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Centre planning to replace RGESS with more 'flexible' equity scheme

The government is examining a proposal to provide tax exemption to new equity investors for investment up to Rs 25,000 per year in systematic investment plans of equity mutual funds for three years.

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Rajiv Gandhi Equity Savings Scheme was announced by the then finance minister Pranab Mukherjee in the FY13 Budget to encourage flow of savings in financial instruments and improve the depth of domestic capital market.

The government is planning to replace the Rajiv Gandhi Equity Savings Scheme that has failed to attract investors, with a new scheme, a finance ministry official said. The new scheme is aimed at boosting retail investors participation in the equity market, and it will be much more flexible than the Rajiv Gandhi Equity Savings Scheme, the official claimed. "The existing Rajiv Gandhi equity scheme has been a failure. We are working on a new scheme. There are a number of suggestions to make it flexible and attractive from taxation viewpoint," the official said.

The government is examining a proposal to provide tax exemption to new equity investors for investment up to Rs 25,000 per year in systematic investment plans of equity mutual funds for three years. This will be over and above the Rs

1,50,000 tax exemption that is currently available. The finance ministry is expected to announce the new scheme, which is being finalised, in the Budget 2016-17.

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Rajiv Gandhi Equity Savings Scheme was announced by the then finance minister Pranab Mukherjee in the FY13 Budget to encourage flow of savings in financial instruments and improve the depth of domestic capital market. The scheme allows for income tax deduction of 50 per cent to new retail investors, who invest up to Rs 50,000 directly in equities and whose annual income is below Rs 12 lakh per annum. The scheme has a lock-in period of 3 years. Tax benefits under the scheme can be availed of for three consecutive years. Corpus of the scheme is invested in companies in the list of CNX-100 of NSE and BSE-100. Investment can also be done in units of mutual funds, exchange traded funds, new fund offers that are compliant with the equity scheme.

Despite additional tax benefits, the scheme has not attracted the attention of retail investors. As on November 30, only 19,876 accounts have been opened under the Rajiv Gandhi equity savings scheme, and investments were made only in 15,738 accounts. The total investment in these accounts is only Rs 90.73 crore till November 30, as per data from the National Securities Depositories Ltd.

Even though the tax breaks are available for three consecutive years, subsequent investment into the scheme has dwindled in the following years. Additional investment made by existing investors in the second year was only Rs 19.58 crore, and in the third year Rs 12.03 crore, NSDL data shows.

“Rajiv Gandhi Equity Savings Scheme’s main objective was to open new demat accounts. It was a very complex idea, with lot of cumbersome conditions, which is why it did not succeed. The new proposal of giving direct tax benefits to new investors in SIP (systematic investment plans) is a good idea,” said Dhiredra Kumar, founder and CEO of Value Research India Pvt Ltd, a mutual funds research firm. “The focus should be of getting new investors to invest in equity market for the long term, rather than opening new Demat accounts,” Kumar said.

Companies including Birla Sunlife MF, DSP BlackRock MF, HDFC MF, ICICI Prudential MF, IDBI MF, LIC Nomura MF, UTI MF, among others, have launched Rajiv Gandhi Equity Savings Schemes.

By Sunny Verma

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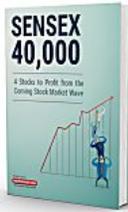
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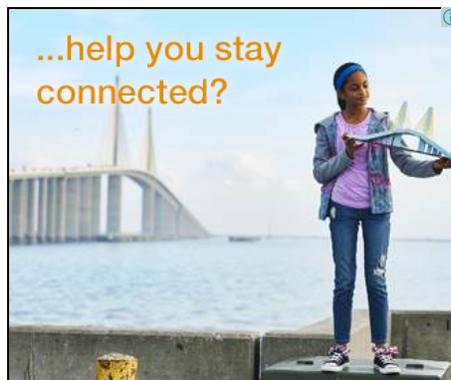
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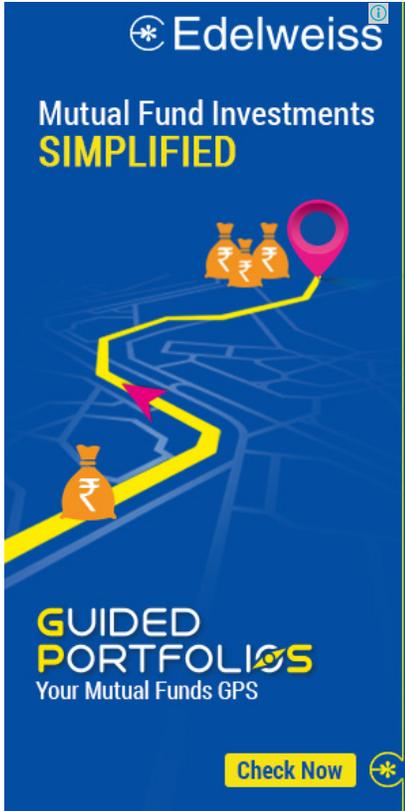
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