Income Tax Section 80-CCG : New Tax Saving Scheme 'Rajiv Gandhi Equity Saving Scheme' (RGESS)

Finance Minister approves the Operational Features of the Rajiv Gandhi Equity Savings Scheme (RGESS)

The Union Finance Minister Shri P. Chidambaram approved a new tax saving scheme called "Rajiv Gandhi Equity Saving Scheme"(RGESS),exclusively for the first time retail investors in Securities Market. This Scheme would give tax benefits to new investors who invest up to Rs. 50,000 and whose annual income is below Rs. 10 lakh.

The Scheme not only encourages the flow of savings and improves the depth of domestic capital markets, but also aims to promote an 'equity culture' in India. This is also expected to widen the retail investor base in the Indian securities markets.

Salient features of the Scheme are as under:

a. Scheme is open to new retail investors, identified on the basis of their PAN numbers. This includes those who have opened the Demat Account but have not made any transaction in equity and /or in derivatives till the date of notification of this Scheme and all those account holders other than the first account holder who wish to open a fresh account.

b. Those investors whose annual taxable income is ≤ Rs. 10 lakhs are eligible under the Scheme.

c. The maximum Investment permissible under the Scheme is Rs. 50,000 and the investor would get a 50% deduction of the amount invested from the taxable income for that year.

d. Under the Scheme, those stocks listed under the BSE 100 or CNX 100, or those of public sector undertakings which are Navratnas, Maharatnas and Miniratnas would be eligible. Follow-on Public Offers (FPOs) of the above companies would also be eligible under the Scheme. IPOs of PSUs, which are getting listed in the relevant financial year and whose annual turnover is not less than Rs. 4000 Crore for each of the immediate past three years, would also be eligible.

e. In addition, considering the requests from various stakeholders, Exchange Traded Funds (ETFs) and Mutual Funds (MFs) that have RGESS eligible securities as their underlying and are listed and traded in the stock exchanges and settled through a depository mechanism have also been brought under RGESS.

f. To benefit the small investors, the investments are allowed to be made in instalments in the year in which tax claims are made.

g. The total lock-in period for investments under the Scheme would be three years including an initial blanket lock-in period of one year, commencing from the date of last purchase of securities under RGESS.

h. After the first year, investors would be allowed to trade in the securities in furtherance of the goal of promoting an equity culture and as a provision to protect them from adverse market movements or stock specific risks as well as to give them avenues to realize profits.

i. Investors would, however, be required to maintain their level of investment during these two years at the amount for which they have claimed income tax benefit or at the value of the portfolio before initiating a sale transaction, whichever is less, for at least 270 days in a year. The calculation of 270 days includes those days pursuant to the day on which the market value of the residual shares /units has automatically touched the stipulated value after the date of debit.

j. The general principle under which trading is allowed is that whatever is the value of stocks / units sold by the investor from the RGESS portfolio, RGESS compliant securities of at least the same value are credited back into the account subsequently. However, the investor is allowed to take benefits of the appreciation of his RGESS portfolio, provided its value, as on the previous day of trading, remains above the investment for which they have claimed income tax benefit.

k. For the purpose of valuation of shares, the closing price as on the previous day of the date of trading will be considered so that new investors are certain about their debits and credits into the account.

l. In case the investor fails to meet the conditions stipulated, the tax benefit will be withdrawn.

Like all financial products which have reached out substantially to the retail investors (post office savings, life insurance policies etc) through tax benefits, this tax break for direct investment in equity is expected to substantially encourage the retail participation in securities market as well as to enhance their participation in the growth of Indian industry. Entry of more retail investors are expected to further deepen the securities markets as they bring in long-term stable funds, which can counteract the volatility created by the liquidity providers of the market. The Scheme, thus, also furthers the goal of financial stability and promotes financial inclusion. Since Exchange Traded Funds and Mutual Funds have also been brought under the Scheme, the Scheme should provide encouragement and re-assurance to the first time investors.

The broad provisions of the Scheme and the income tax benefits under it have already been incorporated as a new Section - 80CCG - of the Income Tax Act, 1961, as amended by the Finance Act, 2012.

Department of Revenue will notify the Scheme and SEBI will issue the relevant circulars to operationalize the Scheme in the next two weeks.

Source: PIB