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Budget 2017: RIP - Rajiv Gandhi Equity Savings Scheme

The scheme was launched by the UPA govt to incentivise first-time investors to invest in equities

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RGESS

The government has decided to end the Rajiv Gandhi Equity Savings Scheme (RGESS) under which first-time investors in equities could enjoy tax deduction up to Rs 25,000 for three successive years under Section 80CCG.

According to the Budget documents, the government has decided to jettison the scheme due to its failure to gain popularity among investors.

However, an assessee who has claimed deduction under this section for the assessment year 2017-18 and earlier assessment years shall be allowed deduction under it until the assessment year 2019-20.

Financial planners said that they did not recommend the scheme to their clients because of the numerous restrictions around it. “The scheme was only for first-time investors in equities. There was also an upper limit on the investor's income, which could not exceed Rs 12 lakh. All these pre-conditions limited the number of people to whom the scheme could be recommended,” says Vishal Dhawan, chief financial planner, Plan Ahead Wealth Advisor.

The scheme came with a lock-in of three years, with partial liquidity being allowed after the first year.

RGESS was launched in the 2012 Budget with the objective of attracting more investors to invest in equities. Initially, investors could only invest in direct equities to enjoy this tax benefit. Financial market experts at that time felt that first-time investors would be taking an inordinately high risk by investing only in equities.

After representations were made to the Finance Ministry, the scheme's ambit was widened in the Budget of 2013 to include mutual funds. The income limit, which was initially set at Rs 10 lakh, was also hiked to Rs 12 lakh in that Budget.

Investors in the 30% tax bracket could enjoy tax saving of Rs 7,500, those in the 20% tax bracket could save up to Rs 5,000, and those in the 10% tax bracket could save up to Rs 2,500 by investing in this scheme.

But with the scheme failing to gain popularity, the government has decided to give it a burial. According to market experts, the government may also have decided to end this scheme as it is now keen to promote CPSE Exchange Traded Funds (ETFs) whose second tranche was sold recently. A second CPSE ETF comprising other stocks is also in the pipeline.