



INVESTMENT IN FIXED DEPOSITS– INCOME TAX **DEDUCTION FOR AAM AADMI**

Hello readers , Many of the assesseees and their advisors which I came across have doubts regarding the claim for deduction under section 80C on Investments in term deposits with scheduled bank regarding their statutory requirements to be fulfilled for claiming such deductions, So I decided to bring a comprehensive article on this matter.

BARE ACT

SECTION 80C Sub Section (1) In computing the total income of an assessee, being an individual or a Hindu undivided family, there shall be deducted, in accordance with and subject to the provisions of this section, the whole of the amount paid or deposited in the previous year, being the aggregate of the sums referred to in sub-section (2), as does not exceed. [One lakh rupees].(One lakh Fifty thousand from assessment year 2015-2016 onwards.)

SECTION 80C Sub Section (2) The sums referred to in sub-section (1) shall be any sums paid or deposited in the previous year by the assessee—

(xxi) as term deposit—

(a) For a fixed period of not less than five years with a scheduled bank; and

(b) Which is in accordance with a scheme framed and notified, by the Central Government, in the Official Gazette for the purposes of this clause.

Explanation.—For the purposes of this clause, “scheduled bank” means the State Bank of India constituted under the State Bank of India Act, 1955 (23 of 1955), or a subsidiary bank as defined in the State Bank of India (Subsidiary Banks) Act, 1959 (38 of 1959), or a corresponding new bank constituted under section 3 of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970 (5 of 1970), or under section 3 of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1980 (40 of 1980), or any other bank, being a bank included in the Second Schedule to the Reserve Bank of India.

AUTHOR'S EXPLANATION ON BARE ACT

Where an Individual or HUF has deposited or paid any amount as Fixed Deposit in any Scheduled Bank for a term not less than 5 Years in any previous year subject to Scheme framed by Central Government in this behalf then such Individual or HUF is eligible to claim deduction to the extent of Rs1,00, 000 (Rs1,50,000 from AY 2015-16 onwards) under section 80C for assessment year relevant to the previous year .

Note- The amount of deduction has to be claimed by the assessee by keeping In mind the provision of Section 80CCC.

BANK TERM DEPOSIT SCHEME, 2006

In exercise of the powers conferred by clause (xxi) of sub-section (2) of section 80C of the Income-tax Act, 1961 (43 of 1961), the Central Government hereby makes the following scheme, namely:-

1. Short title and commencement.

- (1) This scheme may be called the Bank Term Deposit Scheme, 2006.
- (2) It shall come into force on the date of its publication in the Official Gazette.

2. Definitions.

- (1) In this scheme, unless the context otherwise requires,-
 - (a) \"Act\" means the Income-tax Act, 1961 (43 of 1961);
 - (b) \"assessee\" means-
 - (i) an individual; or
 - (ii) a Hindu undivided family;
 - (c) \"form\" means a form as prescribed by the scheduled bank;
 - (d) \"investment\" means an investment in the term deposit of a scheduled bank by an assessee in accordance with this scheme;
 - (e) \"scheduled bank\" means the State Bank of India constituted under the State Bank of India Act, 1955 (23 of 1955), or a subsidiary bank as defined in the State Bank of India (Subsidiary Banks) Act, 1959 (38 of 1959), or a corresponding new bank constituted under section 3 of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970 (5 of 1970), or under section 3 of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1980 (40 of 1980), or any other bank, being a bank included in the Second Schedule to the Reserve Bank of India Act, 1934 (2 of 1934);
 - (f) \"term deposit\" means a deposit with a scheduled bank for a fixed period of not less than five years;
 - (g) \"year\" means a year commencing on the 1st day of April.
- (2) Words and expressions used herein and not defined shall have the meanings respectively, assigned to them in the Act.

3. Investment

(1) An assessee can invest in the term deposit of a scheduled bank any amount not exceeding one lakh rupees in a year.

(2) The amount to be invested in the term deposit of a scheduled bank shall be a minimum of one hundred rupees or multiples thereof.

4. Types of term deposit

(I) Term deposit shall be of following types, namely:-

(a) Single holder type deposits;

(b) Joint holder type deposits;

(2) (a) The single holder type deposit receipt shall be issued to an individual for himself or in the capacity of the Karta of the Hindu undivided family;

(b) The joint holder type deposit receipt may be issued jointly to two adults or jointly to an adult and a minor, and payable to either of the holders or to the survivor:

Provided that in the case of joint holder type deposit, the deduction from income under section 80C of the Act shall be available only to the first holder of the deposit.

5. Nomination

(1) Subject to the provisions of paragraph 4, the single holder or the joint holders of a term deposit may, by filling in necessary particulars in the prescribed form at the time of making the term deposit, nominate any person who, in the event of death of the single holder or both the joint holders, as the case may be, shall become entitled to the deposit and to the payment due thereon. If such nomination is not made at the time of making the term deposit, it may be made by the single holder, the joint holders or the surviving joint holder, as the case may be, at any time after the term deposit receipt is issued, but before its maturity, by means of an application in the prescribed form to the officer in-charge of the branch of the bank from which the term deposit receipt was issued.

(2) No nomination shall be made in respect of a term deposit applied for and held by or on behalf of a minor.

6. Procedure for investment in term deposit

An assessee desiring to invest in term deposit, shall present **at** any branch of a scheduled bank, an application in the prescribed form.

7. Issue of term deposit receipt

(I) The bank shall issue a term deposit receipt to an assessee on receipt of payment.

(2) The term deposit receipt shall bear the name, address, Permanent Account Number and signature of the assessee, along with any other particulars which the scheduled bank may specify.

8. Transfer from one branch of the scheduled bank to another

(1) A term deposit may be transferred from one branch of the scheduled bank from which it has been issued, to any other branch of the said bank, on the assessee making an application, at either of the two branches:

Provided that no term deposit shall be transferred from one scheduled bank to another scheduled bank.

(2) Every such application shall be signed by the holder of the term deposit receipt:

Provided that in the case of joint holder type deposit, the application may be signed by one of the joint holders if the other is dead.

9. Pledging of term deposit

The term deposit shall **not** be pledged to secure loan or as security to any other asset.

10. Replacement of lost or destroyed term deposit receipts.-

(1) If a term deposit receipt is lost, stolen, destroyed, mutilated or defaced, the person entitled thereto may apply for the issue of a duplicate receipt to the branch of the scheduled bank from where the receipt was issued.

(2) Every such application shall be accompanied by a statement showing particulars, such as number, amount and date of the receipt, and the circumstance attending such loss, theft, destruction, mutilation or defacement.

(3) If the officer in-charge of the bank is satisfied of the loss, theft, destruction, mutilation or defacement of the certificate, he shall issue a duplicate receipt on the applicant furnishing an indemnity bond in the prescribed form with one or more approved sureties or with a bank guarantee:

Provided that where the face value or the aggregate face value of the certificate or certificates lost, stolen, destroyed, mutilated or defaced is five hundred rupees or less, a duplicate receipt or receipts may be issued on the applicant furnishing an indemnity bond without any such surety or guarantee:

Provided further that where such application is made with respect to a receipt mutilated or defaced, of whatever face value, a duplicate receipt may be issued without any such indemnity bond, surety or guarantee, if the receipt mutilated or defaced is surrendered and the receipt is capable of being identified as the one originally issued.

(4) A duplicate receipt issued under sub-paragraph (3) shall be treated as equivalent to the original receipt for all the purposes of this scheme except that it shall not be encashable at a branch of the bank other than the branch at which such receipt is issued without previous verification.

11. Encashment on maturity

(1) The maturity period of a term deposit receipt of any denomination shall be five years commencing from the date of the receipt.

(2) No term deposit shall be encashed before the expiry of five years from the date of its receipt.

12. Rate of interest

(1) The rate of interest on the term deposit shall be in accordance with the rate fixed by the scheduled bank from time to time.

(2) The interest may be paid either in lump sum at the time of maturity or it may be paid every quarter or every month in accordance with the regulatory guidelines for payment of interest on the term deposit.

(3) Where the interest is paid by the scheduled bank in lump sum at the time of maturity, the term deposit receipt shall bear the yearly rate of interest on the term deposit.

13. Right of nominees

(1) In the event of the death of the holder of a term deposit in respect of which a nomination is in force, the nominee or nominees shall be entitled at any time before or after the maturity of the term deposit to encash the term deposit.

(2) For the purpose of sub-paragraph (1), the surviving nominee or nominees shall make an application to the branch manager of the bank, supported by proof of death of the holder and of deceased nominee or nominees, if any.

(3) If there are more nominees than one, all the nominees shall give a joint discharge of the receipt at the time of receiving the payment.

14. Payment to legal heirs

If a holder of a term deposit dies and there is no nomination in force at the time of his death, manager of the branch of bank from where the term deposit was issued, shall pay the sum due to the deceased, to his legal heirs.

15. Income tax

(1) Interest on these term deposits shall be liable to tax under the Act, on the basis of annual accrual or receipt, depending upon the method of accounting followed by the assessee.

(2) The tax on such interest shall be deducted in accordance with the provisions of section 194A or section 195 of the Act.

16. Power to relax

Where the Central Government is satisfied that the operation of any of the provisions of this scheme causes undue hardship to the assessee, it may, by order, for reasons to be recorded in writing, relax the requirements of that provision in a manner not inconsistent with the provisions of the Act.

AUTHOR'S EXPLANATION ON BANK TERM DEPOSIT SCHEME 2006

- Where an assessee being Individual or Hindu Undivided family has made an Investment in term deposit of any Scheduled Bank for a fixed period of not less than five years for an amount not more less than hundred rupees is eligible to claim deduction on Total income under section 80C at an amount lower of amount invested or One Lakh (Which is One Lakh Fifty Thousand from Assessment Year 2015-2016).
- The Term Deposit can be made in the name of Single Holder or Joint Holder.
- The single holder or Joint Holder may nominate any person who in the event of death of the single holder or both the joint holders shall become entitled to the deposit and to the payment due thereon ; Nomination shall be made before the expiry of term deposit in the prescribed form and manner.
- A term deposit may be transferred from one branch of the scheduled bank from which it has been issued to any other branch of the said bank.
- Provided that no term deposit shall be transferred from one scheduled bank to another scheduled bank.
- The term deposit **shall not** be pledged to secure loan or as security to any other asset.
- If a term deposit receipt is lost, stolen, destroyed, mutilated or defaced, the person entitled thereto may apply for the issue of a duplicate receipt to the branch of the scheduled bank from where the receipt was issued earlier.
- If the officer in-charge of the bank is satisfied of the loss, theft, destruction, mutilation or defacement of the certificate, he shall issue a duplicate receipt on the applicant furnishing an

indemnity bond in the prescribed form with one or more approved sureties or with a bank guarantee.

- Such duplicate receipt issued shall be treated as the original receipt for all the purposes of this scheme except that it shall not be encashable at a branch of the bank other than the branch at which such receipt is issued without previous verification.
- The maturity period of a term deposit receipt of any denomination **shall be five years** commencing from the date of the receipt.
- The **interest may be paid** either in lump sum at the time of maturity or it may be paid every quarter or every month in accordance with the regulatory guidelines for payment of interest on the term deposit.
- If a holder of a term deposit dies and there is no nomination in force at the time of his death, then the manager of the branch of bank from where the term deposit was issued, shall pay the sum to the legal heirs of the assessee so deceased.
- Interest on these term deposits shall be liable to tax under the Act, on the basis of annual accrual or receipt, depending upon the method of accounting followed by the assessee.
- The tax on such interest shall be deducted in accordance with the provisions of section 194A or section 195 of the Act.
- Where the Central Government is satisfied that the operation of any of the provisions of this scheme causes undue hardship to the assessee, it may, by order, for reasons to be recorded in writing, relax the requirements of that provision in a manner not inconsistent with the provisions of the Act.

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