

FAQs (Frequently Asked Questions) on RGESS

Rajiv Gandhi Equity Savings Scheme (RGESS)

1. What is RGESS?

Rajiv Gandhi Equity Savings Scheme (RGESS), is a tax saving scheme announced in the Union Budget 2012-13 (para 35) and further expanded vide Union Budget 2013-14 (para 61 & 144). The scheme is designed exclusively for the first time individual investors in securities market, whose gross total income for the year is below a certain limit. In 2013-14, the income ceiling of the beneficiaries was raised to Rs. 12 lakh from Rs. 10 lakh specified in 2012-13. The investor would get under Section 80CCG of the Income Tax Act, a 50% deduction of the amount invested during the year, upto a maximum investment of Rs. 50,000 per financial year, from his/her taxable income for that year, for three consecutive assessment years.

2. What is the objective of the Scheme?

As announced in the Union Budget 2012-13, the objective of the Scheme is to encourage the flow of savings and to improve the depth of domestic capital markets. This would help in promoting an 'equity culture' in India. The Scheme aims at widening the retail investor base in the Indian securities markets and also furthers the goal of financial stability and financial inclusion.

3. What is the legal provision for RGESS?

A new section **80CCG** in the Income tax Act, 1961 on '*Deduction in respect of investment under an equity savings scheme*' was introduced vide Finance Act, 2012 and amended vide Finance Act, 2013, to give tax benefits to 'New Retail Investors' whose gross annual income is less than or equal to Rs.12 Lakhs, for investments in 'Eligible Securities' up to Rs.50,000 in a single financial year, for three consecutive assessment years.

The details of the RGESS Scheme were first notified on 23 November 2012 (Section No. 2777(E); Notification No. 51) and vide subsequent corrigendum dated 5 December 2012 (Section No. 2835(E); Notification No. 53) by Department of Revenue. The operational guidelines were issued by SEBI on 6 December 2012. Subsequent to the Union Budget 2013-14, Section 80CCG was amended vide Finance Act, 2013, to expand the scope of the Scheme. The notification dated 23 November, 2012 was accordingly amended vide Notification dated 18 December 2013 (Section No. 3693 (E); Notification No.94).

4. What are the benefits / highlights of RGESS compared to other tax saving schemes?

The following are the benefits of RGESS:

- The allowed tax deduction u/s 80CCG will be over and above the Rs. 1 Lakh limit permitted under Section 80C of the Income Tax (IT) Act, making it thus attractive for the middle class investors.
- Further, the Dividend income is tax free, if the company is liable to dividend distribution tax.
- The benefits can be availed for three consecutive years.
- Investor is free to trade / churn the portfolio after the fixed lock-in period, subject to certain conditions.
- Gains arising out of higher market valuation of RGESS eligible securities can be realized after a year viz: fixed lock-in period. Provisions exist to protect the investor from general declines in the market to a certain extent. This is in contrast to all other tax saving instruments.
- Facility for pledging stocks after the fixed lock-in period.

- For investments upto Rs.50,000 in your sole RGESS demat account, if you opt for Basic Service Demat Account, annual maintenance charges for the demat account is zero and for investments upto Rs. 2 lakh, it is stipulated at Rs 100.
- The investments can be made in installments during the financial year in which tax deduction is claimed.

5. Who all will be covered under the Scheme? Who is a new investor?

The Scheme is open for all New Retail Investors who have gross total income less than or equal to Rs. 12 lakh. A new retail investor is one:

- who is a resident individual (the benefit cannot be availed by HUF, corporate entities / trusts etc)
- who has not opened a Demat account and has also not done any trading in the derivative segment till RGESS account opening date or the first day of the “initial year” in which he brings in the RGESS eligible investment into the account, whichever is later.
- who has opened a Demat account and has not made any transactions in equity and /or in the derivative segment till designating such account as RGESS or the first day of the “initial year” in which he brings in the RGESS eligible investment into the account, whichever is later..

In case of joint accounts, only the first account holder will not be considered as a new retail investor. All those existing account holders other than the first demat account holder (eg. second / third account holders or other joint holders) or nominees of the existing account holders will be considered as new retail investors for the purpose of opening of a fresh RGESS account, if otherwise eligible.

In case the demat account is opened as a first holder, but there are no transactions in the equity or derivative segment, then the first account holder is eligible to be a new retail investor.

For taking the benefits under RGESS, the new retail investor will have to submit a declaration, as in Form ‘A’, to the Depository Participant (DP) at the time of account opening or designating his existing demat account.

Eligible securities, which are brought thereafter into such an account, will be automatically subject to lock-in upto a value of Rs. 50,000, unless the investor specifies otherwise through the Form ‘B’ specified in this regard.

6. I am a non-resident Indian; Am I eligible for RGESS?

The Scheme is for an individual resident in India as per the provisions of the Income Tax Act.

7. Can a Guardian claim RGESS tax benefit if investment is done in the name of Minor?

Yes. Guardian can claim tax benefit for investments done in the name of minor, subject to overall limit for guardian as an individual.

8. I am already having physical units of mutual fund and / or Exchange Traded Funds; Am I eligible for the RGESS?

Yes. Prior investments in mutual funds and Exchange Traded Funds do not make an investor ineligible for the Scheme. However, you need to invest afresh in RGESS eligible mutual fund /ETF schemes and hold them in a demat account to avail of the benefits under RGESS.

9. I possess some physical shares; Am I eligible under RGESS?

Yes. You will be considered as a new retail investor, if otherwise eligible. However, you need to make fresh investments to avail of the benefits under RGESS. You will not be eligible to claim benefits of RGESS on dematerialization of such shares. It is advisable that you first designate / open the account for RGESS and then undertake the dematerialization of physical shares in your custody.

10. I possess some shares in the demat account; but they are of unlisted companies. Am I eligible?

No

11. What are the investment options available under the Scheme? What are the “eligible securities” under RGESS?

The investment options under the scheme will be limited to the following categories of securities?*

Listed equity shares / units

a. The top 100 stocks at NSE and BSE i.e., CNX-100 / BSE -100 (This does not mean that one has to trade through NSE or BSE only. If the securities constituting BSE 100 or CNX 100 are listed and traded in any new stock exchange that may come up on a later day, the same will be eligible for RGESS.)

b. Equity shares of public sector enterprises which are categorized by the Government as Maharatna, Navaratna and Miniratna

c. Units of Exchange Traded Funds (ETFs) or Mutual Fund (MF) schemes with RGESS eligible securities as mentioned in (a) and / or (b) as underlying, provided they are listed and traded on a stock exchange and settled through a depository mechanism)

d. Follow-on Public Offers (FPOs) of (a) and (b)

e. New Fund Offers (NFOs) of (c) above

Unlisted equity shares

f. Initial Public Offers (IPOs) of PSUs, which are scheduled to get listed in the relevant financial year and where the government holding is at least 51% and whose annual turnover is not less than Rs. 4000 cr for each of the immediate past three years.

(*Investment criteria as applicable at the time of investment)

12. Where can I get information about these eligible stocks?

The consolidated and updated list of eligible securities from time to time is published on the websites of exchanges / Depositories / The Association of Mutual Funds in India (AMFI).

As regards eligible IPOs /FPOs/NFOs of mutual funds or ETFs, companies/mutual funds would be publishing this information in their offer documents / public advertisements.

13. Why RGESS Investments are limited to top 100 stocks?

The Scheme is designed for new investors who are venturing in the equity markets for the first time. The choice of investments have been restricted to the stocks included in BSE 100 or CNX 100 and to selected PSU stocks as they generally have shown relatively, higher liquidity, and there is adequate reporting and analysis available in the market. The range of 100 stocks also provides enough scope for diversification of investments.

14. When I enrolled for RGESS my annual income was below Rs. 12 lakh. However, in the subsequent year it crossed Rs. 12 lakh. Am I eligible to claim benefits?

The income limit is applicable for each of the year in which an investor is investing in RGESS. If his income crosses Rs. 12 lakh in the subsequent year, he will not be eligible to invest in that year and thereafter, provided income continues to be above Rs. 12 lakh. However, investments made in the relevant year(s) [i.e., year(s) in which investor’s income was eligible as per the scheme], will be considered eligible for claiming benefits (and no refund needs to be made for such claims).

If you receive an increment in the middle of the year by which your annual income crosses the Rs. 12 lakh barrier then all the investments made in that financial year become in-eligible.

It is the responsibility of the investor to indicate immediately to the depository through his Depository Participant when he ceases to become eligible for claiming tax benefits. Depositories would make available an application (in a specified format) that can be submitted to your Depository Participant stating that none of the fresh investments to be made in that year be kept under lock-in by the depositories. If such an investor continues to remain ineligible in the third year and if he had submitted the aforementioned application stating his ineligibility only for the second year, then, he has to submit a fresh application stating

his ineligibility for the third year. Otherwise, the investor will be considered as eligible for the third year and depositories may start locking-in investments for that year.

Once the aforementioned application is submitted stating that you are not intending to avail of the benefits under RGEES for the relevant financial year(s) then the position cannot be reversed for those financial year(s).

If, after being ineligible in the second year, the annual income of the investor happens to fall below Rs. 12 lakh in the third year, then he would be considered eligible for making investments under RGEES in the third year, unless he has submitted otherwise through the aforementioned application earlier. (i.e., if an investor submits aforementioned application for two years, the position cannot be reversed for those financial years).

15. For how many years I can avail of RGEES benefits?

RGEES benefits can be availed for three consecutive financial years, beginning with the financial year in which the investment under the Scheme was made for the first time by the investor.

16. When does counting of my three year starts? What is “initial year”?

The financial year in which the investor makes investment in eligible securities for availing deduction under the Scheme for the first time through his RGEES designated demat account is the initial year, even if the demat account was designated for RGEES in an earlier financial year.

The counting of three consecutive years starts with this initial year, i.e., the financial year in which the investments under the Scheme are made for the first time by the new investor after opening / designating the demat account for RGEES. For eg., if an investor who has opened /designated RGEES account in the FY 2012-13 does not invest in RGEES eligible securities during 2012-13 but makes investment in the FY 2013-14, then, he is eligible to invest and claim benefits during FYs 2013-14, 2014-15 and 2015-16, subject to him not making any investment in any other equity / derivative in FY 2012-13.

The investor shall also be not allowed to claim deduction under the Scheme for any previous year other than the previous year relevant to that assessment year. Thus, if the investor has forgotten to claim benefits for a particular year, he cannot carry over that benefit to the subsequent year.

17. Do I have to make my first investment, after designating my account, only in eligible scrip?

A composite reading of the definition of “initial year” and “new retail investor” demands that you shall make your first investment only in RGEES eligible scrip. Thereafter, you are free to invest in other securities. This is because you will be disqualified as a “new retail investor” if the financial year in which you designate the account for RGEES is different from the financial year in which you make your first investment in RGEES eligible scrip (i.e., initial year). For instance, imagine that you have opened / designated your RGEES account in the FY 2014-15 and make investment in other equity or derivative, but fail to make any investment in RGEES eligible scrip in that year. In the next financial year, i.e., FY 2015-16, if you invest in RGEES eligible scrip, then that year is considered as the initial year. Definition of “new retail investor” is such that you should not have traded in equity or derivative as on the date of designating your account or on the first day of initial year, **whichever is later**. By this definition, in FY 2015-16, you are not a new retail investor and hence would be disqualified from availing RGEES benefit for any year. However, this is not an issue if you are investing in RGEES eligible scrip in the same year as you opened / designated your demat account.

18. I have invested less than Rs. 50,000 in a year. Can I invest more than Rs. 50,000 in subsequent years so that my total investments for three years are less than Rs. 1.5 lakhs?

No. Investments in any single financial year cannot exceed Rs. 50,000/-. If you have invested less than Rs. 50,000 in any financial year, then shortfall cannot be carried over to the subsequent year.

19. I have already claimed tax benefit under Section 80C. Can I avail of RGESS?

Yes you can. The tax deduction for RGESS is u/s 80CCG and it is over and above Rs. 1 lakh limit specified under Section 80C. Further, it is not mandatory for citizens to exhaust the limit of Rs 1 lakh specified under Section 80C to make investments under Section 80CCG for RGESS.

20. What are the types of mutual funds which would be eligible for investments under RGESS?

Closed-ended Mutual Fund (MF) schemes and Exchange Traded Funds (ETF) with RGESS eligible securities as underlying would be eligible investments under RGESS, provided they are listed and traded on a stock exchange and settled through a depository mechanism. As Open-ended mutual fund schemes are not generally listed and traded on the stock exchanges, they are not eligible investments under RGESS.

21. How to subscribe to RGESS Mutual Fund schemes?

Investors could subscribe to RGESS mutual fund schemes i.e., closed-ended mutual fund schemes or ETFs either during the New Fund Offer (NFO) period or buy in the secondary market through the stock exchanges. The NFO period could be for up to 30 days and the opening and closing dates will be mentioned on the Key Information Memorandum (KIM) of the mutual fund scheme. Thereafter, the units can be purchased/sold on a continuous basis (subject to suspension of trading/lock-in period) on stock exchanges on which the units of RGESS mutual fund schemes are listed, during the trading hours like any other publicly traded stocks. (whenever you are applying for the subscription of RGESS Mutual Fund schemes, remember to write your demat account number (DP ID and Client ID) on the application form.)

22. Are RGESS mutual fund Schemes available for investment to regular investors who are not eligible for RGESS or who do not intend to avail of tax benefits under RGESS?

Yes; An RGESS eligible mutual fund or ETF Scheme is available for investment to any investor looking to invest in equity schemes for the long term. However, tax benefits can be claimed only if the units are subscribed through and held in the designated demat account and other eligibility conditions are satisfied by the investors.

23. Is a demat account compulsory for investing in RGESS mutual fund?

Demat account is compulsory for investors who wish to avail tax benefits under RGESS and the demat account details should be specified in the application form. Those investors who are not claiming tax benefits can hold units of RGESS eligible mutual fund schemes in the form of account statement.

24. What documents / information do I need to submit with my RGESS mutual fund application form at the time of subscription during the NFO?

Duly filled-in application form of the RGESS mutual fund scheme (which is a part of the KIM), cheque drawn in the name of the scheme, and details of the demat account i.e., Client ID and DP ID.

25. What are the Plans offered by mutual fund schemes?

Mutual fund schemes offer two plans i.e., Regular Plan and Direct Plan. Direct Plan is only for investors who purchase /subscribe units in a scheme directly with the mutual fund and is not routed through an AMFI Registration Number (ARN) Holder or a distributor or a broker. Expenses charged by the Direct Plan will be lower than the Retail Plan to the extent of selling and distribution costs charged in the Retail Plan.

26. What are the Options available under each of the above Plans?

Mutual fund schemes generally offer two options i.e., Dividend and Growth. Dividend Option are meant for investors seeking regular dividend income and Growth Options are meant for investors seeking long term capital appreciation

Dividend Option: Under this Option, the Trustee reserves the right to declare dividend under the scheme depending on the net distributable surplus available under the Option. It should, however, be noted that actual declaration of dividends and the frequency of distribution will depend, inter-alia, on the availability of distributable surplus and will be entirely at the discretion of the Trustees or any Committee authorized by them.

Growth Option: Under this option there will be no distribution of income by way of dividends. All Income earned and realized profit in respect of a unit issued under that will continue to remain invested in the scheme and shall be deemed to have remained invested in the option itself, which will be reflected in the NAV.

27. What is the frequency of dividends that will be declared in RGESS MF scheme?

The Trustees of the respective Mutual Fund reserve the right to declare a dividend. The quantum and frequency of distribution are entirely at their discretion.

28. Do mutual fund schemes pay income tax?

Incomes of mutual fund schemes are exempt from income tax. Currently, RGESS mutual fund schemes are not required to pay dividend distribution tax on dividends distributed to investors as they are equity oriented mutual fund schemes.

29. Are dividends distributed by mutual fund schemes taxed in the hands of investors?

Currently, dividends distributed by mutual fund schemes are exempt from income tax in the hands of investors.

30. Where can I find the list of RGESS mutual fund schemes?

List of RGESS mutual fund schemes are available under ‘investors zone’ in www.amfiindia.com and also on the websites of NSE and BSE. Details of RGESS mutual fund schemes will also be available on the websites of respective mutual funds.

31. Where should I submit my RGESS mutual fund application form during the NFO?

RGESS application form can be submitted to any of the official points of acceptance of the respective mutual fund which will be mentioned in the KIM and on the mutual fund’s website. (Remember to quote your demat account number on the application form.)

32. When will the allotment be done for RGESS mutual fund?

Allotment of units for RGESS mutual fund schemes will be done within 15 days from the closure of the NFO period.

33. How will I be intimated about the allotment?

Mutual fund will send an Allotment Advice to investors. Additionally, the Depository Participant in which the investor holds the demat account would also send a statement for unit allotment. Depositories would also send an SMS upon receipt of credit of mutual fund units in your demat account, if you have registered your mobile number while opening your demat account.

34. When would the refund be done for rejected applications?

For RGESS eligible Mutual Fund scheme, the refund will be done within fifteen days from the closure of the initial subscription/ NFO

35. Is there an option to exit from RGESS mutual fund before 3 years?

Since RGESS mutual fund schemes are closed-ended mutual fund schemes / ETFs, investors cannot redeem their units through the mutual fund. Investors have an exit option (subject to lock-in period) by trading on the

stock exchanges, since the units will be listed and traded on the stock exchanges. All closed-ended mutual fund schemes and ETFs are listed on the stock exchange. However, it is the responsibility of investors availing of RGESS tax benefits to ensure that they are in compliance with the lock-in requirements under RGESS.

36. Can an investor switch existing Mutual Fund units to RGESS Scheme? Will I be eligible for tax benefits?

Yes – Eligible investors can submit switch request into RGESS mutual fund schemes from any other scheme of the mutual fund during the NFO period. However, to avail tax benefit under RGESS scheme, the investor needs to ensure that the allotment of units in RGESS mutual fund scheme is done in the designated demat account and needs to comply with the guidelines prescribed under RGESS.

37. What will be the entry / exit load charged to investors, if invested in RGESS Mutual Fund schemes?

Entry Load – NIL. However, as per the guidelines issued by SEBI, a transaction charge (for existing investors in a Mutual Fund:- Rs. 100/- and for a first time investor in Mutual Funds:- Rs. 150/-) per subscription of Rs. 10,000/- and above is allowed to be paid to the distributors of the Mutual Fund products.

Exit Load – Not Applicable (As the RGESS mutual fund schemes will be in the nature of closed end schemes, units under the schemes cannot be directly redeemed with the Mutual Fund).

38. Is there any need for the investor to open a dedicated demat account for availing of RGESS benefits? Can I hold other securities i.e., other than eligible securities in my demat account designated for RGESS?

There is no need to open a separate dedicated account for availing of the RGESS benefits. The demat account through which RGESS benefits are being availed of can be used to keep shares/ securities other than RGESS-compliant securities. Investments in shares other than RGESS-compliant securities shall not be subject to the conditions of RGESS, nor shall be counted for extending the tax benefits under RGESS. However, it is strictly advised that after designating or opening your account under RGESS, you may do your first transaction in an RGESS eligible scrip only. (may see Q No. 17)

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.

DISCLAIMER :

MUTUAL FUND INVESTMENTS ARE SUBJECT TO MARKET RISKS, READ ALL SCHEME RELATED DOCUMENTS CAREFULLY.