

Fixed Deposits (FDs) are the most popular investment instrument in India due to their stable and guaranteed returns. Like any other regulated investment vehicles, FDs are also governed by certain rules and regulations. For instance, the interest earned on FD is taxable if it exceeds a certain threshold. Another example would be - **cumulative FDs** allow premature withdrawal, however, you may have to pay a premature withdrawal penalty fee.

There are quite a few of such rules imposed by the RBI (Reserve Bank of India). In this blog, we have covered the various aspects of FD rules and regulations in India to keep you well-informed. Let's dive in!

Understanding Fixed Deposit Rules and Regulations

Fixed deposits offer a secure way to invest your money for a fixed period of time at a predetermined interest rate. Here are some key regulations that govern FDs in India:

1. Minimum and Maximum Deposit Amounts

The Reserve Bank of India (RBI) has set guidelines for deposit amount. Typically, for **regular FDs**, the minimum deposit ranges from ₹1,000 to ₹10,000, depending on the bank, with no maximum limit, allowing substantial investments.

2. Tenure and Premature Withdrawal

For callable FDs (FDs with no lock-in period), the tenure usually ranges from 7 days to 10 years. Premature withdrawals are

permitted, but banks impose a penalty of 1%-2% of the principal amount. It is crucial to consider liquidity needs before opting for early withdrawal.

3. Interest Rates

[Interest rates on FDs](#) are influenced by RBI's monetary policies. Generally, when RBI increases the repo rate (the rate at which banks lend money), banks generally increase deposit rates and vice versa. However, the rate changes happen solely at the bank's discretion.

4. Tax Implications

Interest earned on FDs is taxable as per the individual's tax slab, impacting overall returns for those in higher brackets. A minimum TDS of 10% is applicable if the interest income exceeds ₹40,000 for regular citizens and ₹50,000 for senior citizens. The exemption limit is higher for senior citizens and falls under Section 80TTB of the Income Tax Act, 1961.

Alternatively, investors can claim tax benefits under Section 80C with [Tax Saver Fixed Deposits](#). However, such FDs come with a lock-in period of 5 years, meaning you cannot withdraw funds before the maturity period.

5. Nomination Facility

As per RBI mandate, investors are required to add nominee at the time of opening an FD account. The nominee acts as the custodian of the account upon the demise of the account holder. Please note that a nominee may or may not be the legal heir of the account.

Depositors can nominate one person per account, with the option to change nomination details.

Tax Deducted at Source (TDS) on Fixed Deposits

When dealing with fixed deposits, it is essential to understand the rules and regulations in India regarding Tax Deducted at Source (TDS) on interest income. According to FD rules, for regular depositors, a TDS of 10% is applicable if the interest income is more than ₹40,000 in a financial year.

Senior citizens enjoy a higher exemption limit of ₹50,000 (interest earned in a financial year) under Section 80TTB of the Income Tax Act. While filing an ITR, FD account holders are required to disclose the interest income from FDs under the heading 'income from other sources.'

To avoid higher TDS deductions, ensure you provide accurate PAN details to the bank or financial institution where your FDs are held. Additionally, if your total income falls below the taxable threshold, submitting Form 15G/15H can help you avoid TDS deductions.

Loan Against Fixed Deposits

One advantage of having a fixed deposit is the ability to secure a loan/overdraft against it. Most banks offer loans up to 90% of the fixed deposit amount, using the FD as collateral.

Under FD regulations in India, even individuals with a low credit score or poor credit history can obtain a loan against their fixed deposit. Regular repayments on such loans can improve one's credit score over time. Also, loan against FDs relieve depositors from the EMI burden – all they have to do is repay the amount before the FD maturity period.

Premature Withdrawal Penalties and Sample Calculations

While FDs come with a range of tenures, there may be instances where you need to withdraw your funds before the maturity date. According to FD rules, premature withdrawals incur penalties, which vary from one bank to another.

To understand the potential impact of premature withdrawals on your returns, it is advisable to calculate the exact penalty charged by your bank.

Reinvesting Fixed Deposit Interest

When opening an FD, banks offer two options for receiving interest payments:

1. Non-Cumulative FDs: The payable interest can be received monthly or quarterly. The maturity period ranges from 7 days to 10 years.

2. Cumulative FDs: In this type of FD, the interest is compounded quarterly and reinvested with the principal amount. The maturity period generally ranges from 6 months to 10 years.

Choosing the right fixed deposit (FD) option depends on your financial goals and cash flow requirements. If you seek a regular income stream, the regular payment option may be ideal. Conversely, if you aim to accumulate interest for higher returns at maturity, reinvesting the interest is a better choice.

FD Insurance – Your Money is Secured up to a Limit!

As per RBI mandate, deposits up to ₹5 lakh is insured under DICGC (Deposit Insurance and Credit Guarantee Corporation) per bank per depositor. This provided an added layer of security. Pro-tip: You can split your FD amount to diversify your portfolio and minimise risk. For example, if you have ₹10 lakh, instead of investing the amount in one FD, you can split the amount into two FDs.

Final Thoughts

Understanding fixed deposit rules and regulations in India is crucial for making sound investment decisions. Consider the tax implications, penalties for premature withdrawals, and loan options associated with fixed deposits.

Looking to grow your savings? Ujjivan SFB offers a wide range of [fixed deposit products](#). Select the FD of your choice and take a step forward to your financial goals. Alternatively, you can browse through [Ujjivan SFB product suite](#) - our wide range of financial products are designed to make your financial life better

