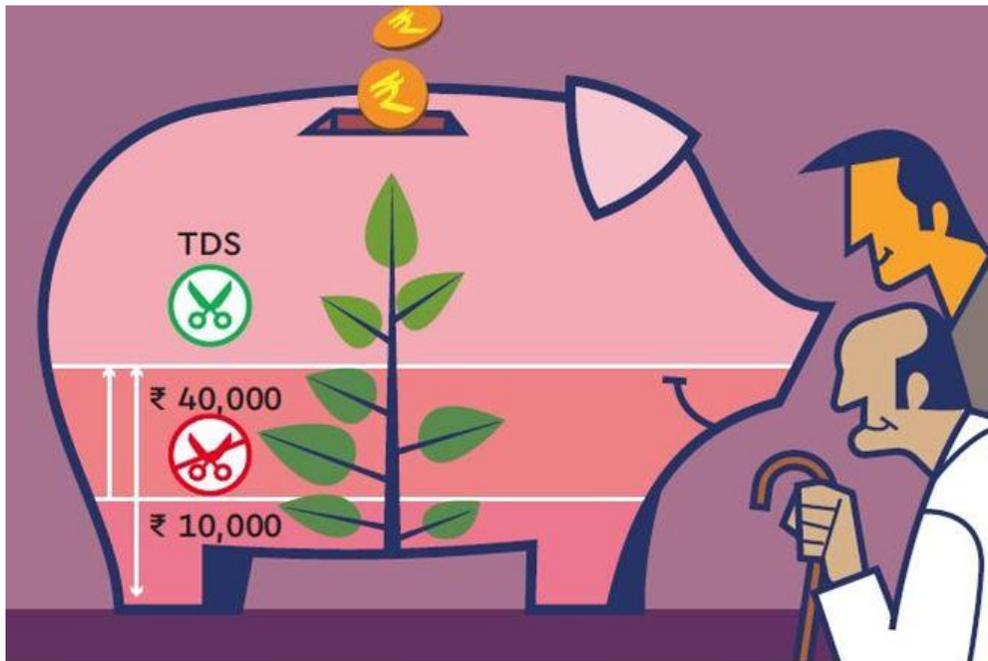


Budget 2019-20: Bank depositors to gain from rise in TDS threshold

By: Saikat Neogi | Published: February 4, 2019 3:01 AM

Banks will not deduct TDS from fixed deposits interest income for up to ₹40,000. However, the interest income will still be taxable as per the slab rate



Interim Budget has proposed to amend Section 194-A of the Income Tax Act, 1961.

(Illustration: Shyam Kumar Prasad)

In a move that would benefit risk-averse investors, the government in the Interim Budget 2019 has increased the threshold for tax deduction at source (TDS) on interest from bank or post office deposits to Rs40,000 from the existing Rs10,000.

In other words, banks or post offices will not deduct TDS from the interest income up to Rs40,000. But the interest income will still be taxable as per current income tax laws. So, the four-times increase in TDS limit means an individual can deposit up to Rs5 lakh in bank/post office term deposits without banks deducting any tax (assuming around 8% annual interest). This will benefit small investors and senior citizens, most of who do not have taxable income but have to file returns to claim refund.

Changes in Section 194-A

Accordingly, the Interim Budget has proposed to amend Section 194-A of the Income Tax Act, 1961. Till now, under Section 194-A, if the interest income from FDs made in banks/post office exceeds Rs10,000 in a year, the amount is credited to the individual only after deducting tax at the rate of 10%. This is applicable on interest paid out by banks/post office and not housing finance companies.

Interest earned from fixed deposits is taxed on accrual basis at the slab rate applicable. At present, on fixed deposits, banks deduct 10% TDS on interest to residents, 20% for those who do not have PAN and 30.90% to non resident Indians. Even recurring deposits attract tax deduction of 10% of the interest earned.

At present, exemption on TDS can be claimed by submitting Form 15G (those below 60 years) and Form 15H (60 years and above). There is also penalty for false declaration in Form 15G/H.

No changes in 80TTA/ 80TTB

Savings banks account holders will continue to get exemption under Section 80TTA on interest up to Rs10,000 from savings account in a financial year. This is applicable for savings bank account, post office or co-operative banks. If the interest earned from these sources exceeds Rs10,000, the extra amount will be taxable.

For senior citizens, the Central Board of Direct Taxes has issued a notification clarifying that no TDS will be deducted by the banks if the interest income in a single financial year does not exceed Rs50,000. In fact, in last year's Budget, finance minister [Arun Jaitley](#) had introduced a new Section 80TTB where any individual, aged 60 years and above can claim the deduction of up to Rs50,000 of interest income from deposits with either banks, co-operative societies or a post office from their gross total income before levy of tax.

Boost to bank deposits

In the last few months, bank deposit growth has significantly lagged bank

credit growth. For the fortnight ended Jan 4, 2019, the aggregate deposits have registered a growth of 9.9% year-on-year or Rs10.85 lakh crore and advances have increased by 14.5% or Rs 11.85 lakh crore. So, banks have raised their deposit rates to attract more funds and retain investors. Such widening gap between deposit and credit growth requires banks to manage liquidity by focusing on deposit growth.

Moreover, collections from various small savings schemes have surged as the gap between the small saving interest rate (average of PPF and Sukanya Samridhi accounts rate) and average bank term deposit (>1 year) still remains around 98 basis points. Also, many risk-averse investors are gradually investing in mutual funds and insurance products to diversify their portfolio.

For latest coverage on [Budget 2019-20](#) log on to [financialexpress.com](#). We bring you full coverage of [Union Budget 2019 Live](#). Stay Connected.

Get live [Stock Prices](#) from BSE and NSE and latest NAV, portfolio of [Mutual Funds](#), calculate your tax by [Income Tax Calculator](#), know market's [Top Gainers](#), [Top Losers](#) & [Best Equity Funds](#). Like us on [Facebook](#) and follow us on [Twitter](#).

HOME BUDGET 2019 Budget 2019-20: Bank Depositors To Gain From Rise In TDS Threshold

An Online MBA Module Devised by Industry Experts....

Amity Online |

Sponsored

11 Month PG Diploma in Machine Learning & AI

Amity University Online |

Sponsored

77% Product Managers Hired By Tech Giants Are First-...

UpGrad |

Sponsored

9 of 10 Doctors in Coimbatore recommend these hearin...

Soundrise |