First-time Investors Can Bet on RGESS for Additional Tax Break

Investors looking to save taxes in addition to usual avenues, can consider investing in Rajiv Gandhi Equity Savings Scheme (RGESS). First-time equity investors with a gross annual income of Rs.12 lakh or less can invest up to Rs.50,000 under Section 80CCG in the scheme every year, and can claim tax benefits for three years. Investors have the option of buying stocks from BSE 100, NSE CNX 100, Maharatnas or Navratnas or ETFs specified under the scheme. Investors can also invest through NFOs which are RGESS-compliant. The benefit is available to first time investors for investments through their demat accounts opened on or after November 23, 2012, or demat accounts which have not yet been used for equity investments. Investors looking to build a portfolio over the next three years can consider investing in RGESS, as it gives you an additional tax benefit, says Harshvardhan Roongta, chief financial planner, Roongta Securities. First-time investors would be better off using the MF or ETF route against direct equities as it reduces risk compared to investing in individual stocks, says Jyotheesh Kumar, VP, HDFC Securities.

How Much Can You Save

If you invest Rs.50, 000, you shall get a tax deduction of 50% or Rs.25,000. If your income is taxed at 10%, you save tax of Rs.2,575. If you are in the 20% tax bracket, you will save Rs.5,150 and if you are in the 30% tax bracket, you could save as much as Rs.7,725. However, you also have to keep in mind the costs involved in investing. If you wish to buy individual stocks or ETFs through the scheme, you may have to account for the broking cost and annual depository charges in mind.

The Route to Choose

Experts ask individuals to use the mutual fund NFO route, or ETF route, to invest in RGESS against direct equities. For example, while OMCs like ONGC, BPCL are blue-chips, they are affected by government policies and consequently their stock prices have fared badly. ONGC is down from Rs.336 to Rs.288 over the last one year against the Sensex which is up 3%. It is very difficult for a retail first-time investor to track individual stocks. He would be better off investing through the mutual fund route, says Anup Bhaiya, managing director and CEO, Money Honey Financial Services.

How to Go about It

First, you should open a demat account with a depository participant. The depository NSDL or CDSL will certify your new investor status at the time of designating your account as a demat RGESS account. After you open the depository account, the client details are then passed on by the depository to NSDL /CDSL who thereafter certifies the account to be eligible as RGESS-compliant, else you may not be able to claim tax benefits, says Kumar. Once this is done and your account is RGESS complaint, you can invest. An investor can invest in RGESS securities / ETFs as many times as he wants, but up to a maximum of Rs. 50,000 for the first three years. However, only the first year is a fixed lock-in. In the subsequent two years, the investment is subject to a flexible lock-in. During this flexible lock-in period, the investor can book profit or alter the securities in the portfolio, provided the value of the securities in the demat account is maintained or is equal to the amount declared as investment under RGESS in the first year. –

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