54EC Capital Gains Bonds

Save tax on property/asset capital gains by parking up to ₹50 lakh for 5 years.

5.25% p.a. | Saves LTCG tax (Section 54EC)

What is 54EC?

54EC bonds (named after Section 54EC of the Income-Tax Act) let you SAVE long-term capital-gains tax, typically on the sale of property or land, by reinvesting the gain into these government-backed bonds. Invest the gain (up to ₹50 lakh) within six months of the sale, lock it for five years, and that gain becomes tax-exempt. The interest, currently 5.25%, is modest and taxable, the real benefit is the tax you save on the capital gain.

In brief

Suits	Anyone with a long-term capital gain from land or a building who wants to save that tax.
You get	Exemption on the gain invested, plus 5.25% a year interest.
Your money	Locked for 5 years; invest within 6 months of the sale; up to ₹50 lakh.
Tax	The interest is taxable.
Watch for	The 6-month window is strict; plan before the sale is registered.

Key facts

Interest rate	5.25% p.a. (paid annually)
Purpose	Exempt long-term capital gains (mainly on property/land)
Lock-in	5 years, non-transferable, no loan against them
Maximum	₹50 lakh per person (across the year of sale + next)
Window	Invest within 6 months of the asset sale

What's new

Apr 2026 IRFC's 54EC bonds for 2026-27 pay 5.25% a year, redeemable after 5 years; REC and PFC also issue them.

Questions and answers

THE BASICS

What are 54EC bonds and who issues them?

They are bonds specified under Section 54EC, issued by government-backed entities, REC, PFC, IRFC and HUDCO. Investing your long-term capital gain into them lets you claim an exemption from capital-gains tax on that gain. They exist purely as a tax-saving route, not as a return product.

How do they save me tax?

When you sell a long-term asset (say a plot or a flat) and make a capital gain, you'd normally pay tax on it. If instead you invest that gain into 54EC bonds within 6 months of the sale, the amount invested is exempt from capital-gains tax under Section 54EC. Sell after the 5-year lock-in and you've legally avoided the tax on that gain.

What is the interest rate, and is it good?

Currently 5.25% per annum, paid annually. That's deliberately low, the point of these bonds is the tax saving, not the yield. If you didn't have a capital gain to shelter, you wouldn't buy them for the interest alone.

RULES & LIMITS

What is the maximum I can invest?

₹50 lakh per person, and this limit applies across the financial year of the sale AND the following year combined. So you cannot split a large gain across two years to invest ₹50 lakh twice; the ₹50 lakh is the overall ceiling for that gain.

What is the time limit to invest?

You must invest within 6 months of the date of transfer (sale) of the asset. Miss that window and you lose the 54EC exemption for that gain, so plan the reinvestment as soon as the sale is done.

Which capital gains qualify?

Only LONG-TERM capital gains, and (since April 2018) only those arising from the sale of land or building (or both). Gains from shares, mutual funds and most other assets do not qualify for 54EC, they have their own exemptions (like 54F).

LIQUIDITY & TAX

Can I exit before 5 years?

No. 54EC bonds have a hard 5-year lock-in. They are non-transferable, cannot be sold or gifted, and cannot be pledged for a loan. If you redeem or convert them to cash before 5 years, the exemption is withdrawn and the gain becomes taxable in that year.

Is the interest taxable?

Yes, the 5.25% interest is fully taxable at your slab each year; there is no TDS on these bonds. Only the CAPITAL GAIN you sheltered is exempt, not the interest earned on the bonds.

GOOD TO KNOW

When does 54EC make sense vs paying the tax?

It makes sense if you've made a large long-term gain on property, don't need that money for 5 years, and the tax saved (12.5% of the gain, plus surcharge/cess) is worth more to you than earning a market return on the money elsewhere. If you'd rather stay liquid or can earn well above 5.25% post-tax, paying the tax and reinvesting freely may be better, run the numbers.

Sources: IRFC 54EC Series X key information document.

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