

NEW DEBT TOOL: DLSS

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Abstract

The small enterprises rarely get the financial help very easily from the bank due to the big demands made by the large enterprises. For raising debt capital, both small and large business depends on banks only in India. A second option must be given to the investors to raise the debt capital in the form of DLSS: Debt Linked Saving Scheme. In the previous year 2018 budget AMFI has kept the proposal for the formation of DLSS which will be having tax saving factor under section 80 c just like ELSS so that the conservative investors will also be benefitted in same manner as the aggressive investors. DLSS will let the big enterprises to raise the debt capital from Bond market and thus there will be the possibility of same growth rate in the Indian corporate bond market at which the other nations like Malaysia, China, Singapore, etc respective bond markets are showing. Banks will be able to focus on small enterprises and plans of Government too where the international funds are used.

Keywords: Bond Market, Debt Market, Tax Saving Schemes, Fixed Deposits.

Introduction

Equity linked saving scheme has the minimum lock in period of 3 years when comparing to other options under section 80c like PPF (Public Provident Fund) where the lock in period is 15 years. For the investor having the goal of saving tax as well as growth, ELSS is the best option. It is risky but the long term stay will give the higher return overcoming the risk of volatility. One can stay for more than the lock in period of 3 years depending on his or her risk bearing capability. Under section 80 c we can decrease our taxable income. The excessive imposed tax and the decreased level of disposable income led the lawmakers to introduce this section 80 c of income tax act 1980. For the better tax planning the income tax act is described in various sections out of which ELSS falls in section 80c and the other sections are 80ccc and 80ccd.

The proposal was made in the budget of 2018 by AMFI that DLSS must be included in the section 80c. The investors who invest in debt are less risk takers so this type of conservative investors will also get benefitted by the tax deduction claims. Recently only ELSS is only included under this section. Investors will get following benefits after DLSS is introduced in section 80c.

- (1) **Attract retail (small) investors:** Retail investors are the individual investors who invest their money without taking the help of any professionals. Today most of the retail investors are heading towards bank for fixed deposits. DLSS formation will attract the small investors due to the same benefit it will carry as of tax saving fixed deposits. The main attraction will be low cost and risk which are high in the case of equity.

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- (2) **Strengthen bond market:** The corporate bond market of India has not showed as much growth as whole Indian market has shown over the past decade. Dependence on the bank for the debt is historical. The small project or business are not getting credit from bank due to bad loan problems such as non-performing assets , no strict rules for the big firms, etc. By giving the market the another option of raising debt that is DLSS, more investors will be attracted towards corporate bond market and thus it will strengthen the later
- (3) **Conservative investors are benefitted:** The tax saving factor is there in short and long term debt funds. The obtained gains of short term debt mutual funds are taxed according to the income tax slab of investor while the gains on long term mutual funds are taxed at the rate of 20% after indexation. Short term debt mutual funds are held for less than 3 years and long term debt mutual funds are held more than 3 years. On the other hand dividend distribution tax must be taken into consideration. The aggressive investors are benefitted in the form of tax saving due to ELSS but introduction of DLSS will give the tax saving benefit under section 80C. After 2018 budget ELSS is no longer tax free. There will be no indexation benefit. Yet this tax indexation has not been seen in the proposal for DLSS. So whether the supposed investor of DLSS will enjoy the totally tax free DLSS or not is still in question mark list.

DLSS V/s ELSS

More than 80% of the investment must be made in equity in case of ELSS. Similar will be the definition in DLSS where more than 80 % of the investment will be made in bonds and debentures. When it comes to diversification of the risk in debt mutual funds many analyst suggest investment in various debt schemes like low duration fund, credit risk fund, short term, floater fund, etc but DLSS itself will be the diversified scheme. DLSS will be just like Bank fixed deposit which are tax saving. The main difference between DLSS and ELSS will be the lock in period. AMFI proposed lock in period for DLSS is 5 years while the lock in period for ELSS is 3 years. The DLSS will be able to generate the desirable growth up to 5years and not less than that because the big corporate take time to generate income from their large projects. Whereas due to the more risk factor in ELSS the return generated will also be more and thus the appropriate return will be reached by ELSS in just 3 years. In DLSS return is less due to low risk so it will take 5 years to create appropriate return in order to attract the investors.

DLSS V/s Fixed Deposits

When it comes to the risk factor conservative investor opt for fixed deposits against debt mutual funds where risk is moderate. But considering the liquidity factor, debt mutual funds proceeds fixed deposits. Obviously return will be better where the risk is more so DLSS will be giving more return than the FDs. Fixed deposits win the race in the case of investment expenditure where the expense ratio exceeds 2%. There will be the option of SIP or lump sum investment option when it comes to DLSS whereas in FDs only lump sum investment option is there. Withdrawal is possible with penalty in FDs (without tax saving feature) while in DLSS if it takes the same structure as of ELSS, the withdrawal will not be possible so there will be no chance of penalty. Interest rates will be fixed in FDs whereas market movements will be responsible for the fluctuating interest rates in DLSS. However the lock in period of 5 years will be the common one between the two. Capital protection is completely assured in FDs but to the extent it is also assured in corporate bond market due to the good credit rating.

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