# No TDS on deposits doesn't mean these are tax-free

Are you receiving emails or telephone calls from banks advising you to invest in recurring deposits because there is no tax deducted at source (TDS) in this case? Remember, such investments aren't tax-free.

No TDS merely means the bank will pay you the entire interest amount without forwarding the tax on it to the government. However, the fixed deposit holder will have to include this interest income in her/his total income and pay tax on this, according to her/his tax bracket.

"There is a common misconception if there is no TDS, it is tax-free. But whether it is recurring deposit, post-office deposits, national savings certificates, or any other savings, if there is no TDS, the interest income is taxed. The only difference between these and fixed deposits is the bank or post office will not deduct tax at source," says Sanjeev Gokhale, a chartered accountant.

Banks offer the same rate of interest on fixed deposits and recurring deposits. For fixed deposits, you invest the money in a lump sum, while in the case of recurring deposits, you invest once every month. This instrument is encouraged as a way of instilling discipline among investors.

The difference is in the case of fixed deposits. If the interest exceeds Rs 10,000 in a financial year, the bank will deduct 10 per cent tax before crediting the interest to the account. However, this is not the only tax the deposit holder is liable to pay. "This is another common misconception. Many people think they have to pay the remaining 20 per cent tax while filing tax returns. Or, he/she can also pay through advance tax," Gokhale says.

A few months ago, it was reported the income tax department had issued notices to several people who had not filed returns. Among them were those who had received interest income of more than Rs 50,000. If you receive such a notice, you will have to pay the tax, as well as interest for the delay. The interest is one per cent a month from the last date of filing returns (July 1). The penalty for not filing returns is also charged at the same rate.

So, whether you invest in fixed deposits, recurring deposits or tax-saver post office schemes, remember to include the interest income while filing tax returns. The only case in which you don't have to pay income tax on fixed deposits is if you have no other source of income and your income is below the threshold taxable limit. For this, you have to file Form 15G, stating you have no taxable income. Senior citizens have to file Form 15H. In many cases, senior citizens feel if they have done this, they are not liable to pay tax. But if you have two or three fixed deposits in separate banks and you submit a Form 15G or 15H in all the banks, you will have to pay tax if the total interest from all the fixed deposits exceeds the taxable income limit, says chartered accountant Arvind Rao.

"Since last year, while submitting Form 15G, deposit holders have to state the deposits they have with other banks. So, banks have to report two types of interests—one on which TDS has been deducted and the other on which it hasn't," he says.

*(Business Standard)*