Gold With An Extra Glitter

If you want to avoid capital gains tax, earn a safe yearly interest and enjoy the surge in asset class, go for SGBs

By **Vishav**

Gold has remained a preferred investment class for Indians for generations, not only due to financial reasons but for cultural factors as well. India is the second-largest consumer of the precious metal and considers it auspicious asset.

However trends are changing. While accumulating physical gold is a sign of prosperity, many feel safe in keeping as an asset class in demat or digital format.

There are different ways one can invest in gold — buying the yellow metal in physical form, Gold ETFs and now, Sovereign Gold Bonds (SGBs). Issued by the Reserve Bank of India (RBI), SGBs have emerged as a good substitute for holding physical gold. The government issues such bonds in tranches and investors buy them through banks, post offices and markets.

When it comes to a choice between investing in physical gold and gold bonds, gold bonds have some advantages over physical gold. Investors earn 2.5 per cent interest per annum on the principal value of investment in addition to the price appreciation of gold.

Consider this, if you make a purchase bonds worth ₹50,000, you will earn 2.5 per cent interest every year for eight years' maturity with the market value too. Early redemption is allowed after the fifth year. It can also be traded at stock exchanges.

The risk of loss of scrip and costs of storage are also eliminated as the bonds are held in demat form. There will always be a copy of your investment details with the RBI.

Archit Gupta, Founder and CEO, ClearTax, says SGBs are an excellent alternative to physical gold for the additional 2.5 per cent returns.

"At the start of August 2017, the price per one gram of gold was ₹2,619.25 per gram, and it almost doubled (to ₹4,769.63) at the start of August 2020. Now, if you had invested in physical gold, then your returns are the difference between the buying and selling prices. There may be certain losses on account of making charges etc. Moreover, getting cash for gold may be difficult too. On the other hand, if you had invested in sovereign gold bonds, you would get returns in the form of capital appreciation and interest income at the rate of 2.5 per cent. One also has to consider the effort involved in storing physical assets and keeping them safe," he explains.

While physical gold attracts Long-Term Capital Gains (LTCG) tax after three years, there is no capital gains tax for SGBs if an investor holds them till maturity of eight years.

Other instruments like equity attracts a 10 per cent LTCG, debt funds are taxed at 20 per cent with indexation. So do gold ETFs.

Hence SGBs are best placed on the taxation front especially for HNIs. However, interest on gold bonds are taxable.

"If the bonds are sold through the exchange before three years from the date of purchase – the gains, if any, will get added to the gross total income and therefore are taxable at marginal rate of tax as per the tax slabs. If one holds for over three years, LTCG will apply at 20 per cent (plus the cess)," explains Apoorva H. Vora, Founder, Finolutions Wealthcare.

He adds that one can build gold exposure not only through physical gold and sovereign bonds, but also through mining stocks, structured products on gold, or ETFs. "When buying gold, focus can be on its characteristics of being a safe haven, stability, and certainty. The most important criteria should be to reduce portfolio level volatility, and invest in gold as a reasonable hedge against global economic uncertainties," Vora opines.

Acting as an insurance against uncertainties, and with its inflation-beating capacity and high liquidity, gold will continue to shine, especially in troubled times. This is visible in the fact that gold has given almost 40 per cent returns in the last year, crossing ₹55,000 levels, before the recent correction. Many expect it to reach ₹65,000 levels in the coming months.

Every financial advisor would recommend investors to have some proportion of gold in their portfolio.

However, investment in gold should not be compared with fixed income schemes like FD and PPF, says Jashan Arora, Director, Master Capital Services. "First, it does not provide any fixed returns. Rather the returns are subject to price appreciation of gold. Unlike fixed income instruments, gold is an internationally traded commodity and its performance is highly influenced by factors such as supply, import cost, currency risks and so on," he explains.

According to Malini Saba, Founder and Chairman of Saba Group Holdings, which among other businesses also operates in gold mining, the market for investment in gold as an asset class is a safe bet for investors across the globe. She says gold has seen very less depreciation in the last one decade.

"The precious metal may continue gaining price until the spread of the COVID-19 pandemic is controlled and any obvious signs of economic recovery emerge. About 10-15 per cent allocation of yellow metal is sufficient to achieve long-term diversification of the investment portfolio," she explains.

According to Saba, if gold and its products have to be purchased for investment purpose, "it is the correct time to enter this asset class."

Nikhil Kamath, Co-founder and CIO, Zerodha, says it is important to note that different asset classes are not perfect substitutes for another, and a diversified portfolio is key with an approximate allocation of about 10-15 per cent to gold among other asset classes.

However, he warns that it wouldn't be wise to extrapolate past returns to the future. "While gold is considered to be an inflation-beating asset, the metal should be invested in to serve as a hedge to other investments, rather than purely for returns," he adds.

Saba sees gold as a good choice for better returns than fixed deposits. She prefers investing in physical gold instead and says, "We all are aware that all banks are giving the worst interest rates presently. I prefer investing in physical gold and from experience, if we look at the way the economies of the world have been since 2008, it may be prudent for all of us to learn and make sure we stay in liquid form to some extent and hold gold as an asset." However, she suggests that one should consult their investment advisors to get the right asset allocation.

Various factors such as concern and variability in gold purity, inconsistence and non-transparent transaction cost, risk of theft, significant liquidity cost owing to irrecoverable making charges on resale, storage issues especially when portfolio size is large, make physical gold less attractive from investment perspective compared to gold bonds, opines Prashant Joshi, Co-Founder and Partner (Financial Research and Advisory Services), Fintrust Advisors.

"Gold bonds provide for marginal passive income paid half-yearly, which is also added to total returns," he adds.

It is crucial to understand that gold, in itself, should not be invested in purely for the goal of returns. Gold, a commodity that does well when uncertainty is high, works well as a hedge against other asset classes such as equity. While it is relatively stable, long-term returns are generally not very high.

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Watch Out For

- Investors should avoid aggressive bets with gold price rise hovering between 40 to 50 per cent over last one year and 11 per cent in July alone
- SGBs are best placed for HNIs as they do not attract capital gains tax if held until maturity
- Despite fixed tenure of 8 years, early redemption is allowed after 5 years
- One can also trade the bonds on the exchanges, though liquidity is low
- In the secondary market, one must remember that trade is at a discount
- If you buy a bond after four years of its issue, remember you would get the 2.5 per cent interest only for the remaining four years.

ARCHIT GUPTA
Founder and CEO, ClearTax

SGBs give you returns in the form of capital appreciation and interest income at 2.5 per cent

Performance Over last 5 years

NAME	2016/17	2017/18	2018/19	2019/20	2020/21
PPF	8.10%	7.80%	7.60%	7.90%	7.10%
EPF	8.65%	8.55%	8.65%	8.50%	8.65%
SCSS	8.30%	8.30%	8.30%	8.60%	7.40%
NSC	8.10%	7.80%	7.60%	7.90%	6.80%
FD	7.00%	6.50%	6.75%	7.00%	6.10%
Gold	-0.14%	6.66%	4.24%	36.44%	23.45%

Public Provident Fund (PPF); Employee Provident Fund (EPF); Senior Citizen Savings Scheme (SCSS); National Savings Certificate (NSC); Bank Fixed Deposit (FD)

Source: Fintrust

MALINI SABA
Founder and Chairman of Saba Group Holdings

About 10-15 per cent allocation is sufficient to achieve long-term diversification of portfolio

All That Glistens Is Not Gold

Remember to gauge the yellow metal's purity


Photo: Tribhuvan Tiwari

By **Indrishka Bose**

Admiration for gold is deep-rooted in India's tradition, starting from the birth of a child to wedding ceremonies. Gold finds its place in every shopping list. Despite its popularity, thousands end up paying a higher price for less pure jewellery. Some prefer major brands to avoid any compromise on the quality. Those who cannot afford often settle for a promise. However, it is found that the majority of the gold we purchase is not certified. In such scenarios, it is always safe to go for certified jewelleries rather than going with a promise of purity.

The process of certifying gold's purity is termed as hallmarking, which was introduced in India by the Bureau of Indian Standards (BIS). Hallmarking is done through a sampling method in a licensed laboratory of BIS. Jewellers, themselves have to get a license from BIS before they get their artefacts hallmarked.

It can be measured in Karat, categorised as 24, 22, 18, 14, 10. A 24 Karat gold is considered as the purest and delicate form as it comprises 100 per cent gold. In general people prefer jewelleries made up of 22 Karat to 10 Karat of gold.

Before the hallmarking scheme was revised it had an additional component where a code letter denoted the year of hallmarking.

It is always easier to gauge the purity of gold by searching for a Karat stamp on the piece. And in case, if you see no stamp, you can always visit the jewellery store and get your piece tested.

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