TAX TALK

Selling gold? First check tax outgo

- It has to be held for 2 years to qualify as a long-term asset

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AS GOLD PRICES remain elevated, many investors would like to redeem their units in gold exchange traded funds (ETFs), digital gold, sovereign gold bonds and even sell some physical gold. It is important to understand the income tax implications of holding and selling gold in its various forms.

Gold ETFs, physical gold

The long-term capital gains (LTCG) in gold ETFs is 12.5% with the tax exemption limit of up to ₹1.25 lakh in a financial year. However, unlike equities (one year), the holding period to qualify as LTCG in gold ETF is two years. The short-term capital gains (STCG) from gold are taxed at an applicable slab rate. Indexation benefit is there for sale of gold holdings.

Physical gold, which includes jewellery, coins and biscuits, remains the most widely held form of gold in India. Gains from physical gold, if held for more than 24 months, are categorised as LTCG and taxed at 12.5%. For holdings less than 24 months, the gains are taxed as per the investor's income tax slab.

Digital gold

In recent years digital gold has gained popularity as a convenient and secure alternative to physical gold. It allows investors to buy gold online, which is then stored in secure vaults by the issuer. Despite its modern appeal, the tax treatment for digital gold mirrors that of physical gold. Gains from digital gold held for over 24 months are taxed as LTCG at 12.5%, while holdings for shorter periods attract STCG tax based on the investor's income slab.

SGBs & gold derivatives

Sovereign gold bonds, however, enjoy a unique benefit. The capital gains earned on redemption after maturity are completely tax-free. The interest earned at 2.5% per year during the holding period, however, is taxed as per the applicable slab rates of the investor.

Gold derivatives, traded in the commodity market, are not taxed as capital gains but as non-speculative business income. Investors can claim expenses against the trading income and the net profit is taxed as business income.

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Non-resident Indians (NRIs) are allowed to invest in physical, digital, and paper gold, except for Sovereign Gold Bonds. The tax rates for NRIs are the same as for Indian residents. However, TDS applies to gold ETFs or mutual fund redemptions.

Gold received as a gift is exempt from tax if received from a close relative or on the occasion of one's wedding. However, if sold later, capital gains tax will apply depending on cost and the holding period of the previous owner.

While gold is an enduring investment, its taxation norms require careful consideration. Proper tax planning and compliance will ensure that you maximise the benefits of your investments. Gold remains a symbol of security and wealth, but understanding its tax implications is the key to making the most of this timeless asset.

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