

# 11 Bank Fixed Deposit Account

## Learning Objective

Explain in details how one should invest in Bank FD

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# 11 Bank Fixed Deposit Account

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## 11 Bank Fixed Deposit Account

### Definition

“A deposit received by a bank for a fixed period and which is withdrawable only after the expiry of the said fixed period” is a bank fixed deposit [FD] and it includes deposits such as recurring, cumulative, annuity, reinvestment, cash certificates etc.

The rates of interest on FD are decided by the board of the bank and must be disclosed in advance.



## 11 Bank Fixed Deposit Account

### Definition

The minimum period for FD is seven days and maximum 120 months. Higher interest can be allowed to senior citizens. There is a simple procedure for automatic transfer to nominee/s in case of death of depositor.

### Who can open a FD account?

Individuals, Sole proprietor/s, HUF,  
Partnerships, Trusts, Associations,  
Limited Companies.



## 11 Bank Fixed Deposit Account

### Interest

Board of Directors of a bank approves rate interest applicable on FDs

Banks are free to floating rates of interest on FDs

Interest can be paid monthly, quarterly, annually or at maturity.



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### Interest

Except for deposits of over Rs. 15 lakhs, the rates offered to depositors should be same for deposits with given maturity.

Additional 1% interest can be paid to senior citizens, banks' present and retired employees and directors, etc.

Higher rates are also permitted under certain conditions on FDs placed by defense personnel.



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### Tax Deduction

Banks have to deduct tax at source on interest paid where the amount is in excess of Rs. 10,000/-. This limit is not per deposit but per individual.

If depositor furnishes either 15G or 15H from then bank need not deduct the tax.

Investment in FD for five years or more is entitled for deduction from taxable income under section 80C of the Income Tax Act.



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## Operation

On opening FD, bank issues FD receipt containing details like dates of issue and maturity, amount, rate of interest and when is it to be paid, period of deposit and amount on maturity [ in case of cumulative interest].

## Nomination

Nomination facility is available on the bank FD account.





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### Early Withdrawal

Depositor can ask for early withdrawal by issue of written instruction.

Banks pay interest up to the date of withdrawal; but also charge penal interest for early withdrawal. The rate of penal interest must be advised to depositors along with deposit rate.

In case depositor reinvests amount withdrawn prematurely, in a new deposit, that has maturity later than that of the original FD, penal interest cannot be charged.



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## Renewal

Deposits are renewed on maturity on the request of the depositor.

Deposits can be renewed before maturity provided the term of the new deposit is longer than remaining period of the old FD.

Interest on renewal will be

- on the original deposit up to date of renewal at the applicable rate.
- on new FD up to maturity at the rate prevailing on renewal.



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### Maturity

Deposits mature at the end of the period they were placed at.

Depositor can request bank to renew deposit, bank cannot do so on their own.

In case depositor does not wish to renew, he can instruct bank to refund it by issue of cheque /DD or credit to his account with the bank.

In case FD is neither claimed nor renewed by the depositor the deposit is designated as overdue deposit.



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### Renewal of Overdue Deposits

Policy regarding renewal of overdue deposits be non discretionary and non discriminatory. It is decided by the board of the bank.

In case request for renewal is received within 14 days of maturity, the FD is renewed at the rate prevailing on the date of maturity. If after 14 days, the rate prevailing at renewal is applicable.



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### Advance on Fixed Deposits

Loans can be granted against the security of FD. The margin and the rate of interest are decided by the board of the bank.

In case of loans given to third parties on the security of FD, banks can fix the interest to be charged for loans up to Rs. Two lakhs. Loans above this amount are to be charged at the rates fixed by the RBI.



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## Joint Holdings

FD can be opened in the joint names.

If one joint depositor asks for premature withdrawal or loan against deposit, consent of remaining joint holders is required.

If any one joint depositor produces the original FD receipt for refund, it has to be arranged; banks are not obliged to ask for signatures of remaining joint holders.



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### Loss of FD Receipt

FD receipt neither transferable nor negotiable.

In case the original receipt is lost, depositors should ask for a duplicate.

The request needs to be signed by all the joint holders.



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### Repayment

When FD is claimed on maturity bank issues a cheque / DD or credits the account of the depositor.

In case of joint holding, cheque /DD is in the name of the first holder.





## 11 Bank Fixed Deposit Account

### Banking Cash Transaction Tax

This tax is payable when

individual or HUF withdraws Rs. 50,000/-  
and

companies and other bodies withdraw Rs.  
1,00,000/-

or more in a single day.



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### Conversion of Term Deposit

Banks allow depositors to convert their deposit immediately into any other deposit in the same bank.

No penalty is levied or interest reduced if the deposit remains with the bank for a longer period than that remaining on the original deposit.



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### Recurring Deposit

A variant of FD is the recurring deposit or cumulative deposit.

Its intent is to inculcate the habit of saving.

Depositors can save a recurring amount every month for the period selected.

Interest is not payable if the account closed within three months.



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### Reinvestment Deposit

Deposits where interest [as and when due] is reinvested at the same contracted rate till maturity.

This interest is paid with the principal amount on the date of maturity.



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### Deposit Schemes with Lock in Period

Deposits with lock in period are not permitted.

During the lock in period withdrawals are not allowed. Interest is not paid if amounts are [for some ] reason prematurely withdrawn. The rates on such deposits are also not in tune with rates on normal deposits.

