

3-year bank FDs may get tax exemption

The government may consider the demand of banks to make fixed deposits for three years and more tax-free instead of the five-year lock-in period at present, providing these lenders a level-playing field with mutual funds and tax-free bonds that have been weaning away a large chunk of investors.


Indicating this possibility, officials said bank executives and heads of financial institutions also requested finance minister Arun Jaitley in a pre-budget meeting to consider separate tax slabs for corporate entities on the lines of different tax slabs for individuals.

"The view from the pre-budget meeting is that FDs of lower maturity should be considered for tax benefits," said a person present in the meeting.

Saving More

Instruments Eligible	Lock-in period
PPF	15 years
ELSS	3 years
Bank FD	5 years
NSC	6 years
Life Insurance Policies	5 years

Limit under Section 80 C eligible for tax rebate:
₹1.5 lakh



Bankers say this will discourage people from opting for other instruments like mutual funds, which have a lock-in period of three years. The terms of schemes eligible for tax rebate under Section 80 C are not uniform; while public provident fund has a lock-in period of 15 years, it is six years in the case of national savings certificate and three years in equitylinked savings schemes (ELSS).

"Largely, it will bring flexibility to people in terms of lock-in and lower lock-in will make it (the sum invested) available after three years," said Suresh Sadagopan, founder of Ladder 7 Financial Advisories. "This will bring bank FD in direct competition with ELSS."

Financial saving as a percentage of gross domestic saving fell to 7.1% in 2012-13 from 7.2% in the previous year. Gross domestic saving fell to 30.1% from 31.3% during this period.

At present, investment up to Rs 1.5 lakh in certain instruments including various post office schemes, public provident fund, bank deposit, life insurance and principal paid on housing loan is eligible for a tax rebate.

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