

# **Issues in Sovereign Gold Bond**

# Why in news?

People prefer physical gold over sovereign gold bonds as no trail is left for the tax authorities.

#### Key terms

### Physical gold

- · It can be purchased at jewelry shops.
- It includes a 20% making charge, 3% GST, and capital gains tax is charged when selling the yellow metal.

# Digital gold

- It is alternative to physical gold where purity is guaranteed.
- Example- Invesment in exchange traded funds (ETFs), gold mutual funds, and gold futures.

#### Gold ETFs

- They are gold-based passive investment instruments that invest in gold bullion and are based on gold prices.
- They are paper or dematerialized units that represent physical gold.

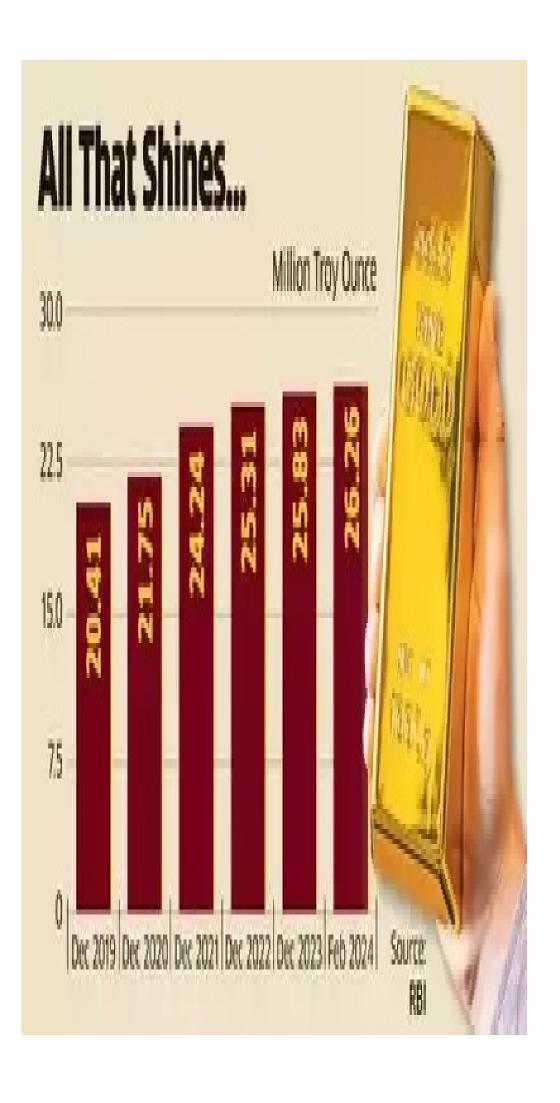
# What is Sovereign Gold Bond (SGB)?

About	A financial instrument introduced by government to reduce gold imports
Launch year	2016
Issuer	Reserve Bank of India (RBI) on behalf of Government of India
Interest	2.5% paid semi-annually
Eligible investors	<ul> <li>Persons residing in India as defined under <u>Foreign Exchange</u> <u>Management Act,1999</u></li> <li>Individuals, Hindu Undivided Families (HUFs), Trusts, Universities and Charitable institutions</li> </ul>

Investment limit	<ul> <li>Minimum investment- 1 gram</li> <li>Maximum investment</li> <li>Individuals &amp; HUFs - 4 kg</li> <li>Trusts - 20 kg</li> </ul>
Authorized agencies to sell SGBs	<ul> <li>Nationalised Banks</li> <li>Scheduled Private Banks</li> <li>Scheduled Foreign Banks</li> <li>Designated Post Offices</li> <li>Stock Holding Corporation of India Ltd.,</li> <li>Authorised stock exchanges</li> </ul>
Tenure	8 years with exit option after the 5 <sup>th</sup> year

# What are the advantages of SGB?

- **Protected investment** The quantity of gold the investor pays for is protected, since he receives the ongoing market price at the time of redemption/premature redemption.
- **Cost effective** These bonds offer a superior alternative to physical gold as the risks and costs of storage are eliminated.
- **Passive income** Investors are assured of the market value at the time of maturity, and periodical interest.
- **Flexibility-** These bonds are free from issues like jewellery making charges, purity, risk of loss of scrip, etc.,
- **Collateral** It is as liquid as physical gold and could be exchanged for money at the time of financial needs.
- Tax benefits- There is a provision of tax exemption from the interest and capital gains of the bond.
- **Minimal risk** Gold bonds have a negligible risk factor, making them an ideal investment choice.



# What makes physical gold more attractive than SGB for people?

- **Liquidity restriction** SGBs are *long-term investments* that cannot be liquidated before 5 years from the date of investment whereas physical gold can be sold at anytime and anywhere.
- **Lower returns** SGB are risk free instruments but they provide low returns when compared to other market instruments.
- **Investment limit-** Imposing maximum limit restricts the people their freedom of choice to invest.
- Market fluctuation- It shifts the price of gold below the bond cost price.
- Low demand- The demand for SGB is very low compared to physical gold imports.
  - Only 1.8% of total gold imports were equivalent to SGBs in the last 8 years.
- **Tangible asset** Confidentiality and privacy is not possible in SGB where the KYC (Know Your Customer) norms are applied and followed as they are issued by RBI through banks.
- **Cultural value** Physical gold holds emotional significance in India, especially for weddings and festivals. It is also seen as a symbol of status and wealth.
- **Dependence-** SGB carries the risk of default or fluctuation due to government guarantee unlike the physical gold.

### **Quick facts**

# **Electronic Gold Receipts**

- They are a new way of trading gold on the stock exchange without having to buy or store physical gold.
- **Aim** To provide transparent and efficient price discovery of gold.
- Regulation- Securities and Exchange Board of India (SEBI)
- They are held in demat accounts and traded in stock exchanges like dematerialised stocks.
- The stock exchange can source physical gold from deposits in delivery centres, domestic refineries and imports.

#### References

- 1. Business Line- India wants gold not gold bond
- 2. RBI- FAQs on Sovereign gold bond
- 3. Business Today | Image

