

PPF vs ELSS?

Which tax saving scheme to invest in?

Investment in tax savings schemes is as important as a regular investment. Tax saving options like Equity linked saving schemes (ELSS), contribution towards Public Provident Fund (PPF), National Pension Scheme etc. give deduction under different sections of law like 80C, 80CCC, 80D.

Different tax saving schemes follow different criteria of investment in terms of lock-in period, returns, asset allocation etc. PPF and ELSS are two such schemes that can reduce your taxable income by up to Rs. 1,50,000 under section 80C.

PPF

Public Provident Fund is run by the government to encourage people towards long term investment. You can start a PPF account with a minimum contribution of Rs. 500. PPF comes with a 15-year lock-in period. However, one can further extend a PPF account by 5 years. Returns from PPF account mainly depend on government policy. The interest rate effective for January-March 2019 quarter is 8 per cent. The money is predominantly invested in Government securities which are considered relatively risk-free.

ELSS

ELSS is a mutual fund where the majority of its investment goes into the equity market. Therefore, in addition to providing tax benefits under Section 80C an investment in a tax saving mutual fund can generate comparably higher returns as well. ELSS comes with a 3-year lock-in period. You can choose from dividend or growth option while investing in ELSS according to your requirements. Also one can invest through systematic investment plan (SIP) or lump-sum. Gains on a mutual fund are subject to LTCG tax.

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Clearly both tax saving schemes are good options for tax purposes and provide up to Rs. 1,50,000 tax deduction under 80C. However, one should focus on parameters like returns, liquidity, risk factors and investment objective before choosing a scheme. As mentioned earlier, PPF comes with a 15-year lock-in period whereas lock-in period for ELSS investments is only 3 years. ELSS funds also provide benefits of diversification by investing in equities, fixed income instrument and short term instruments whereas PPF investments are mostly in government securities. Performance of a mutual fund depends on the market performance of underlying assets. Many types of ELSS funds are available in the market like large-cap funds, mid-cap funds, multi-cap funds etc. Each would have a different risk and return profile. You can choose according to your risk appetite and investment objective. A mutual fund is also a liquid investment and investors can get their money in t+2 days on order of redemption. Some of the key differentiating factors are listed in the table below.

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Parameters	ELSS	PPF
Lock-in period	3 years	15 years (partial withdrawal allowed after 7 years)
Asset allocation	Stocks, bonds, money market instruments	Mostly Government Securities
Risk	Medium to High (According to the scheme)	Low
Tax deduction	Upto Rs. 1,50,000	Upto Rs.1,50,000
Returns expectation	Depends on market performance (historically in range of 12-15%)	Fixed according to government policies (changes every year in the range of 7-8%)
Taxation on gains	Long term capital gains	Tax-Free

ELSS is a clear winner when it comes to tax saving investment. ELSS not only reduces the taxable income but comprises all the benefits of a mutual fund. However, PPF is also a really good investment and carries much lower risk. An investor should consult a financial planner or wealth advisor before choosing any tax saving option.