



## Sovereign Gold Bonds (SGB)

Gold is a very popular form of investment especially in India. However, storing gold in its physical form makes it vulnerable to theft and loss due to calamities. Many Indian investors – as a result – like the idea of SGBs or sovereign gold bonds. In this blog, we are going to cover all the most frequently asked questions related to SGBs.

### Q1. What are sovereign gold bonds?

Sovereign gold bonds eliminate the hassle of having to store gold physically. SGBs are government bonds that are expressed (more correctly termed as denominated) in grams of gold. An investor will typically buy x grams of gold and receive an SGB for the same value in Demat form. When he wants to redeem the gold, the investor turns in his or her SGB and receives the value in rupees.

### Q2. Are SGBs risk-free?

SGBs are low-risk given that they are issued by the government. Bonds are in general seen as one of the more low-risk investments, at least as compared to equity and more so with government bonds because the government is less likely to default on settling its debts as compared to any other entity.

However, you cannot say that SGB investment (or investing in physical gold for that matter) is risk-free. Although it is not seen often, the price of gold could decline – in such a case, the value of one's investment might fall.

### Q3. Can the gold I have purchased via the SGB get lost due to market fluctuations?

No, the units of gold purchased remain the same throughout. If you have bought 100 grams of gold, upon maturity you will receive the value for 100 grams of gold – it is only the price of the gold that fluctuates.

### Q4. Is safety the only benefit of investing in SGBs rather than physical gold? What are the other benefits?

In addition to a safe and secure way of investing in gold, SGBs also lower your cost of investment. The investor need not shell out additionally in order to pay for "making charges" and also, there can be no questions asked about purity of the gold at a later stage.

The third benefit of investing in SGBs is that there is complete transparency about the value of gold on the day of redemption. You will receive an amount that reflects the current value of gold in the market.

There's more! The investor also gets 2.5% interest per year on the initial investment (simple interest in play here folks, not compound interest – but interest is earnings!). Besides, the interest is credited twice a year.

There's still more! Your SGB can often be accepted by banks and non-banking financial institutions as collateral for any loans that you might need to apply for. Additionally, you are diversifying your investment portfolio and thereby playing a safer investment strategy when you add SGBs to your portfolio.

#### **Q5. Is interest compulsory/guaranteed and how can I claim it?**

Yes, 2.5% interest is paid twice a year and investors receive the amount in their bank accounts.

#### **Q6. Can anyone, anywhere in the world invest in SGBs?**

Since they are issued by the Indian government, SGBs are intended for Indian residents and more specifically India individuals. Hindu Undivided Families, trusts, charities and universities may also invest.

#### **Q7. Where can I buy SGBs?**

SGBs can be purchased within minutes via your Angel One account. In case you don't already have one, get together just a handful of easy documents and you can sign up completely virtually within about an hour, if not less – verification process and all. The Angel One app is free of cost and can be obtained on the Play Store or Apple app store.

#### **Q8. What documents/KYC does one need to submit to purchase an SGB?**

You only need an Angel One account to apply for SGB and receive interest payments.

#### **Q9. How to make payment for a SGB?**

Investors have to maintain sufficient balance in their ledger for buying sovereign gold bonds.

#### **Q10. Is there any minimum investment amount or maximum investment amount?**

An individual can purchase an SGB for as little as one gram of gold or as much as 4 kg of gold within a single fiscal year. In case you want to invest further, you can do so the following year. The cap is placed per-year and more specifically, per financial year. What you buy between March one year and April the following year is taken into consideration as far as capping goes.

Trusts have a higher limit of 20 kg per year.

#### **Q11. Is the limit also extended to my family?**

If there are multiple members in a single family holding demat accounts, each member is entitled to his or her own limit – for example, if I hold a demat account and so does my brother, both of us may go ahead and invest 4Kg in a single fiscal, if our finances and investment portfolio allow us to do so.

The ceiling is restricted to the joint holder. So if Rohit and Rahul are each other's joint holders, being brothers, they still get to each invest 4 kg in a fiscal if they want to do so.

#### **Q12. Can I get multiple limits for myself by using multiple IDs or bank accounts?**

This is not an option because you have only one PAN number, which has to be supplied for any SGB purchase.

### **Q13. But individuals can buy 4kg every financial year and trusts can buy 20 kg of gold using SGB every year?**

Yes indeed. Individuals can buy 4kg every financial year and trusts can buy 20 kg of gold using SGB every year. The cap is per fiscal. You can hold 8kg the second year (or 40kg if you're a trust), 12 kg the next year and 16 kg the fourth year.

### **Q14. How long should I wait to redeem my SGB?**

Gold is ideally a long-term investment but there is also no guarantee on when the prices will shoot up. Ideally, SGB holders should wait until the value of gold increases substantially before redeeming their investment in order to take home good earnings. As with all investments that have fluctuating values, it is best to invest in gold when you have already sorted out your daily living and lifestyle expenses. Timing is everything. You do not want to have to redeem your investment at the wrong time when the value of gold isn't at its shiniest best, simply because you have had an emergency and need liquid cash.

### **Q15. Is there any lock-in period?**

Usually, the lock-in period for SGBs is about 8 years.

### **Q16. Is there any provision for early redemption? What if I need the money?**

The options are

- Selling/trading the SGB on the stock market.
- Transferring/ gifting SGBs to another eligible entity.

### **Q17. Are you allowed to hold SGBs jointly?**

Absolutely! You can hold SGBs with the joint holder of your trading and Demat account.

### **Q18. Can you put down a nominee for your SGB?**

You must specify a nominee for your SGBs to avoid future complications.

The nominee mentioned for your Angel One account would be considered as the nominee for your SGBs as well.

To add a nominee, log in to the Angel One Web application, go to 'My Profile' section and add nominee details.

### **Q19. What if my nominee is an NRI?**

The government has made provisions for such situations: You may indeed nominate an NRI (individual) for your SGB. However, the nominee NRI must hold the SGB until maturity - no early redemption is available in this case.

Additionally, the interest and redemption amount will not be repatriated (it will not be sent to the NRI's country of residence).

#### **Q20. Where will I receive my redemption amount?**

The amount is transferred to your bank account as per the bank account details linked to your Angel One account.

#### **Q21. What if I have closed my account or want to transfer the amount to another bank account?**

If this is the case, you must intimate Angel One at least 30 days prior to redemption

#### **Q22. What happens in the event of death of the SGB investor?**

The process works very similarly to any other investments. There are several possible options depending on the unique situation at hand:

If the SGB holder has nominees signed up, they may approach Angel One with their claim

Administrators or executors of the SGB holder may put forth a claim

Successors may approach with succession certificate

Joint holder may go ahead and claim

(The process is the same also for a minor investor.)

#### **Q23. Is it better to apply online or apply in person?**

Online is certainly more convenient to investors, especially amidst the ongoing pandemic.

Moreover, you might be entitled to Rs 50 discount according to the RBI when you purchase the SGB online and pay online. Clearly the government is encouraging investors to use the online mode.

#### **Q24. Can I buy SGB anytime, or are there specific periods – like NFO and IPO? And how can I find out the price?**

The government holds an SGB issue every month.

#### **Q25. How can I find out the price of gold?**

The prices are published on the RBI website two days prior to the issue.

Additionally, the nominal value of gold bonds is fixed as per the simple average of closing price of gold of 999 purity, as published by the India Bullion and Jewelers Association Limited during the last three business days of the week just prior to the subscription dates.

**Q26. Does everyone who applies for an SGB get it or are there some selection criteria? If too many people apply is it possible that some will not receive the allotment?**

Provided you meet eligibility criteria, submit your application and the capital for the allotment on time and supply valid documentation, there is no reason for any investor to be denied allotment.

**Q27. Can I use SGBs for gifting?**

Absolutely, you can gift or transfer an SGB to a friend or relative in accordance with the law and prior to maturity of the SGB.

**Q28. Can I use SGBs for trading?**

Yes indeed, you can trade SGBs on the stock market on dates specified by the RBI.

**Q29. Can I get at least partial repayment of SGBs when I exercise a put option?**

Yes you can go ahead and redeem your SGB holding one gram at a time.

**Q30. What is the taxation applicable on SGBs?**

According to the RBI, "Interest on the Bonds will be taxable as per the provisions of the Income-tax Act. The capital gains tax arising on redemption of SGB to an individual has been exempted. The indexation benefits will be provided to long terms capital gains arising to any person on transfer of bond."

Currently SGBs are exempt from TDS on interest.

SGBs can be a good investment model if you purchase at the right time and the right price and have an investment term that can help you redeem your investment at a much better rate. It also helps investors to diversify their portfolio – which corresponds to lower risk.

Always remember, everyone can invest irrespective of age, occupation or gender. All you need to do is save diligently, research carefully (as you are doing now) and practice safe investing. Kick-start your investment journey with Angel One.