

## FAQs: Rajiv Gandhi Equity Saving Scheme (RGESS), 23 NOV 2012

### **1. What is Rajiv Gandhi Equity saving Scheme 2012 (RGESS) and its objective?**

A tax-saving scheme launched by the Government of India with the objective to encourage the flow of savings and improve the depth of domestic capital market. The Scheme also aims to promote an 'equity culture' in India and is also expected to widen the retail investor base in the Indian securities markets.

### **2. Do I get any tax benefits for the investments under RGESS?**

Yes, income tax benefits are available under Section 80CCC of IT Act 1961

### **3. What is the income tax benefit allowed under Section 80CCG of IT Act 1961?**

Individual income tax assessee are allowed deduction in the computation of total income of 50% of total amount invested in RGESS eligible securities subject to a maximum deduction of Rs.25, 000. The maximum investment eligible for the purpose of deduction under Section 80CCG is Rs. 50,000.

### **4. How do I know if I can avail income tax benefits under Section 80CCG of IT Act 1961?**

You are eligible for income tax deduction benefits under Section 80CCG provided -

- i. You are a resident individual
- ii. You are a new retail investor (as defined in Q.5)
- iii. Your gross total annual income does not exceed Rs.10 lacs
- iv. You have invested in RGESS eligible securities (as defined in Q.11)
- v. Your investment is locked-in for the period of 3 years from the date of acquisition.

### **5. Who is a "New Retail Investor?"**

"New retail investor" is a resident individual:-

Who has not opened a DEMAT account and has not made any transactions in the derivative segment as on the date of notification of the Scheme

**Or**

Who has opened a DEMAT account before the date of notification of the Scheme but has not made any purchases in the equity or the derivative segment thereafter.

An individual who is not the first account holder of an existing joint DEMAT account shall also be eligible to open an individual DEMAT account for the purposes of this Scheme.

**6. What is the date of notification of RGESS Scheme?**

RGESS 2012 was notified by the Ministry of Finance, Government of India on the 23<sup>rd</sup> November 2012 (Notification S.O. 2777 (E))

**7. I have opened a DEMAT account as on 15<sup>th</sup> June 2012. I have not purchased any securities till date. Will I be eligible for tax deduction under 80CCG of IT Act 1961?**

Yes, though you have opened a DEMAT account before 23<sup>rd</sup> November 2012 (date of notification) but have not made any transactions in the equity or the derivative segment, you are eligible to claim deduction under 80CCG of IT Act 1961 subject to satisfying the other eligibility conditions.

**8. I have opened a DEMAT account as on 20<sup>th</sup> November 2012 and bought 10 shares of "Larsen & Toubro Ltd". Will I be eligible for claiming tax deduction under 80CCG of IT Act 1961?**

No, as you have opened a demat account before notification of RGESS Scheme (i.e. 23<sup>rd</sup> November 2012) and also purchased equity shares, you are not a "new retail investor" as defined in the notification and will not be eligible for claiming a deduction under 80CCG of IT Act 1961.

**9. I already own a few shares of a company which is currently a constituent of CNX 100. The shares are in physical form and not dematerialized. I opened a demat account on 2<sup>nd</sup> January 2013 and have not entered into any transactions till date. Will I be eligible to avail tax benefits under 80CCG of IT Act 1961?**

The Notification does not explicitly debar resident individuals owning physical shares from claiming RGESS income tax benefits. Since the demat account is opened after the date of notification of the RGESS Scheme you will be eligible to avail tax benefits under Section 80CCG of IT Act 1961.

**10. Has the notification laid down where I can invest to claim income tax benefits under Section 80CCG?**

Yes, the Notification has provided a list of eligible securities into which investment up to a maximum of Rs. 50,000 may be made to avail tax benefits under Sec 80CCG.

**11. What are "Eligible Securities" defined under the RGESS?**

Eligible securities as defined under RGESS are -

- I. Equity shares of companies representing "BSE-100" Index or "CNX- 100" Index including their Follow on Public offers (FPO)
- II. Equity shares of Maharatna, Navratna or Miniratna public sector enterprises and their FPOs
- III. Units of Exchange Traded Funds (ETFs) or Mutual Fund (MF) schemes investing in RGESS eligible shares provided these units are listed and traded on stock exchange and settled through depository mechanism.
- IV. Initial Public Offer(IPO) of a PSU wherein the government shareholding is at least 51% which is scheduled for getting listed in the relevant previous year and whose annual turnover is not less than four thousand crore rupees during each of the preceding three years

**12. What are BSE 100 and CNX 100?**

BSE 100 is a composite of 100 stocks forming an Index created by the Bombay Stock Exchange. Similarly CNX 100 is also a composite of 100 stocks as an Index created by the National Stock Exchange.

**13. If I have bought 10 shares of State Bank of India as on 25<sup>th</sup> November 2012. Can I claim for a deduction under 80CCG of IT Act 1961?**

Yes, you can claim a deduction under 80CCG of IT Act, provided you have not traded in equity or derivatives segment before the date of notification of the scheme ie. 23<sup>rd</sup> November 2012.

'State Bank of India' is a component of both CNX 100 and BSE 100. Share of SBI is a eligible security under the RGESS Scheme. Therefore you are eligible to claim deduction under 80CCG of IT Act 1961.

**14. I already own units in an open-ended equity mutual fund Scheme which I invested on the 3<sup>rd</sup> December 2012? Will this investment qualify for Sec 80CCG?**

Only such mutual fund schemes whose units are listed and traded on stock exchange and settled through depository mechanism will qualify for Sec 80CCG benefits. Since open-ended mutual fund schemes are currently not allowed to be listed on the Stock Exchange, your investment will not qualify for Sec 80CCG.

**15. Is there a maximum limit for investing in RGESS eligible securities?**

There is no cap on the amount of investment in RGESS eligible securities. However, income tax deduction benefits under the Scheme will be available only for a maximum investment amount of Rs. 50,000. This deduction benefit is available only in the year of investment.

**16. Can you provide an illustration for the tax benefits under 80CCG of IT Act 1961?**

The illustration for the tax benefits is as below-

	Amount (Rs.)		
<b>Amount Invested in RGESS</b>	50000	75000	30000
Maximum Eligible investment in RGESS	50000	50000	30000
50% deduction on RGESS Deduction	25000	25000	15000
<b>Tax Savings under RGESS</b>			
<b>10% Tax Bracket</b>	2500	2500	1500
<b>20% Tax Bracket</b>	5000	5000	3000

**Note-** Deduction under 80CCG is available only where gross total annual income doesn't exceed Rs.10 Lakhs per annum

**17. Is the tax benefit for investment in RGESS over and above of Rs. 1 lakh deduction currently available under section 80C of IT Act 1961?**

Yes, Section 80C is a separate section of IT Act 1961. Section 80CCG is different section under the IT Act 1961 created for providing tax benefits to the investors investing exclusively in RGESS eligible securities.

**18. How many times can I invest in RGESS securities to avail tax benefits under section 80CCG of IT Act 1961?**

To avail tax benefits under 80CCG of IT Act 1961, the investor can invest in RGESS securities as many times as he wants, in the first year of investment. Investments made in the subsequent years will not be eligible for tax benefits.

**19. Will I get Tax deduction every year for investment in RGESS?**

No. Tax benefits are allowed only in the first year of investments under RGESS. Even if one claims small amount deduction under RGESS in one year no further deductions can be claimed in subsequent years.

**20. What is minimum eligible investment under RGESS?**

There is no minimum eligible investment under RGESS.

**21. What is the mode of holding RGESS eligible securities?**

RGESS eligible securities should be held in dematerialized (demat) mode only.

**22. What is Demat account?**

Demat account is an account where shares, debentures or units of mutual funds etc are held in electronic (paperless) form.

**23. Is demat account compulsory to invest in RGESS?**

Yes, demat account is compulsory to avail tax benefit under RGESS

**24. Where can I open a demat account?**

Demat account can be opened through any of the DPs linked to either the Central Depository Services (India) Limited (CDSL) or National Securities Depositories (NSDL)

**25. How can I open demat account for RGESS?**

To open a demat account, you need to submit an account opening form along with Form A defined under the RGESS notification and other necessary documents to the Depository Participant (DP). Permanent Account Number (PAN) is mandatory for opening the demat account. You need to submit necessary documents required for KYC (Proof of Identity and Proof of Address).

**26. What is a Form A under RGESS?**

Form A is a declaration to be submitted by the investors to DP for availing the benefits under the RGESS.

**27. Can I use my existing Demat account for RGESS Investments?**

Yes, you can designate your existing demat account as RGESS designated demat account. You need to submit Form A to Depository Participant (DP) and also need to furnish PAN for designating existing demat account as RGESS eligible account.

**28. Can I have more than one demat accounts for investment under RGESS**

No. You can have only one demat account across depositories (i.e., NSDL / CDSL) for investment in RGESS.

**29. Can I hold non RGESS eligible securities in my demat account designated for RGESS?**

Yes. Non RGESS eligible securities can also be held along with RGESS eligible securities in the demat account designated for RGESS. Form B as defined under the RGESS Notification needs to be submitted to the DP for such non RGESS securities.

**30. What is Form B under RGESS?**

Form B is a declaration to be submitted by new retail investor to DP on purchase of eligible securities which are not to be included as RGESS investment. This will ensure that these securities are not locked in by the Depository.

**31. Will I get deduction if I buy RGESS eligible securities even on the last day of the financial year?**

Yes, you will get a grace period of 3 trading days from the end of the financial year so that the eligible securities purchased on the last trading day of the financial year also get credited in the demat account and such securities shall be deemed to have been purchased in the financial year itself.

**32. Is there any lock-in period for RGESS investments?**

Yes, Investments made in RGESS are subject to the two types of lock-in periods occurring one after the other - Fixed lock-in and Flexible lock in.

**33. What is fixed lock-in period under RGESS?**

The fixed lock-in period is the period which will commence from the date of purchase of RGESS eligible securities in the relevant financial year. The fixed lock-in period is for a one-year period from the date of purchase of the security. In case where multiple transactions (purchases on different dates in the same financial year), the lock-in period will end one year from the date purchase of the last tranche of RGESS eligible securities (in the same financial year) on which deduction is claimed under the Scheme.

**34. Can I sell, Pledge or hypothecate any RGESS eligible security during fixed lock-in period**

No

**35. What is 'Flexible Lock-in' period?**

The period of 2 years beginning immediately commencing after the end of fixed lock-in period.

**36. Can you provide illustration of fixed lock-in and flexible lock-in?**

Illustration for fixed and flexible lock-in period is as below:-

Lock-in conditions	Investment in Financial Year 2012-13	
	One Time Investment	Multiple Investments
Investment date	23rd November 2012	23rd November 2012
		15th January 2013
		11th March 2013
Fixed lock-in begins (1 year)	23rd November 2012	11th March 2013
Fixed lock-in ends	22nd November 2013	10th March 2014
<b>Flexible lock-in ends</b>		
2nd year	21st November 2014	9th March 2015
3rd Year	20th November 2015	8th March 2016

**37. Can I buy RGEES Eligible securities without complying with the criteria of lock-in period?**

To avail tax benefit under section 80CCG of IT Act 1961, the eligible securities brought into the demat account will be automatically locked-in (fixed and Flexible lock-in) for 3 years. However, if you do not want certain securities (including RGEES eligible securities) credited to your RGEES demat account to be considered for the Sec 80CCG benefits, then a declaration in the prescribed format (Form B) should be submitted within one month from the date of credit to the DP. In this case deduction under section 80CCG of IT Act 1961 is not allowed.

**38. What will happen to my demat account at the end of flexible lock-in period?**

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

**39. Can I lose the Tax benefits availed under section 80CCG of IT Act 1961?**

Yes, you will lose tax benefits availed under section 80CCG of IT Act 1961, if you fail to comply with lock in period requirement or any other requirement of the scheme (including maintaining the amount of investment for which tax benefit is claimed under Sec 80CCG duly factoring in fall in market value).

**40. What will be the consequences if I fail to comply with the requirement of RGEES?**

If you fail to comply with the requirement of RGEES, then the deduction already availed under section 80CCG will be treated as your total taxable income and you are liable to pay tax as per the provisions of Income Tax Act, 1961.

**41. What is the risk involved in RGEES investment?**

Investment made in equity instruments and equity mutual funds/ETFs is subject to market risks. Investments may be volatile and prone to price fluctuations.

**42. What will be the effect of different types of corporate actions like split, consolidation, bonus, rights, etc. on RGESS eligible investment?**

Where the investment undergoes a change as a result of *involuntary corporate actions* like demerger of companies, amalgamation, etc. resulting in debit or credit of securities covered under the Scheme, the deduction claimed by such investor shall not be affected.

In case of *voluntary corporate actions* like buy-back, etc. resulting only in debit of securities, where new retail investor has the option to exercise his choice, the same shall be considered as a sale transaction for the purpose of the Scheme.

**43. I have opened a demat account as on 22<sup>nd</sup> December 2012 and bought 50 shares of "Coromandel Engineering Company Ltd." for the first time. Can I claim a deduction under 80CCG of IT Act 1961?**

No. Though you have opened a demat account after 23<sup>rd</sup> November 2012, Coromandel Engineering Company Ltd is not a RGESS eligible security because it is neither a component of BSE 100 or CNX 100 Indices nor a Maharatna, Navratna or Miniratna. Therefore you will not be allowed a tax deduction under 80CCG of IT Act 1961 for this security.

**44. I opened a demat account before the notification and have invested in units of a Gold ETF scheme. Will I be treated a new retail investor under 80CCG?**

Investment in Gold ETFs is not an eligible security for tax deduction under section 80CCG. Since the demat account does not have any equity security, the individual will be considered a new retail investor under Section 80CCG.

**45. How do we arrive at the value of RGESS investment as on a particular day in case I decide to sell the security after the completion of fixed lock-in period?**

Value of the RGESS investment in flexible lock-in period is decided on the basis of the closing price as on the previous day of the date of trading.

**46. Can I trade the eligible securities during flexible lock-in period?**

Yes, you are permitted to trade RGESS eligible securities only after completion of the fixed lock-in period. However to ensure continuity of the Section 80CCG benefit, you should ensure that the RGESS demat account is compliant for cumulative period of minimum 270 days during each of 2 years of flexible lock-in period.

**47. Can I book profits in RGESS demat account holdings?**

Yes, only after completion of fixed lock-in period you may book profit on your RGESS demat account holding. But you need to ensure that your total value of investment in your RGESS demat account is equal to or higher than the amount claimed for a deduction for a cumulative period of minimum 270 days during each of 2 years of flexible lock-in period.

**48. Can I sell the RGESS investment if the investment value falls due to fall in market price of securities?**

Yes, you are permitted to sell after completion of the fixed lock-in period anytime during the next two financial years (when flexible lock-in is in force). However, you will have to purchase RGESS eligible security for the equivalent amount of sale value in the same financial year in which the securities are sold to ensure that adherence to cumulative period of minimum 270 days during each of 2 years of flexible lock-in period.

**49. Will I get a certificate confirming my 'new retail investor' status?**

The depository will certify your new retail investor status at the time of designating your demat account as RGESS demat account.

**50. Can I claim deduction under section 80CCG for an additional expenses incurred on acquisition of RGESS eligible like brokerage, taxes etc?**

No, Additional expenses incurred on the acquisition of eligible securities like brokerage, stamp duty, securities transaction tax (STT), service tax and all other taxes, etc will not be considered. This can be explained with below table

Investment in RGESS eligible		
	Equity Shares & ETFs	Mutual Fund Schemes
<b>Total Investment in RGESS</b>	<b>50,000.00</b>	<b>50,000.00</b>
Brokerage including Service tax @0.5%	250.00	0.00
Service Transaction Tax @0.10%	50.00	0.00
<b>Total expenses incurred on acquisition of RGESS Securities</b>	<b>300.00</b>	<b>0.00</b>
Net Amount Eligible for Section 80CCG deduction	49,700.00	50000.00
<b>Tax deduction under Section 80CCG</b>	<b>24,850.00</b>	<b>25000.00</b>
Tax savings T a x S l a b 1 0 %	2,485.00	2500.00
Tax savings T a x S l a b 2 0 %	4,970.00	5000.00

**(Expenses shown above are indicative and for illustration purpose only.)**

**Note** - The information on income tax benefits disclosed in this document is provided for general information only. However, in view of the individual nature of the implications, each investor is advised to consult his or her own tax advisors/ authorized dealers with respect to the specific amount of tax and other implications arising out of his or her participation in the schemes.



