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MUTUAL FUNDS UPDATE

EQUITY LINKED SAVINGS SCHEME, 2005

SOURCE: DEPARTMENT OF REVENUE, MINISTRY OF FINANCE, GOVERNMENT OF INDIA

In exercise of the powers conferred by clause (xiii) of sub-section (2) of section 80C of the Income-tax Act, 1961, vide *Notification No. 226/2005 dated November 3, 2005*, the Ministry of Finance has notified the **Equity Linked Savings Scheme, 2005** ("Scheme").

The Scheme has been reproduced below for your convenience and ease of reference:

1. Short title and commencement:

(1) *This scheme may be called the Equity Linked Savings Scheme, 2005.*

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

2. Definitions:

In this scheme, unless the context otherwise requires:-

(a) *"Act" means the Income-tax Act (43 of 1961)*

(b) *"assessee" means:-*

(i) *an individual; or*

(ii) *a Hindu undivided family; or*

(iii) *an association of persons or a body of individuals consisting, in either case, only of husband and wife governed by the system of community of property in force in the State of Goa and Union Territories of Dadra and Nagar Haveli and Daman and Diu by whom, or on whose behalf, investment is made;*

(c) *"investment" means an investment in Units of the Unit Trust or a Mutual Fund by an assessee under a plan formulated in accordance with this scheme;*

(d) *"Mutual Fund" means any Mutual Fund specified under Clause (23-D) of section 10 of the Act;*

(e) *"plan" means any plan formulated in accordance with this scheme;*

(f) *"Unit Trust" means the 'Administrator' referred to in clause (a) or the 'specified company' referred to in clause (h) of section 2 of the Unit Trust of India (Transfer of Undertaking and Repeal) Act, 2002 (58 of 2002);*

(g) *"year" means a year commencing on 1st day of April;*

(h) *words and expressions used herein and not defined shall have the meanings respectively, assigned to them in the Income-tax Act.*

3. Investment and Repurchase:

(a) Amount to be invested in a plan of the Unit Trust or of a Mutual Fund shall be in multiples of Rs. 500 with a minimum of Rs. 500.

(b) The Unit Trust or a Mutual Fund shall allot the Units in respect of all complete applications, made in the form specified by that Trust or Fund, not later than on 31st March, every year.

(c) The plan shall be open for a minimum period of one month during the financial year 2005-06 and a minimum period of three months during the subsequent years.

(d) Investment in the plan will have to be kept for a minimum period of three years from the date of allotment of units. After the said period of three years, the assessee shall have the option to tender the units to the Unit Trust or the Mutual Fund, for repurchase.

(e) In the event of the death of the assessee, the nominee or legal heir, as the case may be, shall be able to withdraw the investment only after the completion of one year from the date of allotment of the units to the assessee or anytime thereafter.

4. Transferability:

Units issued under the plan can be transferred, assigned or pledged after three years of its issue.

5. Investment of Equity Linked Saving Funds:

(a) The funds collected under a plan shall be invested in equities, cumulative convertible preference shares and fully convertible debentures and bonds of companies. Investment may also be made in partly convertible issues of debentures and bonds including those issued on rights basis subject to the condition that, as far as possible, the non-convertible portion of the debentures so acquired or subscribed, shall be disinvested within a period of twelve months.

(b) It shall be ensured that funds of a plan shall remain invested to the extent of at least eighty per cent, in securities specified in clause (a). The Unit Trust and Mutual Fund shall strive to invest their funds in the manner stated above within a period of six months from the date of closure of the plan in every year. In exceptional circumstances, this requirement may be dispensed with by the Unit Trust or the Fund, in order that the interests of the assessee are protected.

(c) Pending investment of funds of a plan in the required manner, the Unit Trust and Mutual Fund may invest the funds in short-term money market instruments or other liquid instruments or both. After three years of the date of allotment of the units, the Unit Trust or Mutual Fund may hold upto twenty per cent of net assets of the plan in short-term money market instruments and other liquid instruments to enable them to redeem investment of those unit holders who would seek to tender the units for repurchase,

6. Repurchase Price:

(a) The Unit Trust and other Mutual Funds shall announce the repurchase price one year after the date of allotment of the units and thereafter on a half-yearly basis.

(b) After a period of three years from the date of allotment of units, when

the repurchase of units is to commence, the Trust and the Mutual Fund shall announce a repurchase price every month or as frequently as may be decided by them.

(c) In calculating the repurchase price, the Unit Trust and the Mutual Fund shall take into account the unrealised appreciation in the value of the investment of the funds of a plan to the extent they deem fit provided that it shall not be less than fifty per cent of such unrealised appreciation. While calculating the repurchase price, the Unit Trust and Mutual Funds may deduct such sums as are appropriate to meet management, selling and other expenses including realisation of assets and such sums shall not exceed five per cent per annum of the average Net Asset Value of a plan.

(d) Repurchase of Units will be at the repurchase price prevailing on the date the units are tendered for repurchase.

7. Evidence of Investment or Repurchase:

The investment made in any plan by an assessee will be acknowledged by the Unit Trust and Mutual Fund by issue of certificate of investment or a statement of account as may be decided by them,

8. Termination of a Plan:

(a) A plan operated by Unit Trust or a Mutual Fund would be terminated at the close of the 10th year from the year in which the allotment of units is made under the plan.

(b) If ninety per cent or more of the units under any plan are repurchased before completion of ten years, the Unit Trust and Mutual Fund may at their discretion, terminate that plan even before the stipulated period of ten years; and redeem the outstanding units at the final repurchase price to be fixed by them.

We trust that you will find this information both useful and handy. Please do feel free to contact our Mutual Fund Team or your usual contact at our Firm in case you require any further information or clarifications.