

[Print This Page](#)

## Investing in gold: Newer options for investors

**Shalini Dhawan**

Indian investors love gold. We invest in gold by way of gold jewellery, gold bars, gold coins, and such other physical gold. In fact the love for physical gold is shown in the numbers for India's consumption of gold.

As per the World Gold Council, although the annual gold demand did not change much in 2015, Indian consumer demand grew by 6% in Q4 2015. This was despite adverse climatic conditions in South India and weak rural incomes in India.

Gold is still considered as a preserve of wealth and value, especially in volatile times as those being experienced in the Indian stock markets by investors today. Naturally then, investors do look to gold for investment. No surprise therefore that Indians bought 654 tonnes of gold jewellery in 2015, the highest level since 2010. The question therefore is "How should one invest in gold? Is physical gold better, or are there more prudent and efficient methods to invest in gold?"

### Physical gold has its limitations, some of them being

- Purity – The purity of gold jewellery, bars and coins is usually difficult to establish, and hallmarking adds to costs
- Safety and Storage – Owning lockers and accessing them is a tedious process for investors and again adds costs
- Pricing – There is no transparency in pricing of physical gold as investors are usually charged extra for making and other charges in case of jewellery, or when they purchase gold coins from banks
- Capital Gains Tax – Physical gold when held for three years qualifies as a long term asset and is taxed at 20% with indexation
- Resale value – Converting physical gold/jewellery to cash could involve some erosion in value at the time of conversion, i.e. you may not get the full value of the gold at time of resale
- Passing on to heirs as per your will – Division of physical gold/Jewellery may be challenging. Gold held as financial assets can be inherited by the designated nominee thereby assuring that it goes to the rightful heirs in the decided proportion.

In comparison, investing in gold by way of Gold ETFs, Gold Bonds, Gold funds or Gold Monetisation schemes has its advantages. Some of the newer ways of investing in gold are:

**Gold ETFs** – Gold Exchange Traded Funds are like a stock investment with underlying exposure to gold. They are traded on the stock exchange.

Pros – Investors can invest in small amounts, purity of underlying gold is audited, the price of ETF usually mirrors the price of 1 gram of gold thereby adding transparency, expenses of ETFs are lower than gold funds (approximately 1% p.a.) and ETFs are fairly liquid as they can be traded on the stock exchange, NRIs can invest.

Cons - You need to have a trading and a demat account to invest in a gold ETF, demat and broking charges also apply in addition to the ETF expense ratio

**Gold Funds** - Gold Funds are mutual fund schemes which invest in Gold ETFs.

Pros – Small purchases possible by way of monthly SIP instalments (systematic investment plan), purity of underlying gold is audited, liquidity is high as the scheme is open for repurchase with the mutual fund, investors do not need a trading and demat account to invest in a gold fund. NRIs can invest in gold funds.

Cons - Expense ratios are higher than Gold ETFs, NAV of the gold fund may not truly reflect the underlying gold ETF and gold prices.

**Gold Bonds**- Government has launched the Sovereign gold bond (SGB) scheme to discourage investors from buying physical gold. Investors will get returns based on the prevailing gold price and interest at 2.75 percent p.a. The tenure of these bonds is 8 years with exit options after the 5th year. Bonds will be traded on the exchange thus providing investors with the opportunity to exit earlier. Bonds will carry sovereign guarantee both on capital invested and the interest.

Pros – Gold bonds can be held in demat or physical form which helps avoiding all hassles pertaining to physical gold. Assuming an investor is buying physical gold then he is better off investing in SGBs as he will get both capital appreciation (if any) and interest which he will not earn if investing in physical gold. These bonds can be gifted and are transferable.

Cons – Maximum investment allowed is 500 grams gold per year, lock in is high, premature redemption allowed only after 5th year, NRIs cannot invest.

Tax Benefits in Budget 2016 for Sovereign Gold Bonds – This Budget proposed that redemption of a SGB issued under Sovereign Gold Bond Scheme, 2015 shall not be charged to capital gains tax. It was also proposed to provide indexation benefits on long terms capital gains arising on transfer of Sovereign Gold Bonds.

**Gold Monetisation Scheme** – The 2015 Budget had announced this scheme for encouraging investors already holding physical gold to monetize the same. Under this scheme you could take your gold jewellery, coins or bars (as low as 30 grams) to the bank and get a Deposit certificate in exchange. This will give you 2 percent interest, and full gold value on maturity. You may also get back your gold, but in melted form. The income from this scheme will be exempt from income and capital gains tax.

Tax Benefits in Budget 2016 for Gold Monetisation Scheme(GMS) – The 2016 Budget proposes to extend tax benefits to investors depositing their gold under the GMS, 2015 by exempting it from capital gains tax. Similarly the budget has also proposed to make the interest on Deposit Certificates issued under the said Scheme exempt from income-tax. These amendments are proposed to be made effective retrospectively from Assessment year 2016-17.

All in all there is a nudge for investors to move in the direction of holding gold in paper/financial form rather than in physical gold, which seems to definitely be a better and more efficient way of investing in gold today.

***Shalini is a member of The Financial Planners' Guild , India (FPGI). FPGI is an association of Practicing Certified Financial Planners to create awareness about Financial Planning among the public, promote professional excellence and ensure high quality practice standards.***