Rajiv Gandhi Equity Savings Scheme (RGESS)

In exercise of the powers conferred by sub-section (1) of section **80CCG of the Income-tax Act**, 1961 (43 of 1961), the Central Government hereby makes the Rajiv Gandhi Equity Savings Scheme (RGESS). The purposes of the government behind such scheme are to provide tax benefits to investors investing directly and to lure investors in to stock market and broaden investor base in stocks.

Under such scheme the investors can directly invest in equity, mutual funds, and exchange traded funds (ETF) up to Rs. 50,000/- in approved stocks and mutual funds & can claim 50% of the amount invested as deduction while claiming deduction in the computation of total income of the assessment year relevant to a previous year on account of investment in eligible securities under sub-section (1) of section 80CCG of the Income-tax Act, 1961.

Eligible securities means any of the following :-

* equity shares, on the day of purchase, falling in the list of equity declared as "BSE-100? or "CNX-100" by the Bombay Stock Exchange and the National Stock Exchange, as the case may be;

* equity shares of public sector enterprises which are categorized as Maharatna, Navratna or Miniratna by the Central Government;

* Units of Exchange Traded Funds (ETFs) or Mutual Fund (MF) schemes with Rajiv Gandhi Equity Savings Scheme (RGESS)eligible securities as underlying, as mentioned in sub-clause (i) or sub-clause (ii) above, provided they are listed and traded on a stock exchange and settled through a depository mechanism;

* Follow on Public Offer of sub-clauses (i) and (ii) above;

* New Fund Offers (NFOs) of sub-clause (iii) above;

* Initial Public Offer of a public sector undertaking wherein the government shareholding is at least fifty-one per cent, 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;

It has also explained who will be consider the new retail investor. The "new retail investor" means following resident individuals:-

(a) any 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;

(b) any individual who has opened a demat account before the notification of the Scheme but has not made any transactions in the equity segment or the derivative segment till the date of notification of the Scheme,

and any individual who is not the first account holder of an existing joint demat account shall be deemed to have not opened a demat account for the purposes of this Scheme.

For claiming deduction under such scheme the new retail investor should have income of less than Rs. 10 Lacs in a year & the benefit will be given only for the first time. The investment will be subject to lock in period of 3 years. The new retail investor shall not be permitted to sell, pledge or hypothecate any eligible security during the fixed lock-in period. Out of such lock in period for one year from the date of investment in approved securities under the scheme an investor cannot sell the securities, from 2nd year onwards, one can sell the securities provided the folio does not fall below the value of the portfolio before initiating the first sale transaction or the amount for which deduction was claimed, whichever is less , for at least 270 days in a year during the lock in period. If the new retail investor fails to fulfill any of the provisions of the Scheme, the deduction originally allowed to him under sub-section (1) of section 80CCG of the Act for any previous year, shall be deemed to be the income of the assessee of such previous year and shall be liable to tax for the assessment year relevant to such previous year. The period of two years beginning immediately after the end of the fixed lock-in period shall be called the flexible lock-in period. The new retail investor shall be permitted to trade the eligible securities after the completion of the fixed lock-in period subject to such conditions.

The new retail investor shall follow the following procedure at the time of opening or designating a demat account:-

(a) the new retail investor shall open a new demat account or designate his existing demat account for the purpose of availing the benefit under the Scheme;

(b) the new retail investor shall submit a declaration in Form A to the depository participant who will forward the same to the depository for verifying the status of the new retail investor;

(c) the new retail investor shall furnish his Permanent Account Number (PAN) while opening the demat account or designating the existing account as a Rajiv Gandhi Equity Savings Scheme eligible account, as the case may be.

The new retail investor may make any amount of investment in the demat account but the amount eligible for deduction, under the Scheme shall not exceed fifty thousand rupees and he may also keep securities other than the eligible securities covered under the Scheme in the demat account through which benefits under the Scheme are availed. Assessees shall be liable to submit the relevant records to the income-tax authorities for verification, as and when required. Form A i.e. declaration to be submitted by the investors to the depository participants for availing the benefits under the Rajiv Gandhi Equity Savings Scheme and Form B i.e. declaration to be submitted by the new retail investor to the depository participant on purchase of eligible securities.

It is not the first scheme for the tax benefit in relation to stock market rather as per the existing provisions of the income tax in India, investment in stocks are extremely attractive just like there is no long term capital gain taxes if the stocks are traded on RSE and STT is paid, it also allows an investor to set off capital loss against capital profits, and benefit of indexation with some conditions. If you invest in any Bank account like bank deposits, fixed deposits then there would not be such benefits.

After such all the things the investors not to prefer to go for the stock markets rather they go for such bank deposits because of the lot of violation & speculation in the stock markets. Still in the present era, bank deposits consistently increasing on year to year basis with a higher speed than of investment in stocks. Even after such a lot of schemes/tax benefits the government has failed to read the pulse of investor's requirement. As discussed earlier investors not invest in stock markets due to volatility or speculations which are not in bank deposits. The investors have the fear of market break downs, global crisis, scams like satyam, enron etc. These things take away the investors from the market and to groom the industries/country there is the requirement of growth in the stocks market.

There is the need of investor education and strict regulatory controls in the market. The formation of the SEBI has these both of the objectives of formation. In last I would like to say there should be education for the investors of market & strict control to stop insider trading, to improve transparency etc. so that the investors not use the words like 'casino', 'matka' and 'lottery' for the investment in Equity. Investors need to be given confidence that equity market creates wealth in long term. Corporate governance practices need to be implemented strictly, scams should be reported earlier, procedure of trading should make easier, strict penalties for the frauds. So, only the tax benefit schemes are not sufficient to attract the investors for the equity stock market.