Debentures can have put and / or call options.

- **A "put" option means** that you have an option to surrender the debenture if you want to, and get back your principal.
- **A "call" option means** that the company has an option to ask you to surrender the debenture, and pay back the principal to you.
- **A put option gives a lot of flexibility to you** – if interest rates go up, and you can get better rates from the market, you can exercise the put option and get back your money. You can invest it elsewhere, and get better interest.
- **A call option gives flexibility to the company** – if interest rates go down, and the company can get funds at lower rates from the market, it can exercise the call option and give your money back to you. It can then raise money from the market at lower rates.

Income Tax Treatment?

For income tax purpose, the debentures are treated like debt instruments.

Since debenture is a capital asset.

- If you sell the debenture on the stock exchange before holding it for a year, it would be a **Short Term Capital Gain** – it would be included in your income and would be tax as per prevailing IT slabs.
- If you sell it on an exchange after holding it for a year or more, the gain would be long term capital gain. This LTCG **(Long Term Capital Gain)** should be calculated without indexation, and would be taxed at 10% of the gain.