

## Floating Rate Savings Bonds (Taxable)

**Floating Rate Savings Bonds, 2020 (Taxable):**

The Government of India decided to issue Floating Rate Savings Bonds (Taxable) 2020 with effect from July 01, 2020 to enable resident citizens/HUF to invest in a taxable bond, without any monetary ceiling. This Floating Rate Savings Bond 2020 has replaced 7.75% Savings Bond 2018.

**Salient Features - Floating Rate Savings Bonds (Taxable):**

<b>Instrument</b>	Floating Rate Savings Bonds, 2020
<b>Who can Invest?</b>	Resident Individuals (including Joint Holdings) and Hindu Undivided Families (HUF) NRIs are not eligible to invest
<b>Issue Price</b>	At par – i.e. Rs 1,000 for every Rs 1,000 (nominal) face value
<b>Minimum Amount</b>	Rs 1,000 (Face value) in multiples thereof
<b>Maximum Amount</b>	No maximum limit
<b>Subscription</b>	In Cash (upto Rs 20,000 only)/ drafts/ cheques or any electronic mode acceptable to the Receiving Office <sup>^</sup>
<b>Maturity/ Repayment of Principal</b>	7 years (lock-in-period) from the date of issue. Premature encashment at interest payment date shall be allowed to individuals who are 60 years and above subject to minimum lock-in-period*
<b>Floating Interest Rate &amp; Reset</b>	National Savings Certificate (NSC) rate (Base rate) + 35bps. The coupon/interest of the bond would be reset half yearly - every 1 <sup>st</sup> Jan and 1 <sup>st</sup> July
<b>Interest/Coupon Rate</b>	7.15% (6.80% + 0.35%) for period 1 <sup>st</sup> July – 31 <sup>st</sup> Dec 2020. Payable on 1 <sup>st</sup> Jan, 2021
<b>Interest Rate Option and Frequency</b>	Only Non-cumulative option with Half-yearly interest payouts (1 <sup>st</sup> Jan & 1 <sup>st</sup> July). No option to pay interest on cumulative basis
<b>Interest Rate Calculation</b>	Interest on the bond accrues from the date of receipt of funds/realization of cheque/draft and will be credited to the bank account of the holder on every 01 <sup>st</sup> Jan & 1 <sup>st</sup> July
<b>Tax treatment</b>	Interest on these bonds will be taxable under the Income-tax Act, 1961
<b>TDS on interest</b>	At the time of making payment to investors; provided individual(s) have made a declaration in the application pertaining to exemption under relevant provisions in Income Tax Act
<b>Transferability/Tradability</b>	Not Transferable (except transfer to a nominee(s)/legal heir in case of death of the holder of the bonds), Not Tradeable in the secondary market
<b>Eligibility for Collateral</b>	Not eligible as collateral for loans from Bank, Non-banking financial companies (NBFCs) or financial institutions
<b>Nomination Facility</b>	Available (Form C)
<b>Form of Holding</b>	The Bonds will be issued only in the electronic form and held at the credit of the holder in an account called Bond Ledger Account (BLA), opened with the Receiving Office. A Certificate of Holding will be issued in electronic form within 7 days from date of application
<b>Risk</b>	100% risk free investment option

<sup>^</sup>Receiving Office: designated branches of SBI, nationalised banks, IDBI Bank, Axis Bank, HDFC Bank and ICICI Bank

\*Premature encashment for senior citizens allowed subject to penalty charges equivalent to 50% of last coupon/interest payment:

Age bracket: 60 – 70 years; lock-in-period of 6 years from the date of issue

Age bracket: 70 – 80 years; lock-in-period of 5 years from the date of issue

Age bracket: 80 years & above; lock-in-period of 4 years from the date of issue

**How to Invest?**

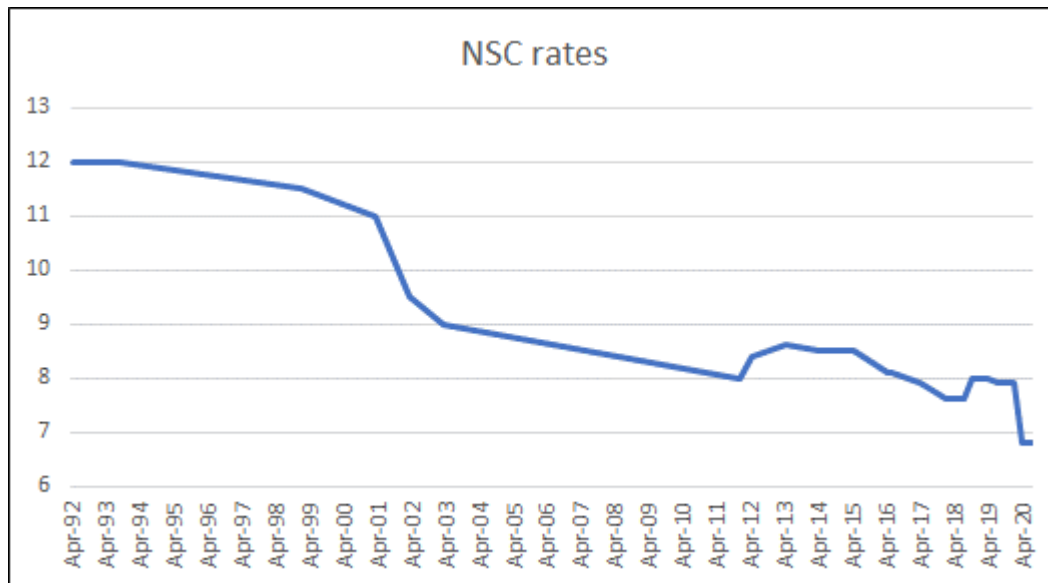
Investment in these bonds will be in the form of cash (up to Rs 20,000)/drafts/cheques or any electronic mode acceptable to the Receiving Office. Applications for the bonds in the form of Bond Ledger Account will be received in the designated branches of SBI, nationalised banks, IDBI Bank, Axis Bank, HDFC Bank and ICICI Bank (Receiving Office). The bonds will be issued only in electronic form and held at the credit of the holder in an account called Bond Ledger Account, opened with the Receiving Office.

**Comparison between 7.75% (Fixed) Savings Bonds vs Floating Rate Savings Bond:**

Interest/coupon payouts linked to a base rate makes periodic payments variable; changing according to the market situations. As compared to a fixed rate plain vanilla bond which are tradeable, floating rate debt instruments helps to lower the interest rate risk as interest rates are aligned to market rate and resets at regular intervals. Since these bonds have a lock-in period and are held to maturity, there is no question of interest rate risk during the tenor. Investors could gain or lose out compared to a fixed pay bond; but it keeps payouts to aligned to market interest rates. NSC rates are expected to broadly move in-line to inflation rates. A drawback of Floating rate savings bonds is that it does not offer stability and predictability of cashflows like a fixed pay bond.

In this case, the Floating Rate Savings Bonds are linked to National Savings Certificate (NSC) rate which is at its lowest level after seeing a cut of 110bps from 7.90% to 6.80% (w.e.f. April 2020). Further drastic reduction in NSC rate seems unlikely.

**Trend in NSC rates**



**Comparison with other similar Debt Instruments:**

Floating Rate Savings Bond are completely safe with virtually zero credit risk. The existing rate offered is competitive to Bank FD rates (even senior citizen FD) and post office deposit rates; relatively longer lock-in than FD makes it less appealing. In comparison with other government-backed schemes like Senior Citizen Savings Schemes (SCSS), Pradhan Mantri Vaya Vandana Yojana (PMVVY), Public Provident fund (PPF); these floating rate bonds offer mildly lower interest rate and does not have tax benefits (sec 80C); but these instruments have an upper limit on investment amount. Also, PPF serves a different purpose of wealth accumulation over the years; and not for earning regular income like these bonds.

On comparing with Taxfree bonds (listed) issued by public sector enterprises; investors falling in lower slab rates would be better off investing in these floating rates savings bond - on post tax basis. Despite having a little higher credit and interest rate risk, taxfree bond offers better liquidity.

**Who Can Invest?**

Investing in these bonds is an attractive proposition for individuals especially in the lower income tax bracket from the point of view of locking in interest rates and ensuring safety of principal. Senior Citizens who have surplus money beyond their emergency needs and looking for higher interest rates can invest in these bonds. Investors looking for a safe investment avenue while earning a steady income can opt for this scheme after having provided for their liquidity needs (after exhausting 80C limits). These bonds offer guaranteed interest and complete capital protection.

**Disclosure:**

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