



CIRCULAR

CIR/MRD/DP/32/2012

December 06, 2012

To

Stock Exchanges;
Depositories;
Mutual Funds, Asset Management Companies (AMCs), Trustee Companies
and Boards of Trustees of Mutual Funds.

Sir / Ma'am,

Sub: Rajiv Gandhi Equity Savings Scheme, 2012

1. As announced in the Union Budget 2012-13, the Finance Act 2012 has introduced a new section 80CCG on '*Deduction in respect of investment made under an equity savings scheme*' to give tax benefits to new investors who invest up to Rs. 50,000 and whose gross total annual income is less than or equal to Rs. 10 lakhs. The objective of the scheme is to encourage flow of savings in the financial instruments and improve the depth of the domestic capital market.
2. Vide notification 51/2012 dated November 23, 2012 (copy enclosed), the scheme has been notified by the Department of Revenue, Ministry of Finance (MoF). The notification is available on the website of Income Tax Department under section "[Notifications](#)".
3. Stock exchanges, Depositories, Mutual Funds, Asset Management Companies (AMCs), Trustee Companies and Boards of Trustees of Mutual Funds are directed to take note of the notification and take necessary steps to implement the scheme. AMCs / Trustees shall ensure that RGESS eligible Exchange Traded Funds (ETFs) and Mutual Funds (MFs) schemes are in compliance with the aforementioned notification.
4. With regard to implementation of the MoF notification, the following is clarified:
 - (i) For RGESS eligible close-ended Mutual Funds schemes, advice given by AMCs to the depository for extinguishment of units of close-ended schemes upon maturity of the scheme shall be considered as settled through depository mechanism and therefore RGESS compliant.



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- (ii) AMCs shall disclose that the concerned RGESS eligible Exchange Traded Funds and Mutual Fund schemes is in compliance with the provisions of RGESS guidelines notified by Ministry of Finance vide notification no. 51/2012 F. No. 142/35/2012-TPL dated November 23, 2012, in Scheme Information Document (SID), in case of new fund offer, or by way of addendum, in case of existing RGESS eligible Exchange Traded Funds and Mutual Fund schemes.
 - (iii) Section 6(c) of the notification states that the eligible securities brought into the demat account will automatically be subject to lock-in during the first year, unless the new investor specifies otherwise and for such specifications, the new retail investors shall submit a declaration in Form B indicating that such securities are not to be included within the above limit of investment. It is clarified that such declaration shall be submitted by an investor to its Depository Participant within a period of one month from the date of transaction.
 - (iv) For transactions undertaken by investors through their RGESS designated demat account, Depositories may seek necessary transactional details from stock exchanges viz. *Actual Trade value, Trading date, Settlement number*, etc, for the purpose of enforcing lock-in and for generating reports mandated vide MoF notification on RGESS. On receipt of such request from depositories, stock exchanges shall provide the details to depositories on an immediate basis. It shall also be ensured that a uniform file structure is used by stock exchanges and depositories for such intimation of transaction details.
 - (v) With regard to point 3(ix)(a) & (b) of RGESS notification, depositories may seek confirmation, as applicable, from stock exchanges.
 - (vi) With regard to the securities held in the RGESS designated account, treatment of the corporate actions shall be as given at Annexure A.
5. Stock exchanges shall furnish list of RGESS eligible stocks / ETFs / MF schemes on their website. Further, the list shall also be forwarded to the depositories at monthly intervals and whenever there is any change in the said list. For this purpose, Mutual Funds / AMCs shall communicate list of RGESS eligible MF schemes / ETFs to the stock exchanges.
6. Stock exchanges and the depositories are directed to:
- (i) make necessary amendments, if any, to the relevant bye-laws, rules and regulations for the implementation of the scheme.
 - (ii) create wide publicity of the scheme among the investors and market participants, including through investor programs and displaying details on their website.



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(iii) communicate to SEBI, the status of implementation of the provisions of this circular, as applicable.

7. Mutual Funds / AMCs are directed to create wide publicity of the scheme among the investors, including displaying details on their website
8. This circular is being issued in exercise of the powers conferred by Section 11 (1) of Securities and Exchange Board of India Act, 1992, Section 19 of the Depositories Act, 1996 and the Regulation 77 of SEBI (Mutual Funds) Regulations, 1996 to protect the interest of investors in securities and to promote the development of, and to regulate, the securities market.

Yours faithfully,

Maninder Cheema
Deputy General Manager
maninderc@sebi.gov.in

Enclosures:

- (i) Annexure A – Treatment of corporate actions
- (ii) Annexure B – Illustration of lock-in period in RGESS
- (iii) MoF notification No. 51/2012 F.No.142/35/2012-TPL dated November 23, 2012



Annexure A

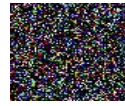
Treatment of corporate actions

- (i) Involuntary corporate actions: In case of corporate actions where investors has no choice in the matter, for example: *demerger of companies*, etc, the compliance status of RGESS demat account shall not change.
- (ii) Voluntary corporate actions: In case of corporate actions where investors has the option to exercise his choice and thereby result in debit of securities, for example: *buy-back*, etc, the same shall be considered as a sale transaction for the purpose of the scheme.

Consolidated list of 'corporate actions'

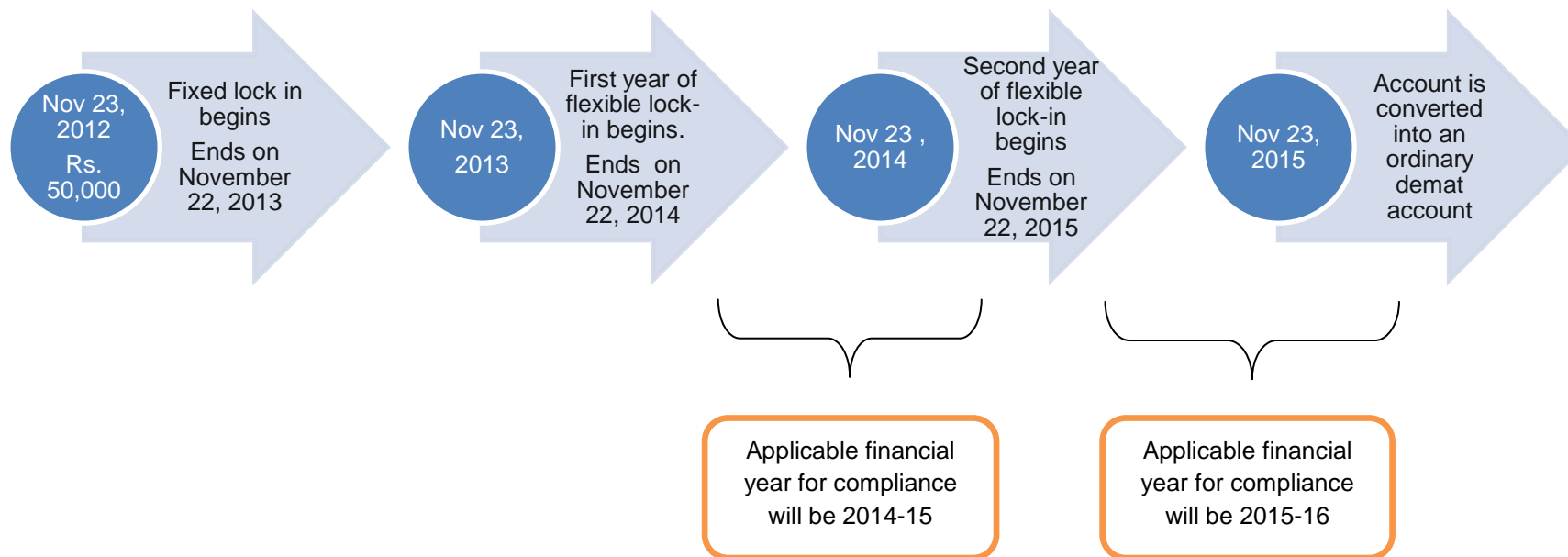
Sr. No.	Corporate Action	Classification (Involuntary or Voluntary)
1	Amalgamation	Involuntary
2	Scheme of Arrangement	Involuntary
3	Reduction of Capital	Involuntary
4	Bonus issue	Involuntary
5	Buy Back of Shares	Voluntary (Involuntary in case of court intervention)
6	Stock Split	Involuntary
7	Consolidation of Shares	Involuntary
8	Conversion of Partly Paid up	Involuntary
9	Dividend [Final/ Interim/ Special]	Involuntary
10	Exchange of Share Certificate [Name change]	Involuntary
11	Rights Issue	Voluntary
12	Conversion (compulsory)*	Involuntary
13	Conversion (optionally)*	Involuntary
14	Redemption	Involuntary (voluntary, if there is option to continue with revised terms)
15	Dividend on Mutual Fund	Involuntary
16	Redemption of Mutual Fund	Involuntary on maturity (voluntary, if there is option to shift between different scheme(s) or on account of exit option due to change in fundamental attributes of scheme)

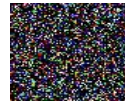
* Considering any conversion into equities (e.g.: Conversion of warrants into equities)



Annexure B – Illustration of lock-in period in RGESS

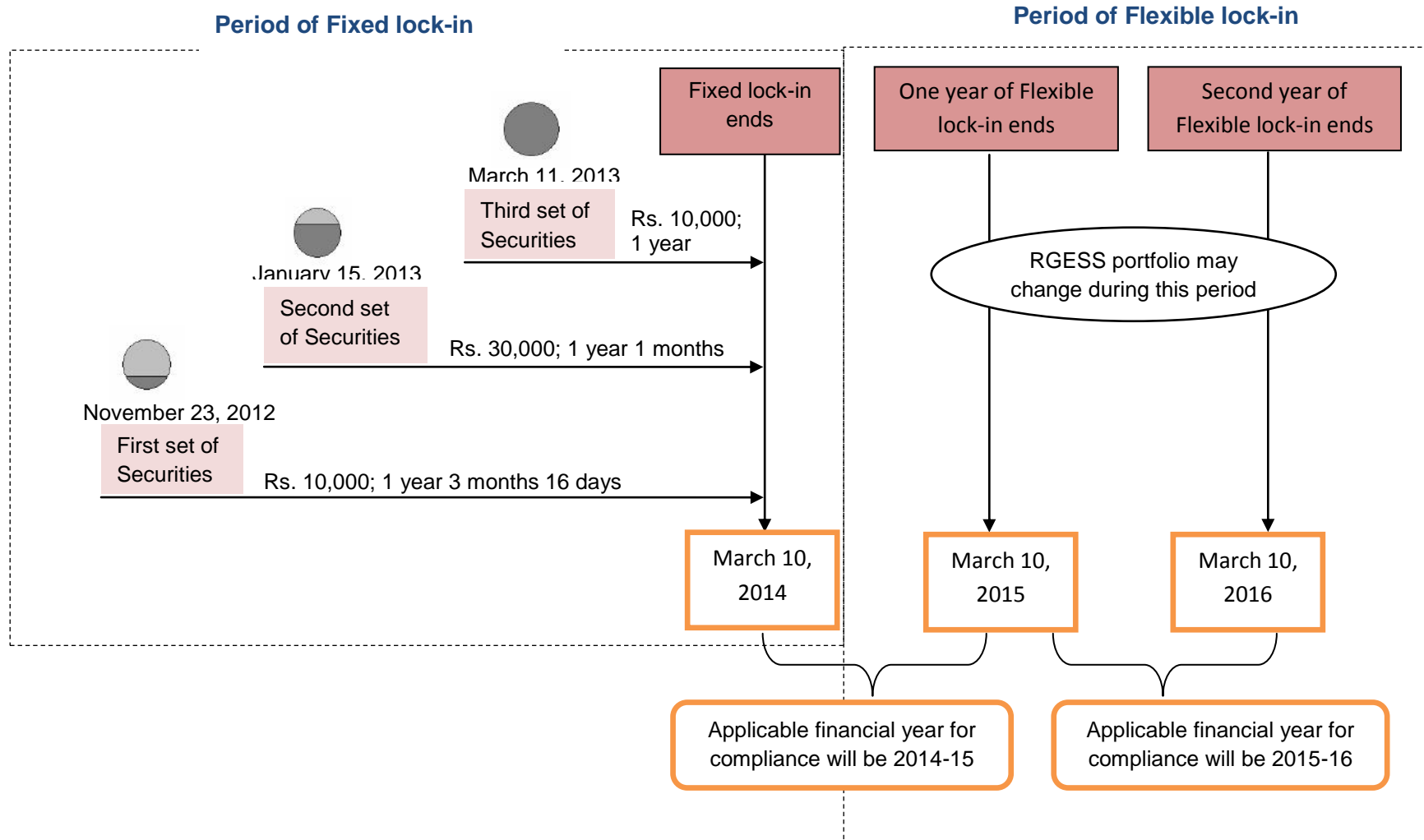
I. RGESS lock-in period if investments are brought in at once





Annexure B – Illustration of lock-in period in RGESS

II. RGESS lock-in period if investments are brought in installment



Government of India

Ministry of Finance

Department of Revenue

Notification

New Delhi, the 23rd November, 2012.

(Income-tax)

S.O. 2777(E). – 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 following Scheme, namely:-

1. Short title, commencement and application. - (1) This Scheme may be called the Rajiv Gandhi Equity Savings Scheme, 2012.

(2) It shall come into force on the date of its publication in the Official Gazette.

(3) This Scheme shall apply for 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.

2. Objective of Scheme.-The objective of the Scheme is to encourage the savings of the small investors in domestic capital market.

3. Definitions.- In this Scheme, unless the context otherwise requires,-

- (i) "Act" means the Income-tax Act, 1961 (43 of 1961);
- (ii) "demat account" means an account opened with the depository participant in accordance with the guidelines laid down by the Securities and Exchange Board of India established under section 3 of the Securities and Exchange Board of India Act, 1992 (15 of 1992);
- (iii) "depository" means a company as defined in clause (e) of sub-section (1) of section 2 of the Depositories Act, 1996 (22 of 1996);
- (iv) "depository participant" means a participant as defined in clause (g) of sub-section (1) of section 2 of the Depositories Act, 1996 (22 of 1996);
- (v) "eligible securities" means any of the following :-
 - (a) 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;

- (b) equity shares of public sector enterprises which are categorised as Maharatna, Navratna or Miniratna by the Central Government;
 - (c) 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;
 - (d) Follow on Public Offer of sub-clauses (i) and (ii) above;
 - (e) New Fund Offers (NFOs) of sub-clause (iii) above;
 - (f) 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;
- (vi) "financial year" means a year commencing on the 1st day of April and ending on the 31st day of March;
- (vii) "Form" means the Form appended to the Scheme;
- (viii) "investment" means investment by an assessee in any of the eligible securities in accordance with the Scheme;
- (ix) "new retail investor" means the 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
- (x) "Scheme" means the Rajiv Gandhi Equity Savings Scheme;
- (xi) words and expressions used and not defined in this Scheme, but defined in the Act, shall have the meanings respectively assigned to them in the Act.

4. **Eligibility** :- The deduction under the Scheme shall be available to a new retail investor who complies with the conditions of the Scheme and whose gross total income for the financial year in which the investment is made under the Scheme is less than or equal to ten lakh rupees.

5. **Procedure at time of opening demat account.**-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.

6. **Procedure for investment under Scheme.**- A new retail investor shall make investments under the Scheme in the following manner :-

(a) the new retail investor may make investment in eligible securities in one or more than one transactions during the year in which the deduction has to be claimed;

(b) 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;

(c) the eligible securities brought into the demat account, as declared or designated by the new retail investor, will automatically be subject to lock-in during its first year, as per the provisions of paragraph 7, unless the new retail investor specifies otherwise and for such specification, the new retail investor shall submit a declaration in Form B indicating that such securities are not to be included within the above limit of investment;

(d) the new retail investor shall be eligible for a deduction under sub-section (1) of section 80CCG of the Act in respect of the actual amount invested in eligible securities , in the first financial year in respect of which a

declaration in Form B has not been made, subject to the maximum investment limit of fifty thousand rupees;

(e) the new retail investor who has claimed a deduction under sub-section (1) of section 80CCG of the Act, in any assessment year, shall not be allowed any deduction under the Scheme for any subsequent assessment year;

(f) the new retail investor shall be permitted a grace period of three 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;

(g) the new retail investor 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;

(h) the new retail investor can make investments in securities other than the eligible securities covered under the Scheme and such investments shall not be subject to the conditions of the Scheme nor shall they be counted for availing the benefit under the Scheme;

(i) the investment under the Scheme shall consist of all eligible securities covered under the Scheme that are initially bought by the investor under the Scheme or that are bought subsequently by the investor as per the provisions of the Scheme;

(j) the deduction claimed shall be withdrawn if the lock-in period requirements of the investment are not complied with or any other condition of the Scheme is violated.

7. Period of holding requirements. - (1) The period of holding of eligible securities shall be three years to be counted in the manner detailed hereunder.

(2) All eligible securities are required to be held for a period called the fixed lock-in period which shall commence from the date of purchase of such securities in the relevant financial year and end one year from the date of

purchase of the last set of eligible securities (in the same financial year) on which deduction is claimed under the Scheme.

(3) The new retail investor shall not be permitted to sell, pledge or hypothecate any eligible security during the fixed lock-in period.

(4) The period of two years beginning immediately after the end of the fixed lock-in period shall be called the flexible lock-in period.

(5) The new retail investor shall be permitted to trade the eligible securities after the completion of the fixed lock-in period subject to the following conditions:-

(a) the new retail investor shall ensure that the demat account under the Scheme is compliant for a cumulative period of a minimum of two hundred and seventy days during each of the two years of the flexible lock-in period as laid down hereunder:-

(A) the demat account shall be considered compliant for the number of days where value of the investment portfolio of eligible securities , within the flexible lock-in period, is equal to or higher than the amount claimed as investment for the purposes of deduction under section 80CCG of the Act;

(B) in case the value of investment portfolio in the demat account falls due to fall in the market rate of eligible securities in the flexible lock-in period, then notwithstanding sub clause(A), -

(i) the demat account shall be considered compliant from the first day of the flexible lock-in period to the day any such eligible securities are sold during this period;

(ii) where the assessee sells the eligible securities mentioned in sub-clause (B) from his demat account, he shall have to purchase eligible securities and the said demat account shall be compliant from the day on which the value of the investment portfolio in the account becomes -

(I) at least equivalent to the investment claimed as eligible for deduction under section 80CCG of the Act or;

(II) the value of the investment portfolio under the Scheme before such sale,

whichever is less.

(6) The new retail investor's demat account created under the Scheme shall, on the expiry of the period of holding of the investment, be converted automatically into an ordinary demat account.

(7) For the purpose of valuation of investment during the flexible lock-in period, the closing price as on the previous day of the date of trading, shall be considered.

(8) While making the initial investments upto fifty thousand rupees, the total cost of acquisition of eligible securities shall not include brokerage charges, Securities Transaction Tax, stamp duty, service tax and all taxes, which are appearing in the contract note.

(9) Where the investment of the new retail investor 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.

(10) 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.

(11) The Securities and Exchange Board of India established under section 3 of the Securities and Exchange Board of India Act, 1992 (15 of 1992) shall notify the corporate actions, referred to in sub-paragraph (9), allowed under the Scheme in this regard.

8. If the new retail investor fails to fulfil 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.

9. (1) The depository shall certify the new retail investor status of the assessee at the time of designating his demat account as demat account for the purpose of the Scheme.

(2) The depository participant shall furnish an annual statement of the eligible securities invested in or traded through the demat account to the demat account holder.

10. The depository shall provide a consolidated statement of details in the electronic format, as specified in Form C, on all the Rajiv Gandhi Equity Savings Scheme beneficiaries to the Director General of Income Tax (Systems) or any other person authorised by him, within a period of thirty days from the end of the relevant financial year.
11. For the purpose of paragraph 10, the Director General of Income Tax (Systems) shall determine the procedures, formats and standards for furnishing of the report in electronic format in Form C by the depositories.
12. Assesseees shall be liable to submit the relevant records to the income-tax authorities for verification, as and when required.

[Notification No. 51 /2012 F. No. 142/35/2012 -TPL)

(Raman Chopra)
Director (TPL-II)

Form A

[See paragraph 5(b)]

Declaration to be submitted by the investors to the depository participants for availing the benefits under the Rajiv Gandhi Equity Savings Scheme.

Name of the Investor:

(first holder)

Address of the investor:

Permanent Account Number (PAN):

1. It is hereby certified that* ---

(a) I do not have a demat account and I have not traded in any derivatives.

(b) I have demat account no _____ in _____ depository participant but I have not traded in any equity shares or derivatives in this account.

(c) I have a joint demat account no _____ in _____ depository participant but I am not the first account holder.

2. I hereby declare that I have read and understood all the terms and conditions of the Rajiv Gandhi Equity Savings Scheme.
3. It is hereby verified that I am an eligible new retail investor for availing the benefits under the Rajiv Gandhi Equity Savings Scheme.
4. I undertake to abide by all the requirements and fulfill all obligations under the Scheme, and will comply with all the terms and conditions of the Scheme.
5. I understand that, in case I fail to comply with any condition specified in the Scheme, the benefits availed there under will be withdrawn and the tax shall be payable by me accordingly.

Signature of the Investor

Place:

Date:

* Tick which ever is appropriate.

Form B

[See paragraph 6(c) and (d)]

Declaration to be submitted by the new retail investor to the depository participant on purchase of eligible securities.

To

Depository participant

Address

It is hereby informed that I have demat account no _____ in
_____ depository participant and the following securities

(a)

(b)

(c)

(d)

(e) purchased in the aforesaid demat account on _____ are not to be included as investment for the purpose of the Rajiv Gandhi Equity Savings Scheme.

Signature

Name of the Investor:

(first holder)

Address of the investor:

Permanent Account Number (PAN):

Form C

[See paragraphs 10 and 11]

**Annual report to be submitted by the depository to the
Income Tax Department in Electronic Format before 30th
April.**

(For 80 CCG benefits of Financial Year 2012-13)

							2012-13 Report to be furnished by 30 th April 2013	2013-14 Report to be furnished by 30 th April 2014	2014-15 Report to be furnished by 30 th April 2015	2015-16 Report to be furnished by 30 th April 2016
Name	PAN	DEMAT A/c No.	Date of opening A/c	Date of investment for the Purpose of lock-in (date of making the last investment in RGESS# eligible scrip)	Amount of Investment	Scripts locked in RGESS#	Whether A/c eligible under the RGESS# Scheme	Whether A/c compliant with RGESS# with respect to fixed lock-in*	Whether A/c compliant with RGESS# with respect to 270 days period*	Whether A/c compliant with RGESS# with respect to 270 days period*

* The Electronic Format shall be determined by the Director General of Income Tax (Systems) by 31st March, 2013.

**The Financial Year shall be enhanced by one Financial Year every year.

#RGESS means the Rajiv Gandhi Equity Savings Scheme.