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Government's U-Turn on Sovereign Gold Bond (SGB) Tax Exemption: Breaking A Promise to Secondary Market Investors?**RAJI NATHANI**

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Just when Sovereign Gold Bonds (SGBs) were hailed as a tax-smart way to invest in gold—with full capital gains exemption on maturity for any holder—the Budget 2026 has pulled the rug out from under secondary market buyers. From April 1, 2026, tax-free redemption gains will be reserved only for original subscribers who hold till maturity. This abrupt change has already triggered a sharp 10% slump in SGB prices and raised serious questions about trust in government-backed promises.

Under the SGB scheme the capital gains tax arising on redemption of SGB to an individual has been exempted. In any other case indexation benefits shall be provided on long terms capital gains arising to any person on transfer of bond. In the obvious therefore transfer would mean transfer any time before redemption date.

The Government now proposes to limit such exemption benefit to original investor who hold such bonds till maturity and not to any investor who purchases them from market and hold them till maturity. It is further stated that the amendments shall take effect from the 1st day of April, 2026, and shall apply in relation to the tax year 2026-27 and subsequent tax years

Current vs. Proposed Rules: A Clear Shift

Under the existing framework (as per the Income-tax Act, 2025), redemption of SGBs by an individual is exempt from capital gains tax, with no distinction between original buyers and those who acquire them later in the secondary market. The provision reads:

"(x) of Sovereign Gold Bond issued by the Reserve Bank of India under the Sovereign Gold Bond Scheme, 2015, by way of redemption, by an individual;"

This broad exemption encouraged liquidity in the secondary market, where investors could buy bonds (often at a premium during high gold price periods) and still enjoy tax-free gains on maturity.

The Budget 2026 proposes amending Section 70(1)(x) of the Income-tax Act, 2025 (effective April 1, 2026, for AY 2026-27 and beyond) to:

"(x) by way of redemption, of 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;"

Key restrictions introduced:

- Exemption limited to individuals (not other entities).
- Must be the original subscriber (subscribed at the time of RBI's initial issue).
- Must hold continuously from issuance until maturity.
- Applies to all SGB series, but prospectively—SGBs issued before April 1, 2026, should continue under the old broad exemption (plain reading of the prospective application clause).
- Secondary market buyers (even if holding till maturity) lose the exemption ? capital gains taxed as long-term (with indexation benefits available for non-individuals or non-qualifying cases).
- Notably, no parallel amendment appears in Section 47(viic) of the old 1961 Act (which had similar wording), potentially creating interpretive issues.

Suggestion to the Government

Withdraw or modify this proposal to honor the original intent. Restore the exemption for all individual holders redeeming at maturity, regardless of acquisition route. This would:

- Preserve investor trust.
- Maintain secondary market liquidity.
- Align with the scheme's goal of channeling savings into gold without physical hassles.

At minimum, grandfather all existing SGBs (issued before April 1, 2026) under the old exemption, ensuring no retrospective impact.

Carveout- SGB issued prior to 1 April, 2026

From the plain reading of the new provision the same should apply prospectively only with respect to investment in SGB issued on or after 1 April 2026 so that bonds that are issued previous to April 1, 2026 shall continue to enjoy exemption at the time of their maturity regardless of whether they are held as original purchase or acquired from the market.

Not to miss that there is a 'comma' after the word redemption both in the previous 1961 Act and new 2025 Act clauses clearly highlighting the entitlement to exemption at the time of redemption.

Credibility questionable

Changing the rules long after especially for a government-backed scheme undermines predictability and the sanctity of assurances given at issuance. A promise from the RBI (under government authority) should not be retrospectively diluted or narrowed by later legislative tweaks.

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