



Sovereign Gold Bond Scheme

Why in News

Recently, the Central government announced the **calendar for Sovereign Gold Bonds (SGB)** that will be issued in **four tranches**, from October 2021 to March 2022.

Key Points

▪ Launch:

- The SGB scheme was launched **in November 2015** with an objective **to reduce the demand for physical gold** and shift a part of the domestic savings - used for the purchase of gold - into financial savings.

▪ Issuance:

- The Gold Bonds are issued as Government of India Stock **under the Government Securities (GS) Act, 2006.**
- These are issued by the **RBI (Reserve Bank of India)** on behalf of the Government of India.
- Bonds are **sold through** Commercial banks, Stock Holding Corporation of India Limited (SHCIL), designated post offices and recognised stock exchanges viz., **National Stock Exchange of India Limited** and Bombay Stock Exchange, either directly or through agents.

▪ Eligibility:

- The bonds are restricted for sale to resident individuals, Hindu Undivided Families (HUFs), trusts, universities and charitable institutions.

▪ Features:

- **Issue Price:** Gold bond prices are linked to the price of gold of 999 purity (24 carats) **published by India Bullion and Jewellers Association (IBJA), Mumbai.**
- **Investment Limit:** Gold bonds can be **purchased in the multiples of one unit**, up to certain thresholds for different investors.
 - The upper limit for retail (individual) investors and HUFs is 4 kilograms (4,000 units) each per financial year. For trusts and similar entities, an upper limit of 20 kilograms per financial year is applicable.
 - **Minimum permissible investment is 1 gram** of gold.
- **Term:** The gold bonds come with **a maturity period of eight years**, with **an option to exit the investment after the first five years.**
- **Interest Rate:** A fixed rate of **2.5% per annum** is applicable on the scheme, **payable semi-annually.**
 - The interest on Gold Bonds **shall be taxable** as per the provision of Income Tax Act, 1961.

▪ Benefit:

- Bonds can be used as **collateral for loans**.
- The **capital gains tax** arising on redemption of SGB to an individual **has been exempted**.
 - Redemption is the act of an issuer repurchasing a bond at or before maturity.
 - Capital gain is the profit earned on the sale of an asset like stocks, bonds or real estate. It results in when the selling price of an asset exceeds its purchase price.
- **Disadvantages of Investing in SGB:**
 - This is a **long term investment unlike physical gold** which can be sold immediately.
 - Sovereign gold bonds are **listed on exchange but the trading volumes are not high**, therefore it will be difficult to exit before maturity.

Source: PIB

PDF Reference URL: <https://www.drishtias.com/printpdf/sovereign-gold-bond-scheme-2>

