Mail Today ND 20.10.2016 P-23

5 tax rules every bank FD investor should know

By **Renu Yadav**

Bank fixed deposits (FDs)are one of the most popular investment choices, but despite that many people are not aware of the tax treatment of the interest income from bank.

1 Many people think that they can avoid tax if they invest in the name of their non-working spouse or minor child. This is a misconception. If you invest in bank fixed deposits in the name of your minor child or spouse (non-working), the interest income will be added to your income and taxed as per your slab.

2 The interest income from bank fixed deposit is fully taxable, unlike savings bank account where one gets income tax exemption on the interest earned up to Rs 10,000 in a year. In case of FDs, banks deduct tax at source (TDS) at the rate of 10 per cent if the interest income for the year is more than Rs 10,000. If the person has not provided his or her permanent account number (PAN), bank will deduct TDS at the rate of 20 per cent.

3 Even if your bank has deducted TDS, you should report the interest income in your tax return. Also, if you fall in the higher tax bracket of 20 per cent or 30 per cent, you should pay the extra tax if your bank has deducted TDS at the rate of 10 per cent.

4 Also, investing in two branches of the same bank won't help you save TDS as now banks aggregate interest income on all the fixed deposits across branches of the same bank to check if the interest income for the year is more than Rs 10,000 or not. Earlier this rule was applicable on a single branch. Same TDS rule applies on recurring deposits.

5 Also, if you have chosen the cumulative option for your fixed deposits to receive the interest at the end of the tenure, it is advisable that you declare the interest income every year, as your bank may be deducting TDS (if applicable) and depositing under your PAN. If you don't declare the interest income in your return, it may show mismatch in your 26AS statement (tax credit statement) and return filed by you.