

Frequently Asked Questions on Rajiv Gandhi Equity Savings Scheme, 2012

(I) Introduction to Rajiv Gandhi Equity Savings Scheme, 2012

1) What is Rajiv Gandhi Equity Savings Scheme, 2012 (RGESS)?

With an objective to encourage flow of savings of the small investors in domestic capital market, the Government of India announced a scheme named Rajiv Gandhi Equity Savings Scheme, 2012 (*RGESS*).

2) Does RGESS offer any tax benefits?

A new section 80CCG under the Income Tax Act, 1961 on 'Deduction in respect of investment under an equity savings scheme' has been introduced to give tax benefits to 'New Retail Investors' who invest up to `50,000 in 'Eligible Securities' and have gross total annual income less than or equal to Rs.10 Lakhs.

3) Who is a 'New Retail Investor'?

A 'New Retail Investor' is any resident Individual

- ✓ who has not opened a demat account and has not made any transactions in the equity or derivative segment as on the date of notification of the scheme i.e., November 23, 2012. OR
- ✓ who has opened a demat account as a first holder, but has not transacted in the equity or derivate segment till November 23, 2012. OR
- ✓ who has a demat account as a joint holder.

4) What are eligible securities?

- (i) Equity shares of companies which are included in either 'CNX-100' of NSE or BSE-100 or equities of public sector enterprises which are categorized as Maharatna, Navratna or Miniratna by the Central Government.
- (ii) Exchange Traded Funds and Mutual Fund schemes with RGESS eligible securities as underlying.

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- (iii) Follow on public offer of BSE-100 or CNX-100 and public sector enterprises which are categorized as Maharatna, Navratna or Miniratna.
- (iv) New fund offers of eligible mutual fund schemes.
- (v) IPOs of eligible public sector undertakings.

The details of eligible securities are available at the website of **NSE (www.nseindia.com)** & **BSE (www.bseindia.com)**.

(II) Tax benefits for new retail investors investing in RGESS

5) What is the maximum investment amount required for availing tax benefits in RGESS?

You can invest any amount upto Rs.50,000 for availing tax benefits in RGESS.

6) How much tax deduction will I be eligible under RGESS ?

Under RGESS, you are eligible for a tax deduction on 50% of the amount invested. Let us say, you invest Rs.50,000 under RGESS, the amount eligible for tax deduction from your income will be Rs.25,000. Alternatively, if you invest Rs.40,000 under RGESS, the amount eligible for tax deduction will be Rs.20,000.

7) Is this tax deduction of maximum of Rs.50,000 over and above limit of Rs.1,00,000 currently available under Section 80C of Income Tax Act?

Yes. You can avail Rs.1,00,000 under Section 80C of Income Tax Act and Rs.25,000 for maximum investment of Rs.50,000 under 80CCG.

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8) Can I invest more than Rs. 50000 in eligible securities in a RGESS demat account?

Yes. You can invest in eligible securities above the limit of Rs. 50,000, but benefit under the Scheme can be claimed only on investment upto Rs. 50,000.

9) Can I split my investment under RGESS over two financial years and claim deduction?

No. The investment during the first financial year of investment can only be claimed as investment under RGESS to claim deduction.

(III) Mode of holding eligible securities in RGESS

10) What will be the mode of holding eligible securities?

The mode of holding eligible securities under RGESS will be in a 'Demat account'.

11) How can I open a demat account?

You can open a demat account with any Depository Participant (DP) of CDSL.

12) What are the formalities that I need to fulfill at the time of opening demat account?

You will be required to fulfill the KYC requirements i.e., submit proof of PAN/identity, address, etc. as prescribed by SEBI to DP where you wish to open a demat account. along with declaration in prescribed format for availing RGESS benefits.

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13) Can I use an existing demat account for RGESS?

In case you already have a demat account and are otherwise eligible for RGESS benefit, you can designate your existing demat account as a RGESS account by approaching your DP.

14) Is there any specific document to be submitted to the DP for designating the demat account for RGESS?

Yes. You should submit a declaration in 'Form A' duly signed by the account holder(s) for designating the demat account for RGESS.

15) Where will I get 'Form A'?

You can get 'Form A' from your DP, where you have designated your demat account for RGESS.

16) Can I designate or open more than one demat account for RGESS?

No. You can have only one demat account across depositories for RGESS.

17) Can I hold other securities i.e., other than eligible securities in my demat account designated for RGESS?

Yes. Other securities (*viz., equity shares, debentures, bonds, mutual fund units, etc.*) can be held in the demat account designated for RGESS.

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(IV) Mode of investing in RGESS

18) How do I invest in eligible securities of RGESS?

- ✓ Firstly, you need to have a demat account with any DP. The demat account must be designated as RGESS.
- ✓ For investing in any eligible securities from the secondary market, you can approach any SEBI registered stock broker.
- ✓ In case you are investing in mutual funds through any distributor, you need to simply provide your demat account details like Demat Account Number and DP ID for receiving credit of the mutual fund units into the demat account.
- ✓ For investing in any IPO/NFO of the eligible securities, you can subscribe for the same and provide your demat account number for receiving credit of the eligible securities into the demat account.

19) What will be the basis for valuation of RGESS eligible securities while making initial investment?

The cost of acquisition of eligible securities without including brokerage, Securities Transaction Tax, stamp duty, service tax and other taxes will be considered for valuation of RGESS eligible securities.

(V) Holding of investments under RGESS - Fixed Lock-in period

20) What is the holding period for investments made under RGESS?

Once the investments are made in the eligible securities, they will be locked-in from the date of investment till one year from the date of last purchase of RGESS eligible securities. This period is called 'Fixed Lock-in' during which you cannot pledge or sell these securities.

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During subsequent two years called as Flexible Lock-in, you can sell and buy RGESS securities. However, you will have to maintain the value of RGESS investment for cumulative period of 270 days during each of these two years.

Example:

Let us say, you have purchased eligible securities worth Rs. 50,000 in a RGESS designated demat account on December 31, 2012. The eligible securities will be in 'Fixed lock-in' till December 30, 2013 and for flexible lock-in till December 30, 2015.

21) How will the eligible securities be locked-in? Can I invest in eligible securities into the same account and not subject such investments for RGESS lock-in?

The eligible securities brought into the demat account will be automatically locked-in. However, if you do not want certain securities credited to your demat account to be considered for the RGESS, then a declaration in the prescribed format (Form B) should be submitted within one month from the date of credit to the DP.

22) Can I sell eligible securities declared for RGESS during 'Fixed Lock-in' period?

No.

23) Can I claim tax deduction in respect of amount invested in eligible securities which are specified in Form B?

No.

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(VI) Holding of investments under RGESS - Flexible Lock-in period

24) What is 'Flexible Lock-in' period?

During 'Flexible lock-in' period, you can sell your eligible securities, subject to certain conditions which are as follows:

If you sell eligible securities during 'Flexible lock-in' period, then investment under RGESS must be

- at least equivalent to investment claimed as eligible for deduction or
- Equal the value of investment portfolio before such sale, whichever is less

This can be by way of increase in market value. This condition must be met for cumulative period of 270 days in a year for two years.

25) What will be the effect of different types of corporate actions like split, consolidation, bonus, rights, etc. on RGESS eligible investment during flexible lock in period?

- If there is any change in the RGESS investment due to corporate actions where investors do not have any choice (involuntary) e.g. split / demerger etc., there will not be any effect on compliance status of the account during flexible lock in.
- If there is any change in the RGESS investment due to corporate actions where investors have the option to exercise their choice and results in debit of securities during flexible lock in, the same will be considered as a sale transaction.

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(VII) Miscellaneous

26) What will happen to my demat account at the end of flexible lock-in period?

Your demat account that was designated for RGESS will be converted into a regular or ordinary demat account at the end of the flexible lock-in period.

27) What happens in case I fail to comply with any condition specified in the scheme?

The deduction availed under the scheme will be treated as your income and you shall be liable to tax as per the provisions of the Income Tax Act, 1961.

28) Is credit received in my demat account through off market transfer/ through dematerialisation eligible for RGESS investment?

No.

29) If the security which was eligible under RGESS at the time of investment is no longer eligible, will my RGESS investment be affected?

The security should be RGESS eligible at the time of investment. Such security will be considered for RGESS investment, even if it becomes ineligible at a later date.