Sovereign Gold Bonds: Capital Gains Tax on Redemption and Sale from 1 April 2026

Description

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Quick summary

- From 1 April 2026, redemption of a Sovereign Gold Bond is not a taxable transfer only if the bond is held by an individual from the date of original issue until maturity (section 70(1)(x) of the Income-tax Act, 2025, as amended by the Finance Act, 2026).
- A bond bought in the secondary market is taxed on redemption: the gain is a capital gain, long-term at 12.5% if held for more than 12 months, short-term at slab rates otherwise.
- A bond sold on the stock exchange before maturity is taxed in the same way, for every holder.
- The 2.5% annual interest is taxable as income from other sources at slab rates.

Sovereign Gold Bonds (SGBs) were popular because the gain on redemption was tax free. The Finance Act, 2026 narrowed that relief from 1 April 2026. This post explains who still gets it, who pays tax and how much.

What the Act now says

Section 70(1) lists transactions that are **not a transfer**, so no capital gains tax arises on them. Clause (x), as amended by the Finance Act, 2026 with effect from 1 April 2026, covers:

> redemption of a Sovereign Gold Bond issued by the Reserve Bank of India under the Sovereign Gold Bond Scheme, 2015 or any subsequent Sovereign Gold Bond Scheme, **if held by an individual from the date of original issue till maturity**.

Before the amendment, the clause covered redemption of a bond under the 2015 scheme by an individual, whether he had subscribed to it or bought it later. The amendment adds two conditions: the **original issue** and **till maturity**, and it extends to later schemes.

Who pays tax

Holder	On redemption at maturity	On sale on the exchange before maturity
Individual who subscribed at issue and holds till maturity	**No tax**	Not applicable
Individual who subscribed at issue but sells before maturity	Not applicable	Capital gain taxed
Anyone who bought the bond in the secondary market	Capital gain taxed on redemption	Capital gain taxed
HUF, company or trust	Capital gain taxed (the clause covers individuals only)	Capital gain taxed

How the gain is taxed

Where the exemption does not apply, the gain is the **redemption or sale price less your cost of acquisition** (the price you paid, with the expenses of the transfer).

- SGBs are **listed securities**, so the holding period is **12 months**: more than 12 months is **long-term**, 12 months or less is **short-term** (section 2(101)).
- **Long-term gain: 12.5%** without indexation (section 197). The ?1,25,000 exemption in section 198 does not apply, because it is only for equity shares and equity-oriented fund units.
- **Short-term gain:** added to your income and taxed at **slab rates**.
- The surcharge on this long-term gain is capped at 15%, and cess is 4%.

Example. You bought an SGB from the stock exchange for ?7,000 a unit and held it for two years. It is redeemed at maturity at ?12,000 a unit (a figure for illustration). The gain per unit is ?5,000, long-term. Tax at 12.5% is ?625 a unit, plus 4% cess = **?650**. For an original subscriber who held to maturity, the tax is nil.

Interest

SGBs pay interest of 2.5% a year (as set by the scheme). It is **income from other sources** (section 92) at your slab rate, in the year it is received or due, whichever your method of accounting is.

What to do if you hold SGBs

1. Check **how you acquired each bond**: original issue (the allotment letter or demat statement shows the date) or secondary market.
2. If you are an original holder, **hold to maturity** if you want the exemption. An early sale or a premature redemption may be taxed.
3. For secondary market bonds, **plan for tax on redemption** and keep the purchase contract note, which fixes your cost and holding period.
4. Report the interest every year and the capital gain in the capital gains schedule of the return. See our post on capital gains tax for the rates and the way to set off losses.

Frequently asked questions

Is SGB redemption tax free?

Yes, but only if you are an individual who has held the bond from the date of its original issue until maturity. The redemption is then not treated as a transfer (section 70(1)(x)).

What if I bought the SGB from the stock exchange?

The exemption on redemption does not apply to you. The redemption is a transfer, and the gain over your purchase cost is a capital gain.

What is the tax rate on SGB gains?

Long-term (held for more than 12 months, since SGBs are listed securities): 12.5% without indexation. Short-term: your slab rate (sections 2(101) and 197).

Is the interest on SGB taxable?

Yes. The 2.5% a year interest is income from other sources at your slab rate (section 92).

What about premature redemption after five years?

The exemption in section 70(1)(x) speaks of redemption of a bond held from original issue until maturity. A premature redemption is not clearly covered, so take advice before treating it as tax free.

Does the new rule apply to bonds already bought?

It applies from 1 April 2026, to redemptions and transfers from that date, whenever the bond was bought. A bond held by an original subscriber to maturity remains exempt.

Official sources

- Income Tax Department: Income-tax Act, 2025 (sections 2(101), 70(1)(x), 92 and 197, as amended by the Finance Act, 2026)

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