



A STUDY OF DIFFERENT AVENUES OF BUYING GOLD IN INDIA

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Abstract

Gold has historically held a unique position in India as a store of value, a symbol of cultural heritage, and a hedge against inflation. With the evolution of financial markets, Indian investors today can buy gold through multiple avenues such as physical gold, jewelry, exchange-traded funds (ETFs), mutual funds, and digital/demat accounts. This paper studies the comparative aspects of these investment options, analyzing factors like price efficiency, cost implications, storage requirements, buyback ease, convenience, liquidity, taxation, and purity. The study highlights how investor preferences are shifting from traditional jewelry purchases to more financial zed forms of gold investment, especially among urban populations.

Keywords: *Buy Gold, Gold ETFs, Digital Gold, Gold Mutual Funds, Sovereign Gold Bonds.*

Introduction

Gold occupies a significant place in India's economy, culture, and investment landscape. India is one of the largest consumers of gold globally, with demand driven not only by jewelry but also by its role as a safe-haven asset. Traditionally, households relied on physical gold and jewelry, but with financial market liberalization and technological advancements, alternative avenues like Gold ETFs, Gold Mutual Funds, and digital gold have gained popularity. This study seeks to evaluate and compare these investment avenues as on July 2025.

Objectives

1. To study different avenues of buying gold on various criteria.
2. To compare purchase of digital and physical gold on certain parameters.

Literature Review

Several studies have examined gold as an investment class in India. According to the World Gold Council (2024), Indian households collectively hold over 25,000 tonnes of gold, primarily in the form of jewelry. Previous literature emphasizes the cultural importance of gold in weddings and festivals, while more recent research focuses on gold ETFs and digital gold as efficient tools for portfolio diversification. However, there is limited comparative analysis incorporating both traditional and modern investment avenues, which this study addresses.

Methodology

This study which has adopted a descriptive and empirical research is based upon secondary data sources. The scope covers five major avenues of gold investment in India: physical gold (coins/bars), jewelry, Gold Exchange-Traded Funds (ETFs), Gold Mutual Funds, and Digital/Demat gold. The comparative framework evaluates these avenues across seven parameters: price efficiency, storage, buyback, convenience, purity, taxation, and liquidity. Data from reports of World Gold Council (2023-24), publications of Reserve Bank of India, Securities and Exchange Board of India, financial newspapers and investment articles form part of this research paper. This analysis reflects the regulatory, taxation and investments as on July 2025 hence as such there is no other time frame.



The data collected will be analyzed and tabulated as per the above stated parameters to have a bird's eye view. Conclusion will be based upon the data analysis done.

This study is limited by reliance on publicly available secondary data. As such the investor preferences and market dynamics may vary across rural and urban contexts, and future regulatory changes could alter the comparative attractiveness of the avenues studied. Further, the returns have not been compared and certain elements like GST, locker storage charges or so have been ignored. The scope is limited to the Indian market and reflects the current taxation policies and regulatory environment as governed by the Government of India, RBI, and SEBI. Location of the investors, being tech-savvy, and level of financial literacy in Urban or Rural areas have not been considered.

Comparative Analysis of Gold Investment Avenues

Avenue	Price Efficiency	Cost	Storage	Buyback	Convenience	Purity	Taxation	Liquidity
Physical Gold (Coins/Bars)	Close to market, minor premium	Making charges (2–5%)	Home/Bank locker	High, depends on dealer	Moderate	High (24K)	STCG (<3 yrs): taxed as per income slab; LTCG (>3 yrs): 20% with indexation ; 3% GST on purchase	Moderate – depends on dealer/jeweler
Jewelry	Market + high making charges	Making/wastage charges (10–20%)	Home/Bank locker	Moderate (deductions apply)	High cultural acceptance	Lower (22K common)	Same as physical gold; deductions in resale reduce realized value; 3% GST on purchase	Low – resale deductions common
Gold ETFs	Matches market price	Brokerage/expense ratio (~0.5–1%)	No physical storage	Easy liquidity in stock market	Very convenient	High (backed by 24K)	STCG (<3 yrs): taxed as per income slab; LTCG (>3 yrs): 20% with	Very High – traded on exchanges



Avenue	Price Efficiency	Cost	Storage	Buyback	Convenience	Purity	Taxation	Liquidity
							indexation ; no GST on units	
Gold Mutual Funds	Linked to ETFs/NAV	Expense ratio (~0.5–1%)	No storage	Redeemable via fund house	Convenient	High	Same as Gold ETFs; treated as non-equity mutual funds; no GST on units	High – redeemable through AMC
Digital/Demat Gold	Close to live price	Platform fees (~2–3%)	Stored by provider	Sellable on platform	Very convenient (mobile-based)	High (24K, regulated platforms)	Same as physical gold; STCG/LT CG rules apply; 3% GST on purchase	High – instant sale on apps

Findings and Discussion

The comparative analysis highlights that while jewelry remains culturally significant in India, it is the least efficient investment avenue due to high making/wastage charges and deductions during resale. Physical gold in the form of coins and bars offers better purity and higher resale value, but investors face storage costs and security concerns. Taxation plays a crucial role in shaping investor choices. For physical gold and jewelry, both short-term and long-term gains are taxable, with GST applicable on purchase. This reduces effective returns, especially when resale deductions are also factored in. In contrast, Gold ETFs and Gold Mutual Funds are more tax-efficient since no GST applies to their purchase, and long-term gains enjoy the 20% rate with indexation benefits. Additionally, these instruments provide high liquidity and transparency, making them attractive to urban and institutional investors.

Digital gold, though convenient and backed by high purity standards, is taxed similarly to physical gold, with GST at the time of purchase. Despite this, its popularity is rising among younger, tech-savvy investors because of its small-ticket affordability and integration with payment apps. Overall, taxation makes gold avenues through ETFs and mutual funds superior from a purely investment standpoint, while cultural and sentimental factors continue to sustain demand for jewelry and physical forms. The choice of avenue is therefore not only financial but also influenced by behavioral and cultural considerations.



Conclusion

The study finds that taxation and liquidity are two decisive factors influencing the attractiveness of different gold investment channels. While jewelry and physical holdings remain deeply rooted in tradition, they are increasingly less efficient investment avenues due to high making charges, GST, storage costs, and lower liquidity. In contrast, Gold ETFs and Gold Mutual Funds provide a more tax-efficient structure, with no GST on transactions and favorable long-term capital gains treatment at 20% with indexation. Their liquidity on exchanges and fund houses makes them highly suitable for investors seeking quick, transparent, and cost-effective exposure to gold. On other hand, digital gold is most convenient and pure but attracts same taxation as physical gold, including GST at purchase. However, due to its liquidity through instant buy-sell features on fintech platforms it outperforms all other avenues. Finally a diversified approach - holding jewelry for cultural needs while allocating investment oriented funds to ETFs, mutual funds, or digital gold can maximize both emotional and financial value for Indian households.

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