



DEBT MARKET

Zero coupon bonds and T-bills

Bonds that pay no interest along the way: how the return is built in, and how each is taxed

Rules as in force on 16 October 2026

For training and education only. Not investment advice.

A zero-coupon bond pays no interest along the way.

Your whole return is the gap between the discounted price you pay now and the face value you are repaid at maturity. There is nothing in between.

Four terms to know first



Face value

The amount repaid at maturity. A zero is quoted against it, often ₹100 or ₹10,000.



Discount price

What you pay today, below face value. The lower the price, the higher your return.



No coupon

Nothing is paid in between. The whole return arrives in one lump at maturity.



Yield

Your yearly return, worked from the price, the face value and the time to maturity.

A zero has one cash flow: the face value, on one date. That is what makes it a zero.

The return, with real arithmetic

THE SET-UP

A zero-coupon bond has a face value of ₹10,000 and matures in 5 years.

It is bought today for ₹7,500.

- 1 The only cash flow is ₹10,000, received in 5 years.
- 2 Total gain = ₹10,000 – ₹7,500 = ₹2,500.
- 3 Yearly return = $(10,000 \div 7,500)$ raised to the power $1/5$, minus 1.
- 4 = 1.3333 raised to 0.2, minus 1 = 0.0592, i.e. about 5.92% a year.

No interest is paid, yet the bond earns about 5.92% a year before tax as the price climbs to face value.

Illustration with assumed, invented figures. Not a forecast and not a real bond.

Treasury bills: the government's short zero



Three tenors

Issued for 91, 182 or 364 days. All are zero-coupon: bought below ₹100, repaid at ₹100.



Who issues them

The Government of India, via RBI auctions. Repayment is a sovereign obligation; prices still move.



Who can buy

Banks, funds and firms; individuals too, via RBI Retail Direct, from ₹10,000.



Where they fit

The 1-year T-bill is an additional benchmark SEBI sets for debt schemes up to one year.

Sources: RBI auction notifications for 91/182/364-day Treasury Bills; RBI Retail Direct FAQ, 12 Nov 2021; SEBI additional-benchmark norm.

STRIPS: making zeros from a coupon bond

A regular government bond can be split into its separate cash flows.

- 1 Start with a coupon bond** A regular G-sec pays interest every six months and repays principal at the end.
- 2 Strip it** Each interest payment and the final principal becomes a separate security that can be traded on its own.
- 3 Each piece is a zero** Every strip now has one payment on one date — a zero-coupon bond in its own right.
- 4 Reconstitution** The strips can be reassembled into the original bond. This is the reverse of stripping.

Allowed on central G-secs since 1 April 2010; extended to state government securities in June 2025.

Source: RBI, *Separate Trading of Registered Interest and Principal of Securities (STRIPS)*; circular on state G-secs, 12 June 2025.

How each one is taxed

Instrument	How the gain is taxed
Treasury bills	At the investor's slab rate. A T-bill matures in 364 days or less, so the gain is always short-term. No indexation; no TDS.
Listed zero-coupon bond	Where taxed as a capital gain: over 12 months, long-term at 12.5% without indexation; 12 months or less, the slab rate.
Unlisted bond or debenture	At the slab rate, whatever the holding period, on transfer, redemption or maturity on or after 23 July 2024.
Notified zero-coupon bond	Government-notified (infrastructure or PSU issuers). Capital-gains treatment; if listed and held over 12 months, 12.5%.

Sources: Income-tax Act 2025 (formerly s.2(48), s.50AA and s.112A of the 1961 Act); Finance (No.2) Act 2024 amendment of s.50AA, effective 23 July 2024.

The instruments today

Current features, not market prices. These are rules and conventions in force on 16 October 2026.

T-BILL TENORS

91-364d

Three maturities: 91, 182 and 364 days, all zero-coupon, all auctioned by RBI.

MINIMUM FOR AN INDIVIDUAL

₹10,000

Smallest amount a person can invest in T-bills and G-secs via RBI Retail Direct.

STRIPS ALLOWED SINCE

2010

Central G-secs strippable into zeros since 1 April 2010; state G-secs added June 2025.

Sources: RBI Retail Direct FAQ, 12 Nov 2021; RBI STRIPS framework (2010, revised 2018) and state-G-sec circular, 12 Jun 2025.

If you learnt this from older material

What older decks say

- A zero-coupon bond is just a discounted corporate bond.
- Long-term gains are taxed at 20% with indexation.
- Government paper comes in large amounts only.
- Zeros are a niche corporate product.

What holds now

- Same idea; T-bills and STRIPS are zeros too.
- Indexation is gone: 12.5% on listed; slab on unlisted since 23 Jul 2024.
- Individuals buy T-bills from ₹10,000 via RBI Retail Direct.
- Eligible G-secs can be stripped into zeros across maturities.

The concept held. The tax rules and the ways an individual can buy changed.

Sources: Finance (No.2) Act 2024 (unlisted-bond rule, 23 Jul 2024); RBI Retail Direct (2021) and STRIPS framework.

Four things people get wrong



'A zero-coupon bond pays no return.'

It pays nothing in between, but the gap between the discount price and the face value is the return.



'A zero has no interest-rate risk.'

Its price still moves with yields before maturity, and the longer the maturity, the bigger the swing.



'T-bills and bonds are taxed the same.'

A T-bill's gain is always at the slab rate. A listed bond held over a year can be long-term at 12.5%.



'T-bills are only for big institutions.'

An individual can buy them via RBI Retail Direct from ₹10,000, on a non-competitive basis.

Check yourself

Q1

A zero-coupon bond is bought for ₹7,500 and repays ₹10,000 after 5 years. What is the gain, and roughly the yearly return?

Q2

How is the gain on a 182-day Treasury bill taxed, and why can it never be long-term?

Q3

What does 'stripping' a government bond do, and what is each piece?

Sources and disclaimer

SOURCES FOR THE FIGURES IN THIS DECK

- Treasury bills are zero-coupon, issued at a discount in 91-, 182- and 364-day tenors by RBI auction; retail bids are non-competitive (up to 5%): RBI T-bill auction releases, Aug 2026.
- Individuals can buy T-bills and G-secs from ₹10,000 via RBI Retail Direct: RBI Retail Direct FAQ, rbi.org.in, 12 November 2021.
- STRIPS splits a G-sec into separate zero-coupon pieces (one per cash flow); on central G-secs since 1 Apr 2010, on state G-secs since 12 Jun 2025: RBI STRIPS circular, 12 Jun 2025.
- T-bill gains: slab rate (always short-term). Listed zero-coupon bonds: capital gains, long-term 12.5% (no indexation) after 12 months: Income-tax Act 2025; indexation removed 23 Jul 2024.
- Unlisted bonds/debentures: slab rate whatever the holding period (transfer, redemption or maturity) from 23 Jul 2024: Income-tax Act 2025. Notified zero-coupon bonds are Govt-specified.
- All prices, the face value and the yield in the worked example are invented for illustration and are not a real bond.

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