

Indians' love for gold is well known. With the intent to provide gold-like returns, along with some interest, the government has launched Sovereign Gold Bond Scheme. The main objective of the Sovereign Gold Bond Scheme is to reduce the demand for gold in the physical form by encouraging people to buy it in the paper form. Gold bonds are issued by the RBI on behalf of the government. Under the scheme, gold bonds are issued in multiples of 1 gm. The Scheme offers a superior alternative to holding gold in physical form. The risks and costs of storage are eliminated. SGBs are free from issues like making charges and purity. These bonds can be held in demat form, eliminating the risk of loss of scrip.

The Sovereign Gold Bond (SGB) scheme 2023-24 – Series II, will open for subscription for the period from Sep 11 – Sep 15, 2023. Investors can bid for a minimum of 1 gm of gold at nominal value for gold of 999 purity at Rs. 5,923. There will be a Rs 50 discount for those bidding online. For such investors, the issue price of the gold bond will be Rs. 5,873 per gram of gold. Investors would get a 2.50% interest on the amount of initial investment, which will take effect from the date of its issue and will be payable every six months.

Investment in sovereign gold bonds has picked up pace in recent months. However, lack of clarity on how gold will move in the coming month may keep investors cautious. Going forward, the pace at which the global central banks will unwind their monetary position, movement of the US dollar will guide gold prices in the year 2023. Gold is indeed seen as a safe haven in times of volatility and uncertainty in the world. As the Omicron threat grows, gold prices are likely to move up in the coming months. However, at the moment gold prices are falling. The fall in gold is being attributed to the expected hawkish stance by the Federal Reserve and other global central banks. The yellow metal is benefiting from the uncertainties over the omicron threat to the global economy.

The Bonds will be sold through Scheduled Commercial banks (except Small Finance Banks and Payment Banks), Stock Holding Corporation of India Limited (SHCIL), Clearing Corporation of India Limited (CCIL), designated post offices, and recognised stock exchanges viz., National Stock Exchange of India Limited and Bombay Stock Exchange Limited.

Features

- **Eligibility:** Restricted for sale to resident Indian entities, including individuals, HUFs (Hindu undivided families), trusts, universities and charitable institutions.
- **Investments:** Investors are required to buy a minimum of one gm of gold. The maximum limit that can be subscribed is four kg for an individual in a financial year and 20 kg for other subscribers.
- **Interest:** A fixed rate of 2.50 per cent per annum payable semi-annually on the initial value of the investment. This is taxable.
- **Tenure:** The tenure of the bond is eight years, with an option to exit from the fifth year onwards. Capital-gains tax on maturity is exempt for individuals.

Suitability and alternatives

- Suitable for investors who want to make a lump-sum investment in gold for a period of five to eight years.
- Not suitable for investors who wish to buy gold in the physical form.
- Alternatives can be Gold exchange traded funds and Gold mutual funds.

Taxation

Capital-gain tax arising on the redemption of SGB (i.e. at the time of maturity after eight years) to an individual has been exempted. The indexation benefit will be provided to LTCG arising to any person on the transfer of bonds.

Exit option

The tenure of the bond is for a minimum of eight years, with the option to exit in the fifth, sixth or seventh year. To redeem the gold bond, investors can approach the intermediary concerned 30 days before the coupon payment date. Request for premature redemption can only be entertained if the investor approaches the intermediary at least one day before the coupon-payment date. Redemption proceeds are credited to the customer's bank account. On maturity, the investor gets the equivalent rupee value of the quantum of gold invested.

Comparing SGB with Physical gold & Gold ETFs

Particulars	Physical Gold	Gold ETF	Sovereign Gold Bond
Returns/earnings	Lower than the real return on gold due to making charges	Less than actual return on gold	More than actual return on gold
Safety	Risk of theft, wear/tear	High	High
Purity	The purity of gold always remains a question	High as it is in electronic form	High as it is in electronic form
Gains	LTCG after three years	Long-term capital gain post after three years	LTCG post three years. (No capital gain tax if redeemed after maturity)
As loan collateral	Accepted	Not accepted	Accepted
Tradability or exit formalities	Restrictive	Tradable on Stock Exchange	Can be traded and redeemed from the 5th year with the government
Storage expenditures	High	Minimal	Minimal

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Mutual Fund investments are subject to market risks, read all scheme related documents carefully.