

In India, life insurance is viewed more as an investment option than as a vehicle for risk protection. In fact, very few individuals evaluate the need for insurance. Instead they tend to opt for it on account of tax benefits. Premium paid on life insurance qualifies for deduction under sec.80C and proceeds at the time of death or maturity are exempt from tax. Certain investors prefer life insurance because it acts as a forced saving (the policy would lapse if annual premium is not paid to the insurance company).However, a careful evaluation of life insurance reveals that the opportunity cost is significant when compared to other secure investment such as PPF. It is important for an individual to evaluate the need for insurance with respect to his earning potential and the financial impact on his dependents in the event of his untimely death. Proceeds in the event of his surviving the term of the policy do not make insurance a worthwhile investment. Surrender values paid by the insurance companies are not attractive leading to a lengthy lock-in-period. Many plans also offer very little flexibility. Therefore, an investor would be well advised to buy insurance, not just as an investment, but mainly to provide for his dependants in case of his untimely death.

LIC is the only government owned insurer in India. The safety is therefore very high, but the liquidity is low because of its lengthy lock in period as compared to other products. But this is the only product which gives the risk cover. It is suitable for small investors whose investment objective is risk cover only.

IN BRIEF,

- It provides insurance cover.
- It provides tax benefit as premium paid is allowed for tax deduction.
- The premium must be paid from time to time, hence acts as a forced savings.

- It is a vehicle of risk protection.
- One should evaluate the need for insurance with respect of the earning potential before investing.
- Lengthy lock– in –period and no flexibility, hence it lacks liquidity.

2. Public Provident Fund

Public Provident Fund, popularly known as PPF, is a savings cum tax saving instrument. The scheme of PPF is a statutory of the central government framed under the provisions of the PPF Act, 1968.It also serves as a retirement planning tool for many of those who do not have any structured pension plan covering them. Public Providend Fund is a government obligation, hence virtually risk–free. Public Providend Fund carries tax free interest of 8.5% p.a. and contributions up to Rs.70000/- per annum are eligible for tax rebate under sec.80C. Public Providend Fund is one of the best options available to the small investor. However, Finance Acts over the years have reduced the yield on PPF from 12% to 8.5%. An individual is allowed only one account in his name. The scheme requires annual contributions (between Rs.500 and Rs.70000) to be made over 16 years. PPF also provides the option to withdraw 50% of the fourth year balance in the 7th year. The interest on PPF is assured and tax-free, which can be compounded over 16 years. This makes the scheme an attractive option. However restrictions on withdrawals reduce liquidity for the investor.

PPF combines stability with a respectable return. It is suitable for small investor to build his saving portfolio. However the lock in period involve in PPF means that the investor loses in terms of liquidity, particularly in the early years of scheme. Being a government supported investment, PPF scores very high on safety.

- **The PPF scheme has following features:**

1. Individuals and HUF can participate in this scheme. A PPF account may be opened at any specified branches of nationalized banks or post office.

2. Though the period of the PPF account is stated to be 15 years the number f contributions has to be 16. This is because the 15 year period is calculated from the financial year following the date on which the account is opened. Thus a PPF account matures on the first day of 17^{th} year.
3. The subscriber to PPF account is required to make deposit of Rs. 500/- per year. The maximum permissible deposit per year is Rs.70, 000/- It is not necessary to make a deposit in every month of the year. The amount of deposit can be varied to suit the convenience of the account holders.
4. Deposit in a PPF account qualifies for tax rebate under sec.80C of IT Act.
5. Interest is not contractual but rate is notified by Ministry of Finance, Govt. of India, at the end of each year. Presently PPF deposit earns an interest rate of 8.5% p.a. which is totally exempt from taxes. The interest however is accumulated in the PPF account and not paid annually to the subscriber.
6. The facility of first withdrawal in the 7th year of the account subject to a limit of 50% of the amount at credit preceding three year balance. Thereafter one Withdrawal in every year is permissible.
7. The balance in PPF account is fully exempt from wealth tax. Further it is not subject to attachment under any order or decree of a court.
8. The subscriber to a PPF account is eligible to take a loan from the third year to the sixth year after opening the PPF account. The amount of loan can not exceed 25% of the balance standing to the credit of the PPF account at the end of the second preceding financial year. The interest payable on such a loan is 1% higher than the PPF account interest rate.
9. Account can be opened by an individual or a minor through the guardian. No age is prescribed for opening a PPF account.
10. Nomination facility available.

The BEST of Public Provident Fund –

1. Lowest risk possible:

There is no chance of someone running away with your money. Or later on being told that there is no way your money can be returned to you. The PPF is a government-backed scheme, so you can be sure the government will not default. This is the highest security an investment can have and, therefore, the safest.

2. Tax rebate on money invested:

Under Section 80C, PPF contributions (along with your subscriptions to other schemes that qualify for Section 80C benefits), are eligible for tax rebate. The maximum one can invest in PPF to avail of the rebate is Rs 70,000 per annum.

3. Great returns

An investment in PPF will earn you 8.5% per annum. But because of the tax rebate, your actual return of 8.5% works out to be higher. Moreover, the returns are compounded. That means you not only earn interest in the money you put in, but you earn interest on the interest earned, too. Let's say you put in Rs 60,000 in the first year. You will earn Rs 5,100 as interest rate. The next year, your interest rate will be computed on Rs 65,100 (Rs 60,000 + Rs 5,100) as well as whatever fresh amounts you deposit.

4. No tax on interest earned:

The interest earned is totally exempt from tax under Section 10 (11) of the Income Tax Act. The 8.5% per annum that you get will not be taxed.

5. Flexibility of investment

One can invest up to a maximum of Rs 70,000 per annum in the PPF. The minimum that you must put in every year is Rs 500. Besides having such a huge leeway in terms of the amount of money to be invested, you can invest the money in up to 12 installments. You don't have to put it all in one go. Each installment can be whatever amount you want it to be. They need not all be identical.

6. Exempt from all wealth tax

All the balance that accumulates over time is exempt from wealth tax. Also, should you default on any loan payments or declare bankruptcy and cannot repay your loans; the amount in your PPF account cannot be attacked by the courts.

The limitations of Public Provident Fund –

1. The interest rate keeps changing

It was initially 12% per annum, dropped to 11%, then 9.5% and is now 8.5%. This rate of interest is fixed by the government and there is nothing you can do about it.

2. Lengthy lock—in period

Fifteen years to be exact. But, in actuality, it works out to 16 years since the last contribution is made in the 16th financial year. Even if you make an investment on the last day of your account (the day it is due to mature), you will still get a tax rebate. But, of course, you will not earn interest on that amount on the last day.

3. Interest is calculated on the lowest balance

Interest is calculated on the lowest balance between the fifth and the last day of the month of March. Let's say you have Rs 100,000 in your PPF account and on the 10th, you deposit an additional Rs 10,000. Your interest will be calculated on Rs 100,000 (not Rs 110,000).

4. Lack of liquidity

your money is stuck for years on end. It is not as easy as selling some shares or mutual fund units.

IN BRIEF,

- Tax free interest assured.
- Annual contribution required between, 500 to 70000 to be made over 16 years.
- 50% of 4th year balance can be withdrawn in 7^{th} year.
- Nomination facility is available.
- The account can be extended for next five years after maturity of 15 years. The facility is available for three times from maturity date.
- Lengthy Lock-in-period i. e. 16 years

3. Unit Linked Insurance Plan

A recent phenomenon of 'convergence' between the mutual funds and insurance companies has been the development of unit linked insurance plans offered by both insurance companies and the fund AMCs. These schemes combine the benefits of mutual fund investing with the added benefit of protection through insurance cover. In these schemes, investors have the option to choose from a variety of different investment plans with different asset allocation percentages between equities and debt. At the same time, life insurance cover is part of the plan.

A unit linked insurance policy is one in which the customer is provided with a life insurance cover and the premium paid is invested in either debt or equity products or a combination of the two. In other words, it enables the buyer to secure some protection for his family in the event of his untimely death and at the same time provides him an opportunity to earn a return on his premium paid. In the event of the insured person's untimely death, his nominees would normally receive an amount that is the higher of the sum assured (insurance cover) or the value of the units (investments).

The advantage of ULIP is that since the investments are made for long periods, the chances of earning a decent return are high. Just as in the case of mutual funds, buyers who are risk averse can buy into debt schemes while those who have an appetite for risk can opt for balanced or equity schemes.

However, the charges paid in these schemes in terms of the entry load, administrative fees, underwriting fees, buying and selling charges and asset management charges are fairly high and vary from insurer to insurer in the quantum as also in the manner in which they are charged. In unit-linked policies, a large part of the first year premium goes towards paying the agents' commissions.

ULIPs also serve the same function of providing insurance protection against death and provision of long-term savings, but they are structured differently.

In ULIP, the insurer deducts charges towards life insurance (mortality charges), administration charges and fund management charges. The rest of the premium is used to invest in a fund that invests money in stocks or bonds. The policyholder's the investments made by the fund divided by the number of units. Share in the fund is represented by the number of units. The value of the unit is determined by the total value of all

If the insurance company offers a range of funds, the insured can direct the company to invest in the fund of his choice. Insurers usually offer three choices — an equity (growth) fund, balanced fund and a fund which invests in bonds.

The two strong arguments in favor of unit-linked plans are that — the investor knows exactly what is happening to his money and two; it allows the investor to choose the assets into which he wants his funds invested. An investor in a ULIP knows how much he is paying towards mortality, management and administration charges. He also knows where the insurance company has invested the money. The investor gets exactly the same returns that the fund earns, but he also bears the investment risk.
The transparency makes the product more competitive. So if you are willing to bear the investment risks in order to generate a higher return on your retirement funds, ULIPs are for you. In structure ULIPs are similar to mutual funds, but in objective it is different from mutual fund.

Insurers love ULIPs for several reasons. Most important of all, insurers can sell these policies with less capital of their own than what would be required if they sold traditional policies. Because in traditional 'with profits' policies, the insurance company bears the investment risk to the extent of the assured amount. In ULIPs, the policyholder bears most of the investment risk. Since ULIPs are devised to mobilize savings, they give insurance companies an opportunity to get a large chunk of the asset management business, which has been traditionally dominated by mutual funds. The premiums paid for ULIPs are eligible for tax rebates under section 80C. Proceeds from ULIPs are tax-free under section 10(10D)

- Key features of ULIP

1. Premiums paid can be single, regular or variable. The payment period too can be regular or variable. The risk cover (insurance cover) can be increased or decreased.
2. As in all insurance policies, the risk charge (mortality rate) varies with age. However, for an individual the risk charge is always based on the age of the policyholder in the year of commencement of the policy.
3. These charges are normally deducted on a monthly basis from the unit value. For instance, if there is an increase in the value of units due to market conditions, the sum at risk (sum assured less the value of investments) reduces and so the risk charges are lower.
4. The maturity benefit is not typically a fixed amount and the maturity period can be advanced (early withdrawal) or extended.
5. Investments can be made in gilt funds (government securities), balanced funds (part debt, part equity), money-market funds; growth funds (equities) or bonds (corporate bonds).
6. The policyholder can switch between schemes (for instance, balanced to debt or gilt to equity). The investment risk is transferred to the policyholder.
7. The maturity benefit is the net asset value of the units. The value would be high or low depending on the market conditions during the period of the policy and the performance of the fund manager.

8. Thus there is no capital protection on maturity unless the scheme specially provides for it. There could be policies that allow the policyholder to remain invested beyond the maturity period in the event of the maturity value not being satisfactory.

IN BRIEF,

ULIP provides multiple benefits to the consumer. The benefits include:

- Life protection
- Investment and Savings
- Flexibility
- Adjustable Life Cover
- Transparency
- Liquidity
- Tax planning

4. Tax saving Infrastructure Bonds:

In the past, financial institutions such as ICICI and IDBI have issued bonds on a regular basis. These bonds may be general purpose bonds issued to augment the issuer's resources. Or they may have been issued with the intent of financing infrastructure development in the country. The bonds have usually offered two options.

One option allows investor to receive periodic interest payments (monthly, quarterly and annually) over the term of the instrument. The deep discount option does not pay interest on a periodic basis. Instead it yields a redemption value which is higher than the issue price, the difference being chargeable to tax as interest. Both options qualify for tax deduction under section 80C of the Income Tax Act. Institution Bond scheme have usually had 3,5,10, and 15 year maturities with annualized compounded returns ranging between 12.5% to under 10%

lately. A savvy investment approach can make these bonds a very attractive investment option. It must be noted that these bonds are unsecured.

Investments in infrastructure bonds from various financial institutions qualify for a tax rebate under Section 80C of the Income Tax Act. The maximum investment limit to claim rebate under Section 80C has now been enhanced to Rs 1 lakh, subject to a minimum investment of Rs 30,000 in infrastructure bonds.

An attractive feature of infrastructure bonds is that the lock-in period is only three years. The minimum lock-in period of only three years makes this scheme attractive for people who do not want their money locked in for too long.

ICICI and IDBI are the major players in this segment; others like the Rural Electrification Corporation Ltd. have also received the permission to come up with the issues.

Limitations:

- Deduction on account of interest on infrastructure bonds under section 80L is not available.
- Returns on investments in these bonds work out too much lower than the returns offered by Public Provident Fund (PPF) and National Savings Certificates (NSC). In fact, with the falling interest rates the return on infrastructure bonds has also fallen, to the extent that investing in this instrument doubts one's financial prudence.

Infrastructure bonds, though they offer you an additional rebate on the investment under section 80C, do not make financial prudence any longer.

Though it has a lock-in period of as low as three years (the lowest among various other tax saving instruments), the rate of interest is very near to what one would get on a one-year fixed deposit with banks. It makes more sense to pay tax and use the money to generate better returns than to lock the amount for three years and lose out to inflation.

Infrastructure bonds are essentially for those who do not care to study better investment avenues and would be satisfied with bank fixed deposits. Moreover, they being issued by infrastructure companies (and not the government) are quite unsecured. Some study in the financial markets can be well worth the effort.

5. National Saving Certificate

- **Features of national saving certificate are as follows:**

1. Issued at post offices, the NSC offers the following features:
2. It has a term of six years. The annual rate of return is 8 %.
3. The investment in NSC is eligible for tax exemption under sec.80C
4. The interest accruing every year qualifies for tax exemption.
5. It can be pledged as collateral for raising loans. Certificate can be pledged as security against a loan to banks/ Govt. Institutions.
6. Minimum investment Rs. 500/ – No maximum limit.
7. Rate of interest 8% Per annum.
8. Two adults, Individuals, and minor through guardian can purchase. Companies, Trusts, Societies and any other Institutions not eligible to purchase. Non-resident Indian/HUF can not purchase.
9. Annual interest earned is deemed to be reinvested and qualifies for tax rebate for first 5 years under section 80 C of Income Tax Act.
10. Maturity proceeds not drawn are eligible to Post Office Savings account interest for a maximum period of two years.
11. Facility of reinvestment on maturity is available.
12. Facility of encashment of certificates through banks. Certificates are encashable any Post office in India before maturity by way of transfer to desired post office.
13. Certificates are transferable from one Post office to any Post office. Certificates are transferable from one person to another person before maturity.
14. Nomination facility available.
15. Deposits are exempt from Wealth tax.

CHAPTER 4

CONCLUSIONS

4.1. COMPARITIVE ANALYSIS

Investors tend to constantly compare one form of investment with another to know the specifics of each investment option in terms of its current performance and its suitability in a specific situation. From this comparison at a given point of time, will emerge the options considered superior to others for a given investor. Different parameters are considered while comparing the investment options. The comparison is on the qualitative as well as quantitative basis. In the following table the qualitative evaluation of various financial products is shown:

Product	**Investment Objective**	**Investment Horizon**	**Risk Tolerance**	**Safety Convenience**	**Liquidity**	**Return**
LIC	Risk cover	Long term	Low	High	Low	Low Moderate
PPF	Income	Long term	Low	High	Moderate	Moderate High
ELSS	Capital growth income	**Medium term**	**H–M–Low**	**High**	**High**	**High High**
ULIP	Capital growth and risk cover	Long term	M – Low	High	Low	Moderate High
NSC	Income	Long term	Low	High	Low	Low Moderate
Infrastructure Bonds	Income	Medium Term	Low	High	Low	Moderate

In the table we can see that LIC and ULIP are the only options which give the risk cover. The investment objective in other investment options is income / capital growth along with tax cover. All the investment options have lengthy lock in period except ELSS and Infrastructure Bonds. But when they are compared in terms of returns, it is observed that ELSS gives higher returns than Infrastructure Bonds.

ELSS is the only investment option which gives higher returns while return on other investment options are low to moderate.

If we consider the risk profile, it is observed that the risk profile is low for all the investment options except ELSS and ULIP. The reason behind it is that these investments ultimately invests in market and therefore are subject to market risk.

Safety convenience is high in all the cases, even in case of ELSS and ULIP. In the above paragraph it is stated that these investments are subject to market risk, but the market risk is reduced by creating a diversified portfolio and hence it proves safe. Also the history of both the investment options shows that they are giving good returns and very few people lost their money.

The liquidity is low in the investment options which are having lengthy lock in period and provides very less flexibility. E.g. LIC, PPF. ELSS proves best in terms of liquidity. ELSS is highly liquid as compared to other investment options.

From the comparative analysis given above, it emerges that each investment alternative has its own strengths and weaknesses. Some options seek to achieve superior returns (e.g. ELSS) but with correspondingly higher risk. Others provide safety (e.g.) but at expense of liquidity, growth and flexibility.

The table showing quantitative evaluation of different 80C investment options:

Investment Options –Section 80C		
Products	Lock-in Period for investments (years)	Returns (p.a.)
ELSS (equity oriented scheme)	3	Market linked returns (63.60*% CAGR for 3–year ending 15–09–07.)
PPF (fixed returns)	15	8.5%
NSC (fixed returns)	6	8%
Tax Saving Infrastructure Bonds (fixed returns)	3	10%
Life Insurance	10	8% to 9%
ULIP	10	Market linked returns

In the above table the lock–in–period for different investments is given which decides the liquidity of that product. ELSS and Tax saving infrastructure bonds plays good in terms of liquidity as their lock–in–period is less as compared to other products. Other products lack the liquidity due to their lengthy lock–in–period.

Also the percentage of returns on each product is mentioned in the table. We can see that ELSS gives the highest returns than any other investment option while the rate of return on rest of the options ranges from 5% to 8%.

4.2 CONCLUSION OF THE STUDY

The features of ELSS schemes, their benefits and limitations are studied in the project. The benefits and limitations of various 80C investment avenues are also studied in the project. ELSS and other 80C investment avenues are compared on different parameters.
The findings and conclusion are as follows:

- All the 80C investment avenues are having low to medium risk profile that is why people give less importance to the risk factor. But also there are investment options like ELSS where the risk factor should be considered.
- From this study it becomes very clear that the people give the preference to the returns on investment. Time duration also plays important role in the investment. Investment for long term surly gives fair returns. On the other hand it looses in terms of liquidity.
- While investing in insurance the need for insurance should be evaluated but still investor's approach towards insurance is as an investment option rather than the insurance.
- As most of the 80C investment avenues having lengthy lock in period, the investor also have to take into consideration the other factors like inflation. While a good rate of return enables one to fight against rising inflation.
- Top performing ELSS has delivered returns of more than 70 per cent for last three years. Therefore, Equity Linked Saving Schemes (ELSS), with its lock in period of three years, save tax and meets all your investment objectives. Thus, it is an ideal option for investors, especially in volatile times.
- Though the Equity linked Saving Schemes is the best option for investment very few people actually invests in the ELSS. The main reason behind that is many people prefer to invest in traditional investment avenues as they feel the risk factor is very low in it. The other reason is the lack of awareness of the mutual funds among investors.

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Questionnaire

Name: ___________________________________ Age: __________

Annual Income: Below Rs.2 lac ☐

Rs. 2 to 5 lac ☐

Above Rs 5 lac ☐

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1) Do you believe in financial planning for getting tax benefits?

Yes ☐ No ☐

2) Do you make investment for getting the tax benefit U/S 80C of Income tax Act?

Yes ☐ No ☐

If yes specify the annual investment amount: ______________

3) What are the parameters that you take into consideration while investing for tax benefit especially U/S 80C?

Risk profile ☐ Return ☐

Liquidity ☐ Time period ☐

Insurance cover ☐

4) Which investment option do you prefer for tax benefit U/S 80C?

LIC ☐ PPF ☐ NSC ☐

ELSS ☐ ULIP ☐

5) Do you know about ELSS scheme of mutual fund?

Yes ☐ No ☐

6) Do you have investment in ELSS?

Yes ☐ No ☐

If yes specify the amount: _______________

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