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GOLD WILL GLITTER MORE WITH GOLD BONDS

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ABSTRACT

Gold is the second-biggest expense on its import bill after oil. Whether gold price hiked or not, demand for gold remains more or less the same. This is because gold has always been an integral part of the socio-economic ethos of the Indian households. Gold has been traditionally considered as a store of value or hedge against inflation. It has always carried sense of cultural and sentimental attachment, making its consumption and investment in India very different from that of other countries. The high demand and large quantities of imports distort the trade numbers and put pressure on the current account deficit and, in adverse situations, impacts the exchange rate.

KEYWORDS: *Gold, Inflation, Households, Sovereign Bonds, Gold Deposit Scheme.*

INTRODUCTION

There are a wide variety of assets available for individuals for investment purpose, but the most desiring and always demanded asset is gold. Indians love gold. It is said that India is one of the largest consumers of gold. Gold is the second-biggest expense on its import bill after oil. Whether gold price hiked or not, demand for gold remains more or less the same. This is because gold has always been an integral part of the socio-economic ethos of the Indian households. Gold has been traditionally considered as a store of value or hedge against inflation. It has always carried sense of cultural and sentimental attachment, making its consumption and investment in India very different from that of other countries. The high demand and large quantities of imports distort the trade numbers and put pressure on the current account deficit and, in adverse situations, impacts the exchange rate. Government of India has taken several steps to dampen demand for importing gold and in this regards it has announces two schemes, Gold bond scheme and Gold monetization scheme. The present paper simplifies these schemes.

SCHEMES

1) The Gold Bond Scheme:-

It is also called as Sovereign Gold Bond Scheme. It is aimed at retail investors who buy physical gold for investment purposes.

The broad features of this Sovereign Gold Bond Scheme are:

- Bonds will be issued on behalf of the Government of India by RBI
- Tenor of the bond may be 5 to 7 years
- Nominal rate of interest say indicative lower limit of 2% (linked to international rate for gold borrowing)
- Sale to resident Indians only
- Quantitative restriction of 500 grams per person per year: The bonds will be issued in rupee. They will be issued in denominations of 5,10,50,100 grams of gold or other denominations. An upward investment cap of 500 grams per person per year would be made available.
- The bonds will be available both in De-mat and paper form.

- Collection and redemption through Banks/ NBFCs/Post Offices
- Bond to be a part of the sovereign borrowing
- Bonds to be used as collateral for loans
- Easy tradability on exchanges. While the minimum tenor of the bond is likely to be 5-7 years, the bonds can be sold anytime as they would be traded on exchanges and thus will allow easy exits. Liquid in nature.
- Conquest over other comparable products in the market such as gold exchange traded funds which don't pay interest. That is all other gold investing instruments only offer returns tracking gold prices. However, sovereign bonds loffer interest rates over and above the capital gains on account of price rise. It could go up to 3% per annum.
- Tax on Capital gains will be same as for physical gold. This is to ensure that an investor is indifferent in terms of investing in these bonds and in physical gold as far as the tax treatment is concerned.
- The details of the scheme state that all cost relating to distribution and sales commission that will be borne by the issuing agency will be reimbursed by the government.

2) The Gold Monetization Scheme:-

Smarten up of existing Gold Deposit Scheme that encourages existing holders of gold to surrender their physical gold. To put it in other words If the issue gold bonds is meant to move away buyers of the metal in physical form, the decision to launch a revamped gold monetization scheme is aimed at tapping into vast quantities lying with households.

The broad features of Gold Monetisation Scheme are:

- Deposit gold in gold savings account for a tenure of one – three years
- It will fetch interest like savings bank account, unlike gold lying at home.
- Returns will be at 1.5 to 2 percent.
- Individuals and institutions can deposit a minimum of 30 grams of gold bullion or jewelry
- Premature redemption possible with penalty
- Redemption option, either in cash or the equivalent quantity of gold only for short term investors. Medium and long term deposits will only be redeemed in cash.
- The government has stated that tax benefits under GDS 1999 that provides exemption from wealth tax, capital gains tax and income tax on interest income would be applicable on the new scheme as well.

Gold Bond Scheme Vs Gold ETFs:-

Particulars	Gold bonds	Gold ETFs
Issued by	RBI on behalf of the GOI	Mutual fund houses
Available size	Issued in Rupee in various denominations equivalent to value of gold of 5, 10, 50 and 100 gram.	Even smaller quantities equivalent to one gram gold.
Interest and capital appreciation	Will not only provide the capital appreciation, a nominal interest rate at 2%-3% per annum will also be given to the investor in form of Gold.	Only capital appreciation. No interest is given on gold ETFs.
Distribution and other costs	No brokerage, no commission and also no expense ratio. All the cost of distribution and commission will be borne by the Government.	Gold ETF bears the cost of holding demat account, commission and brokerage on buying and selling plus an expense ratio of about 1%.and all costs are borne by investors
Taxation	Similar to that of physical gold i.e. short-term capital gain will be taxed at slab rate and long-term capital after 3 years will be taxed at 20% with indexation and 10% without indexation benefit. Currently Government is planning to provide some tax benefits on capital gains in the upcoming budget 2016-17. The interest income of SGB shall be taxed at applicable slab tax rate under the income from other sources.	Gold ETF is debt-oriented mutual fund scheme, the tax is levied as non-equity funds under capital gain head i.e. Short term capital gains will be taxed at slab rate and long-term capital gains after 3 years will be taxed at 20% with indexation.
Lock – in – period	5 to 7 years	Not applicable
Secondary market	Can be easily bought and sold on commodity exchanges and thus will allow early exit.	Can also be bought and sold on stock exchanges any time.
Loan facility	Can raise loan up to a certain value of bond similar in case of physical gold	No such facility

CONCLUSIONS

Both the schemes that is gold bond scheme and gold monetization scheme seem to be more attractive gold investment option till date. Investors who are looking to invest in gold may find gold bonds a better option for investing in gold than buying physical gold or investing in gold ETFs or funds of mutual funds. Investment in Gold bonds also covers the inflation rate. It would be safer and economically more stable under both these schemes.

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