

THE THREE TYPES OF GOLD INVESTMENT



Physical gold

Traditional method of owning gold, as jewellery, coins or bars. They can be sold to jeweller or directly to other buyers



Gold ETF | Owning units of a mutual fund scheme that invests in gold. Gold ETF (exchange traded fund) units are held in demat form and traded on the stock market



Sovereign gold bonds

Bonds issued by RBI on behalf of the government and traded on the stock exchange. Gold bonds have a **fixed tenure of 8 years** with an exit option to redeem bonds from the end of the fifth year

HOW BONDS MATCH UP TO PHYSICAL GOLD, ETF

	Physical Gold	Units In A Gold ETF	Sovereign Gold Bonds (SGBs)
Liquidity	High	Moderate	Low
Collateral for loans	Accepted	Not Accepted	Accepted
Safety risk	High (as risk of theft is high)	Low	Low
Return on investment	Appreciation in gold price	Appreciation in gold price	Appreciation in gold price plus interest @2.5% pa
Sale after 3 years of holding	₹ 2,00,000	₹ 2,00,000	₹ 2,00,000 (redeemed at maturity)
Indexed cost of acquisition	₹ 1,00,000	₹ 1,00,000	₹ 1,00,000
LTCG	₹ 1,00,000	₹ 1,00,000	₹ 1,00,000
Tax on LTCG @ 23.92% (highest tax bracket)	₹ 23,920	₹ 23,920	Nil
LTCGs are taxable at 20% (with indexation benefit) if held for at least 3 years for each type of investment. But for gold bonds, there's no capital gains tax if held till maturity for 8 years. If they are sold before 3 years, they count as short-term capital gains and are taxable at the applicable slab rate			
Interest	Not applicable	Not applicable	₹ 20,000
Tax on interest income @35.88% (maximum marginal tax rate)	Not applicable	Not applicable	₹ 7,176 Interest is subject to tax. But no tax is withheld at source
Net receipt after taxes	₹ 1,76,080	₹ 1,76,080	₹ 2,12,824

The Pros And Cons

Physical gold has high liquidity, but that also comes with the risk of theft, which is not present for gold ETF and SGBs

Return On Investment

While physical gold, gold ETF units attract a long-term capital gains tax, SGBs are exempted from it

₹ 2,500 per annum at the rate of 2.5% for a period of 8 years

Where Gold Bonds Score

You only pay tax on the interest, so the final return is substantially higher than physical gold, gold ETF

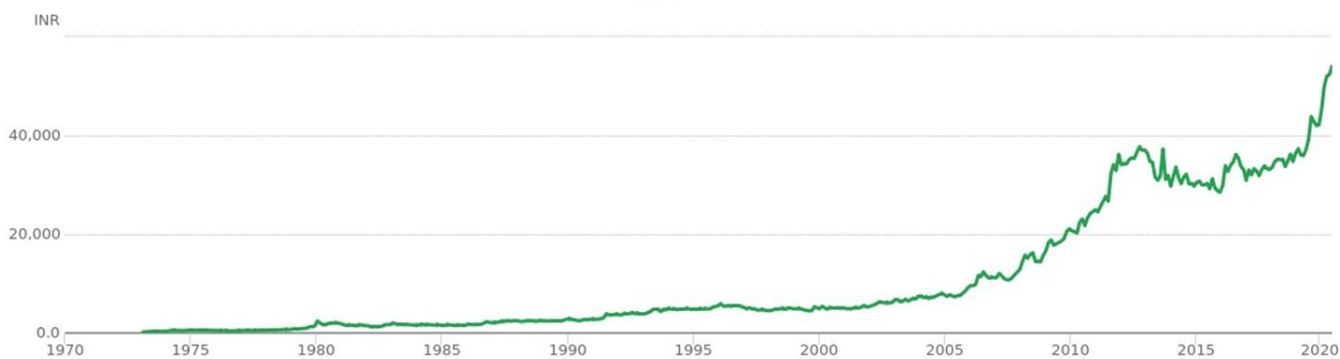
Note: The above computation is illustrative in nature for presentation purposes only

In addition to the tax hit, owners of physical gold must also bear the cost of secure storage, like a bank vault. Gold ETF investors must also pay fees, albeit low, to brokerage houses. Gold bonds, however, do not come with any additional costs

Gold prices

1d 7d 3m 6m 1y 3y 10y Max

Oz Grams kg Tonnes Tael Tola



As on 30th June 2020

Source : GoldHub

1Yr	2yrs	3yrs	4yrs	5yrs	10yrs	15yrs	20yrs	25yrs	1973-2002	2002-2020	Since Inception
39.9%	25%	18.7%	10.7%	12.5%	8.9%	14%	12.5%	10.1%	12.28%	13.30%	12.15%

* 1yr Return is Absolute Return, & Greater than 1 Year Return is CAGR

**Calculation as on 30th June 2020

*** Gold Price Reflected Without Import Duty @ 10%.

**** Gold Price Including Import Duty @ 10% - Price of 1Tola 54066/-