

Gold Bonds Basic-Features

Gold bonds can fetch interest rate of 2.75% per annum on the amount invested. Though, on the face of it, the interest rate may look low, it can be a big advantage compared with other options.

Physical gold does not fetch any interest. Also, physical gold gives rise to issues such as storage cost, purity and transparency in pricing. These are not relevant for gold bonds.

Compared with gold exchange traded funds (ETF), which overcome the drawbacks of physical gold, the returns on investment in gold bonds will be higher than 2.75% as gold ETFs charge the investors approximately 1% fee on a yearly basis. Thus, for any tenure, returns on gold bonds will be higher by at least 3.75% compared with gold ETFs.

Gold bonds are available in paper as well as demat form. This makes the cost of storage of gold negligible. Prices of gold bonds will be linked to the prices of pure gold. This means the appreciation in gold bonds will be as much as pure physical gold. There will not be any issue of contamination as gold bonds will represent gold of 995 purity (99.5% purity).

The tenure of gold bonds is eight years but can be liquidated after five years. Also, the investor has the option to roll over the bonds for another three years after the initial period of eight years. The risk in investing in gold bonds is as much as investing in physical gold. As the scheme is run by the government, no additional risk is associated, except for price volatility.

The tax rate applicable on gold bonds is the same as that on physical gold. Any transfer before three years will attract short-term capital gains. This means such gains will be taxed as per the tax slab of the investor. Sale before five years is possible as these bonds will be traded in the secondary market. This will give investors the much-needed liquidity enjoyed by physical gold. Any units sold after three years will be taxed at 20% after indexation. The interest of 2.75% is fully taxable.

Unlike other bonds, gold bonds do not have a face value but come in denominations of one, five, 10, 50, and 100 gm. Investors can buy gold bonds worth as little as 2 gm, while the maximum limit per person is 500 gm. The upper limit is one financial year. A person buying 500 gm of gold bonds this financial year can again invest the same amount after April 2016.