Sovereign Gold Bonds

Why in news?

Recently the Reserve Bank of India (RBI) has announced a plan to sell sovereign gold bonds (SGBs) in six phases.

What are Sovereign gold bonds?

- Sovereign gold bonds are issued by the RBI on behalf of the government.
- They are government securities denominated in grams of gold which are substitutes for holding physical gold.
- In 2015, sovereign gold bond scheme was launched with an objective is to reduce the demand for physical gold and shift a part of the domestic savings (used for the purchase of gold) into financial savings.

What are the terms of the issue?

- The Sovereign Gold Bond Scheme 2021-22—Series I will be open for subscription for the period May 17-21, 2021.
- This will be followed by Series II (May 24-28), III (May 31-June 4), IV (July 12-16), V (August 9-13) and VI (August 30-September 3).
- The nominal value of the 8-year bond is Rs 4,777 per gram of gold, based on the simple average closing price on the last three business days of the week preceding the subscription period of Series I.
- There's a discount of Rs 50 per gram to investors when applied online and the payment against the application is made through digital mode.
- Gold bonds bear interest at a fixed rate of 2.50% per annum on the amount of initial investment which will be credited semi-annually.
- These bonds are sold through offices or branches of nationalised banks, private banks, foreign banks, designated post offices, Stock Holding Corporation of India Ltd., the authorised stock exchanges etc.

What are the minimum and maximum limits for investment?

- The bonds are issued in denominations of 1 gram of gold and in multiples thereof.
- The minimum investment will be 1 gram, with a maximum limit of subscription of 4 kg for individuals, 4 kg for Hindu Undivided Family

(HUF) and 20 kg for trusts.
- Government notifies other similar entities from time to time per fiscal year (April–March).

Can these securities be used as collateral for loans?

- They can be used as collateral for loans from banks, financial Institutions and non-banking financial companies (NBFC).
- The loan-to-value ratio will be the same as applicable to ordinary gold loans prescribed by RBI from time to time.
- Granting loans against SGBs would be subject to the decision of the bank/financing agency, and cannot be inferred as a matter of right.

What are the tax implications?

- Interest on the bonds will be taxable as per the provisions of the Income-Tax Act, 1961 (43 of 1961).
- But the capital gains tax arising on redemption of SGB to an individual has been exempted.
- Indexation benefits will be provided to long-term capital gains arising to any person on transfer of bonds.
- Though TDS is not applicable on the bonds, but it is the responsibility of the holder to comply with tax laws.

What will investors get on redemption?

- Investors gain from appreciation in gold prices as redemption of bonds will be based on the then prevailing prices.
- If gold prices rise, the investor will get the higher prices plus the 2.5% interest and vice-versa.
- On maturity, the gold bonds will be redeemed in Indian rupees and the redemption price will be based on a simple average of closing price of gold of the previous 3 business days from the date of repayment.
- Although the tenure of the bond is 8 years, early redemption of the bond is allowed after the fifth year, on coupon payment dates.
- The bond will be tradable on exchanges, if held in demat form and can also be transferred to any other eligible investor.

Why should investor buy gold bonds rather than physical gold?

- The quantity of gold the investor pays for is protected, since he receives the ongoing market price at the time of redemption/premature redemption.

- These bonds offer a superior alternative to physical gold as the risks and costs of storage are eliminated.
- Investors are assured of the market value at the time of maturity, and periodical interest.
- Also these bonds are free from issues like jewellery making charges and purity, risk of loss of scrip etc.

Source: The Indian Express