

Government Securities & Sovereign Gold bonds

Introduction

Investing in Government Securities and Sovereign Gold Bonds: Things You Should Know

What are government securities and sovereign gold bonds?

Government securities, also known as G-secs, are tradable instruments issued by either the central government or State Governments. These securities can be long-term as well as short-term. Investing in Government securities is a wise way to diversify your investment portfolio and reduce risk. Government securities are typically considered safer than other types of instruments as they carry low risk. In India, the Reserve Bank of India manages the issuance of Government securities. There are several types of government securities such as Treasury Bills (T-Bills), Treasury Notes (T-Notes) and Treasury Bonds (T-Bonds).

Sovereign gold bonds are the Reserve Bank of India on behalf of the Government of India. These bonds offer investors an opportunity to invest in gold without physically possessing it. Sovereign Gold Bonds (SGBs) will be issued in increments of grams of gold, with the smallest unit being one gram. The gold bonds can be redeemed in cash and the returns are calculated as per simple average of the closing price of gold of 999 purity, of previous three working days published by IBCA Ltd. Only resident individuals, Hindu undivided families, trusts, universities and charitable institutions can buy SGBs. The tenure of the Sovereign Gold Bonds (SGBs) will be eight years, with the option of early redemption after the fifth year. Investors can exercise this option on the date when interest is payable.

How Does the Investment on Government Securities and Sovereign Gold Bonds Work?

In India, investors can buy government securities directly from the RBI or through primary dealers such as banks and financial institutions. To buy directly from the RBI, investors need to register for the Retail Direct Gilt (RDG) account with the central bank. This account allows them to participate in the primary issuance of government securities. Sovereign

Gold Bonds (SGBs) are available for purchase through various channels including Scheduled Commercial Banks, Stock Holding Corporation of India Limited, Clearing Corporation of India Limited, post offices and stock exchanges (as notified). Investors can directly acquire SGBs through these authorised entities or through appointed agents.

What Happens After You Invest in Sovereign Gold Bonds?

After you buy sovereign gold bonds from RBI or commercial banks, you can hold them in the form of either:

- Demat account
- Physical form (paper certificate)
- E-certificate

Investors will receive interests at a fixed rate of 2.50 percent per annum, payable semi-annually on the nominal value of the investment. On maturity of the bonds, you will receive the ongoing market price of gold.

Characteristics of Govt. Securities

Navigating Income Funds: Your Guide to Debt Market Investments

Income funds are essentially debt funds, where investors place their capital in longer-term instruments such as debentures, government securities and corporate bonds. The duration of investment for income funds is considerable. According to SEBI, the weighted average term to maturity of cash flows for income funds is 4 years and more. So, two kinds of income funds can be categorised as part of mutual funds. These are -

- **Medium to Long Duration Fund:** Ranges between four and seven years.
- **Long Duration Fund:** Exceeds seven years.

How do Income Mutual Funds Work?

The fund manager tries to provide sizable returns to income fund investors, irrespective of the interest rates. So, regardless of whether the rates are increasing or declining, income funds have a high likelihood of offering good returns. Fund managers often follow one of two strategies here:

- **Generating Income From Interests:** This is a strategy that relies on raising the returns from the interests of the debt instruments. However, the instruments have to be held until their maturity to achieve this.
- **Earning Gains:** In this strategy, the fund managers sell the debt instruments in the market as soon as their price goes up.

Income Funds: Who Should Invest in Them?

Income funds are ideal for investors with a moderate risk tolerance. Those who seek stability, a balanced approach and stable income over higher returns find income funds viable investment options.

Income Funds: Exploring Their Advantages for Investors

The primary benefits of investing in an income fund are as follows:

- **Better Returns Than Fixed Deposits:** Like fixed deposits, income funds generate regular returns. The income generated from income funds tends to be better than fixed deposits.
- **High liquidity:** In fixed deposits, premature withdrawals lead to penalties. However, income funds do not have any lock-in periods. However, it's important to note that withdrawing income funds within one to three years may incur a fee.
- **Tax Benefits:** When compared to fixed deposits, income funds offer many tax advantages, especially for those who are in the high income tax category. In fixed deposits, interest is taxed based on the investor's income tax bracket. On the other hand, when held for more than three years, income funds invite lower taxes.

Sovereign Gold Bond Scheme

Sovereign Gold Bond Scheme Explained

1. **Sovereign Gold Bond Scheme (SGB):** The Sovereign Gold Bond Scheme was introduced by the Indian government in November 2015. Under this scheme, the Reserve Bank of India (RBI) issues sovereign gold bonds from time to time. The terms and conditions of these bonds are updated and announced by the RBI through press releases.
2. **Sovereign Gold Bond Scheme 2023-24 Report:** The RBI from time to time announces the Sovereign Gold Bond Scheme for the fiscal year. The announcement of each series of the Sovereign Gold Bond Scheme includes details such as subscription dates, issue price and terms and conditions. This provides investors with clarity and transparency. Click [here](#) to go through the Sovereign Gold Bond Scheme 2023-24 report.
3. **Financial Analysis of Sovereign Gold Bonds:** Sovereign gold bonds are offered with an eight-year maturity. Investors have the option to exit after the fifth year on interest payment dates. SGBs can be traded on stock exchanges such as NSE and BSE and are subject to market liquidity. These bonds provide a secure and convenient way to invest in gold, reducing risks and costs associated with physical gold, such as theft, storage, making charges and purity concerns. They also offer tax benefits, with capital gains from redemption or transfer exempt from income tax.

Taxation for Sovereign Gold Bond Scheme

The Golden Opportunity: What you need to know about the Sovereign Gold Bond Scheme

In India, gold has always been an important investment option. The Sovereign Gold Bond (SGB) scheme offers investors an opportunity to invest in gold in a secure and convenient manner. The scheme was initiated by the Government of India and allows investors to buy gold bonds issued by the Reserve Bank of India (RBI) on behalf of the government.

Demystifying SGBs: Your quick guide to Paper Gold

SGBs are government securities that are designed to help people to invest in increments of one gram. This makes it accessible to investors, from all walks of life. SGBs are also called paper gold as they represent a financial instrument that represents the value of gold without involving direct ownership of the physical gold.

- Only resident individuals, Hindu Undivided Families (HUFs), trusts, universities and charitable institutions can buy SGBs.
- The price of SGBs is determined in INR, based on the simple average of the closing price of gold (999 purity). This average will be calculated using data published by the India Bullion and Jewellers Association Limited (IBJA) over the last three working days of the week preceding the subscription period.
- Investors will receive interest at a fixed rate of 2.50% per annum. This is payable semi-annually on the nominal value. The duration of SGB is eight years, with the flexibility of early redemption after the fifth year. This option can be availed on the date when interest is due.
- The minimum investment in SGB is one gram of gold.
- Individuals and Hindu Undivided Families (HUFs) can only buy SGBs worth 4 kg of gold each fiscal year. This limit is determined by the government of India.
- The higher limit for trusts and similar entities is 20 kilograms. Investors need to provide a self-declaration regarding their subscription limit when applying for SGBs.
- For joint holdings, the investment limit of 4 kg is applicable to the primary applicant only.
- Payment for SGBs can be made through various methods, including:

- . Cash (up to a maximum of ₹20,000)
 - . Demand draft
 - . Cheque
 - . Electronic banking methods
- Upon investing in SGBs, investors will receive a Certificate of Holding for their investment. Additionally, the SGBs will be eligible for conversion into demat form, providing investors the flexibility of managing their holdings online.

Investment Benefits: Capital Gains Tax Exemption on SGBs

Though the interest earned on SGBs is taxable according to the Income Tax Act, 1961 (43 of 1961), investors are exempt from capital gains tax upon redemption of such bonds. Moreover, investors enjoy indexation benefits on long-term capital gains when transferring bonds between parties.

SGBs can be bought offline and online

- SGBs can be purchased from specific financial institutions including scheduled commercial banks (excluding Small Finance Banks, Payment Banks, and Regional Rural Banks), the Stock Holding Corporation of India Limited, post offices (as notified) and stock exchanges (recognised).
- You can also buy SGBs on specified online platforms. This makes for a convenient and secure investment procedure.
- You need to provide personal information, the amount for investment and the mode of payment. After the successful purchase of SGBs, you will be issued a Certificate of Holding, proof of ownership of SGBs. A certificate would provide information on the name of the investor, the SGB series and number, and the quantity of bonds held by the investor.

Demat options available for SGBs

SGBs can be dematerialised just like shares. Demat alternatives are accessible to investors. It is required that the Certificate of Holding and necessary formalities be completed through the Depository Participant for this purpose.

Gold and Sovereign Gold Bonds

Gold and Sovereign Gold Bonds: A comparative analysis

Physical gold and sovereign gold bonds are both investment options that allow investors to participate in the gold market. However, they are characterised by different features:

- **Possession:** Gold refers to the metal that is possessed in the form of bars, coins, or jewellery. On other hand, sovereign gold bonds are held in the paper form or digital form issued by the government. This means sovereign gold bonds do not involve the hassle of storage and security.
- **Returns:** The returns of physical gold only depend on the prevailing gold prices whereas SGBs will give investors a fixed interest rate of 2.50 percent per year, paid every six months, based on the initial investment amount. The redemption price of SGBs will be based on the simple average of the closing price of gold with 999 purity for the previous three working days, as published by IBCA Ltd.
- **Loan-to-Value (LTV) Ratio:** Both physical gold and SGBs can be used as collateral for loans. The LTV ratio for physical gold may vary depending on factors such as purity and market conditions, while the LTV ratio for SGBs is typically aligned with standard guidelines set by the Reserve Bank of India.
- **Taxation:** Interest earned on SGBs will be subject to taxation in accordance with the provisions of the Income Tax Act, 1961 (43 of 1961). However, any capital gains tax arising from the redemption of SGBs by an individual will be exempted. Additionally, long-term capital gains arising from the transfer of SGBs will be eligible for indexation benefits for any person. Capital gains tax is applicable on sale of physical gold.

Gold vs Sovereign Gold Bonds: Which investment option is right for you?

Investing in sovereign gold bonds seems to be a better choice compared to holding physical gold given the ease of safety and security, and overall financial benefits. As they are issued by the RBI, sovereign gold bonds offer protection against default risks as they exist in digital form.

SGB vs FD

Gold Bonds vs FD: Key Considerations for Investors

As you embark on your financial journey, you will find two distinct investment avenues Sovereign Gold Bonds (SGBs) and Fixed Deposits (FDs). Each has its own set of characteristics and considerations. Let's take a look at both of them as investment options:

Getting Started with Fixed Deposits

Fixed deposits are where investors deposit a lump sum with a bank for a fixed period. During this time, the deposited amount earns interest at a higher rate compared to a regular savings account. When you invest in an FD, the principal amount you deposit is secured by the bank or financial institution for the duration of the investment term. This means that regardless of fluctuations in the market or changes in interest rates, you are guaranteed to receive back your initial investment amount at the end of the FD term. Moreover, the interest rate offered by the bank or institution is predetermined and remains fixed throughout the term of the FD. Breaking the FD before maturity results in a penalty charge.

FD vs SGB: Which is Better for you?

In India, both fixed deposits (FDs) and sovereign gold bonds are popular given that they are low risk. Both investment options have their pros and cons.

- **Affordable:** Both FDs and sovereign gold bonds are affordable investment options. While FDs can be opened with a minimum deposit requirement of just Rs. 5,000, sovereign gold bonds start from just one gram.
- **Returns:** Sovereign gold bonds offer a fixed interest rate of 2.5%, paid semi-annually, throughout the entire 8-year term. The invested amount earns interest at a fixed rate for the entire tenure. Senior citizens enjoy higher interest rates. The return on sovereign gold bonds depends on the prevailing market price of gold.
- **Taxation:** Interest earned on FDs is subject to taxation, with TDS applicable. While capital appreciation on SGBs is tax-exempt, earned interest is taxable.
- **Security:** In the event a bank declares bankruptcy, FDs are protected only up to a maximum of Rs. 5 lakh per depositor. On the other hand, there is no such thing with gold bonds.