

Investments in Rajiv Gandhi Equity Savings Scheme, 2012 - Tax Benefits for 'New Retail Investors'



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With an objective to encourage flow of savings of the small investors in domestic capital market, the Government of India (GOI) announced a scheme named Rajiv Gandhi Equity Savings Scheme, 2012 (RGESS) vide its notification dated November 23, 2012 to offer tax benefits to 'New Retail Investors'. RGESS will channelise household savings into the capital market and

the tax incentive will encourage investors to directly invest across equities, mutual funds and exchange traded funds. Under RGESS, 'New Retail Investors' will be eligible for additional tax benefit (i.e., deduction) upto Rs.25,000 under Section 80CCG upto a maximum investment of Rs.50,000 made in eligible securities. This benefit is over and above the limit of Rs.1,00,000 currently available under Section 80C of Income Tax Act. 'New retail investor' must be a resident individual, who has a gross total income less than or equal to Rs.12 Lakh does not have a demat account or in case has a demat account then should not have done any transactions in cash/derivative market till he / she opts for RGESS. In case of joint accounts, the second / third holder are eligible to be considered as new retail investors irrespective of transactions done in such demat accounts provided they do not hold any account in capacity as first holder and has not undertaken any transactions in cash/ derivative market. In the recent Union Budget, the RGESS is further liberalised to enable first time retail investors to invest in mutual funds and listed shares, not just for one year alone, but for three consecutive years. Eligible investor will be required to submit Form 'A' to the Depository Participant at the time of account opening or designating his/her existing demat account for availing the benefits under RGESS. Investor will be required to invest in eligible securities considered for RGESS investment, which are as follows:

- 1) Equity shares of selected companies which includes:
 - ✓ Companies falling in the list of 'CNX-100' of NSE or 'BSE-100'

- ✓ Public sector enterprises categorized by the Central Government as Maharatna, Navratna or Miniratna.
- 2) Units of Mutual Fund (MF) schemes which are RGESS compliant.
- 3) Units of Exchange Traded Funds (ETFs) which are RGESS compliant.
- 4) Follow-on public offers (FPOs), IPOs and New Fund Offers (NFOs) of above mentioned companies/funds.

Investors can invest in eligible securities through Secondary Market (i.e., by approaching any SEBI registered Stock Broker of his / her choice), Mutual Funds (i.e., by approaching any Mutual Fund distributor or a SEBI registered Stock Broker) or IPO / NFO of RGESS compliant companies/funds and provide demat account details i.e., Demat Account Number (Client ID) and DP ID on the concerned applicable form. The mode of holding eligible securities will be in dematerialised form. Other securities (viz., equity shares, debentures, bonds, mutual fund units, etc.) can also be held in the demat account designated for RGESS. Further, in case investors do not wish certain securities credited to their demat accounts to be considered for the RGESS, then they will be required to submit declaration in a prescribed format i.e., **Form B** within one month from the date of credit, failing which the securities will be locked-in for a period of 1 year. Investment holding period under RGESS is for three years which includes 'Fixed Lock-in' of one year and 'Flexible Lock-in' of two years. Declared eligible securities are not allowed to be sold, pledged or hypothecated during 'Fixed Lock-in' period. During 'Flexible Lock-in', eligible securities can be sold subject to certain conditions. The designated RGESS demat account will be converted into a regular or ordinary demat account at the end of the 'Flexible Lock-in' period. By availing RGESS, investors will stand to benefit as they will be allowed additional deduction under Income Tax. The dividend income is tax free. Investor is free to trade / churn the portfolio after the 'Fixed Lock-in' period. The gains arising out of higher market valuation of RGESS eligible securities can be realized after a year viz., 'Fixed Lock-in'. The Depository will provide an Annual Statement of the eligible securities invested in or traded through the RGESS demat account. RGESS has a potential to attract investments in the equity market. This initiative by the Government is to encourage small investors to participate in the capital markets. Investors can invest directly into the secondary market or enter the capital market through Mutual Funds.