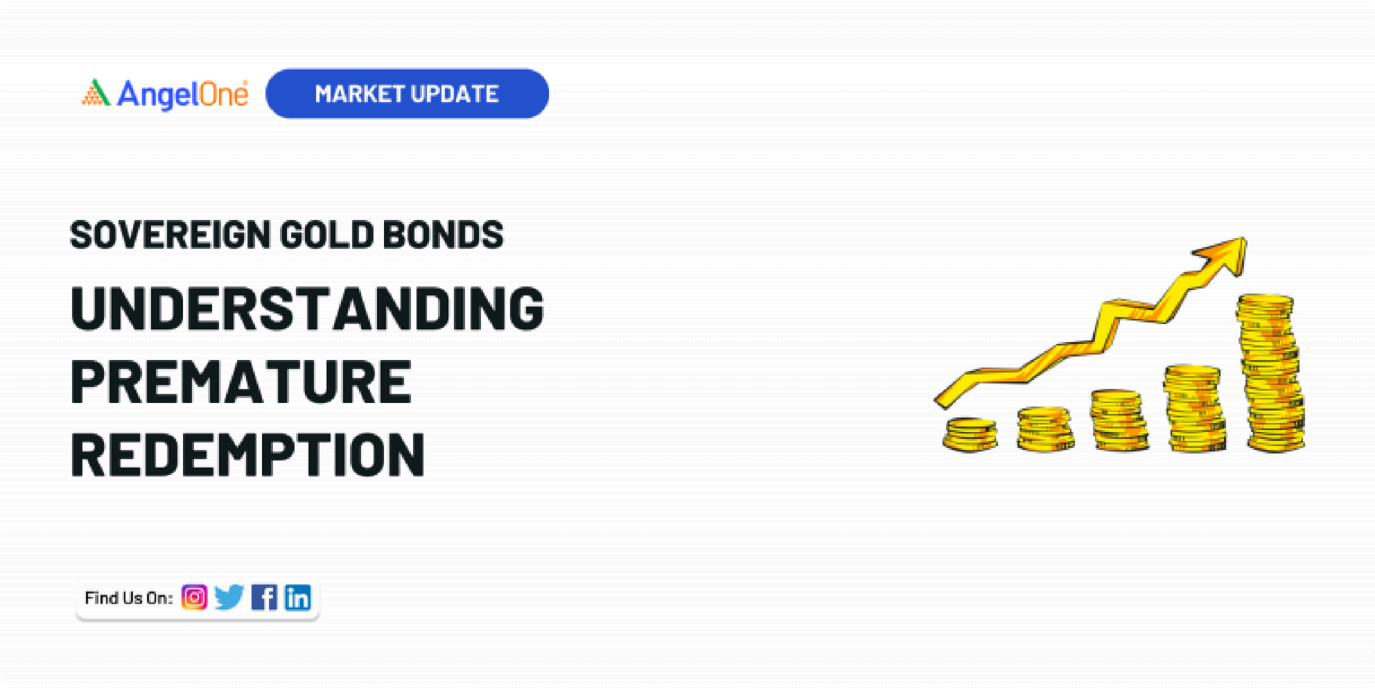
Understanding Premature Redemption of SGBs: Tax Rules and Should You Redeem or Not?

Written by: Team Angel One •Updated on: 23 Apr 2025, 7:17 pm IST

RBI announces premature redemptions of Sovereign Gold Bonds amid rising gold prices. Understand tax rules, tenure, and implications for your portfolio.



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Sovereign Gold Bonds (SGBs) were launched in November 2015 by the Government of India as part of the broader Gold Monetisation Scheme. These bonds were designed to serve multiple purposes — primarily to reduce the physical demand for gold, encourage the financialisation of household savings, and utilise idle gold for productive purposes within the economy.

The bonds are issued by the Reserve Bank of India (RBI) on behalf of the Government and offer a unique way for investors to gain exposure to gold without the need to hold the physical asset.

Understanding the Tenure and Redemption of SGBs

SGBs have a fixed tenure of 8 years, but investors are given the flexibility to exit after 5 years from the date of issue through a premature redemption window facilitated by the RBI. This provision gives investors a mid-way liquidity option while still allowing them to benefit from potential appreciation in gold prices.

Recently, with the price of gold (999 purity) witnessing a significant surge, the RBI has announced premature redemption options for several SGB series. This includes the upcoming redemption of SGB 2027-18 Series IV and Series V, scheduled in April 2025.

Why the RBI is Opting for Premature Redemptions

The decision to discontinue certain SGB series and initiate premature redemptions is closely tied to the current market conditions. High gold prices translate into increased redemption payouts, making the continued servicing of these bonds costly for the government. By offering early redemptions, the RBI aims to optimise borrowing costs while giving investors an opportunity to exit profitably.

What Should Investors Consider?

Over the past five years, especially post-COVID-19, gold prices have appreciated sharply. This uptrend presents a potentially lucrative exit point for SGB holders. However, whether to redeem prematurely or hold until maturity depends on individual financial goals and portfolio allocations.

If your gold exposure has increased beyond 10–15% of your overall portfolio due to the rally, it may be sensible to redeem and book profits to rebalance your asset allocation. On the other hand, if your gold holding is within the desired range, continuing with SGBs until maturity might still serve long-term goals, while also ensuring continued interest income.

How to Redeem SGBs Prematurely

To redeem SGBs before maturity, investors must approach the institution, bank, post office, or broker through which the bonds were originally purchased. The RBI specifies redemption dates and guidelines in advance, and SGB units must be tendered accordingly.

It is advisable to ensure that all KYC details and demat account linkages are up to date to facilitate a smooth redemption process.

Read More: Did You Miss SGB Premature Exit Window: Check What You Should Know.

Tax Implications of Sovereign Gold Bonds

Interest earned on SGBs is taxable under the head 'Income from Other Sources' as per the Income-tax Act, 1961, and is taxed according to your applicable income tax slab.

However, the capital gains from premature redemption via the RBI's five-year window are exempt from Long Term Capital Gains (LTCG) tax. This provides a considerable tax benefit for those planning to redeem through the official RBI schedule.

If the SGBs are sold on the secondary market instead, capital gains tax applies along with relevant surcharges and cess. Importantly, holding SGBs until the full tenure of 8 years results in zero capital gains tax, as these are not treated as transfers under the prevailing tax laws.

Conclusion

While the RBI's move to redeem certain SGBs prematurely aligns with fiscal prudence and market dynamics, investors must evaluate their individual circumstances before making any decision. Reviewing gold allocation within the broader portfolio, understanding tax implications, and being aware of the procedural requirements for redemption are all key elements to keep in mind.

This information is intended to help you stay informed about the structure and implications of holding Sovereign Gold Bonds. Always stay updated with RBI announcements and consult your financial adviser for personalised guidance.

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