



## WHICH ONE TO PICK

**Bank fixed deposits and recurring deposits offer different benefits and have their own limitations. Read on to know more about the safe, time-honored financial instruments**

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**F**or many people, parking money in bank fixed deposits (FDs) and recurring deposits (RDs) has been a good, tried and tested way of investing money in the short to medium term. However, FD or RD should be opted only after careful consideration as the benefits of saving money in either differ. Let's consider here when should you consider putting money in an FD and when in an RD. Also, the advantages and disadvantages of FD and RD.

**Although investing in FD is a sound medium- to long-term investment option, there are a few stipulations that one needs to remember. For instance, experts advise that you should go for investing lump sum amounts in FD only when you have surplus money lying in your bank savings account that you don't need immediately**

### Features of FD & RD

Broadly, both FD and RD are part of the overall term deposits of a bank and carry a higher interest rate than on savings deposits. Term deposits simply are the deposits received by a bank for a fixed period after which they can be withdrawn. In FD, a lump sum is locked in with the bank which may pay interest at fixed, regular intervals (But it is a flexible lock-in period, for you can withdraw the money even within this period, but it would invite slight penalty and offer a lower rate of interest than in FD. This is unlike the lock-in period of tax-saving instruments where you cannot get money in any manner before three years).

The FD interest rate is higher in case of maturity periods between two to three years most cases. The interest is compounded annually.

An RD can be opened by a resident individual and Hindu Undivided Families. Under an RD, a fixed amount is deposited at regular intervals (monthly basis) for a fixed term. Once the fixed term is over, the repayment of principal and accumulated interest is made at the end of the term by the bank. For instance, if you start depositing Rs 1,500 per month starting today in an RD for a 12-months period at 7.25 per cent interest rate, at the end of maturity period the bank will pay you Rs 18,718.3.

Besides, FD and RD come with many additional benefits. For instance, many banks allow customers to borrow loan against their RD or FD. Further, one can start FD or RD from even with a small amount—Rs 500-1,000, depending upon the bank. The flexibility of tenure—ranging from six months to a maximum period of 10 years—is another attraction for such instruments.

What's more, both FD and RD come with a nomination facility. Additionally, both FD and RD can be redeemed before the fixed term. However, premature closure or withdrawal could attract penalty.

## Investment rationale

However, the similarities end here. RD is a good way to invest small amounts of money every month and end up with a large kitty on maturity. It is usually targeted at those individuals who are salaried or receive other regular income. FD, on the other hand, is type of file-and-forget investment instrument, where the money is locked for a fixed period with the bank, though this lock is breakable as we mentioned earlier.

As Jitendra P.S. Solanki, Certified Financial Planner & Founder, JS Financial Advisors, Delhi, says, "Both these instruments have their own benefits. A fixed deposit helps you in earning good fixed interest on your investment without taking a risk and you can select a tenure based on your requirement, while a recurring deposit helps you in inculcating habit of regular savings."

## Should it be FD or RD?

According to Solanki, "An FD is more suitable when you have lump sum to invest for certain duration and need higher liquidity. Since you can close FD at any time, though with a certain penal interest, liquidity is ensured."

If you have received bonus or a lump sum from somewhere else but you would need it only after three-six months, FDs become a most viable investment option for a good return, he says.

On the other hand, he says, an RD suits risk-averse investors who can save on a regular basis. It is best suited for salaried individuals.

The one area where FD scores



## A COMPARISON

RD can be opened by investing as small as Rs 500 and in multiples of Rs 100 thereafter per month

For a much smaller investment per month, RD enables you to get interest rates equal to that of regular FD

TDS is not applicable on the interest earned by RD

FD offers easy investment option with high returns and there's flexibility and security in one offering

TDS on FD is applicable if interest payable exceeds Rs 10,000 in a financial year

over RD is the rate of return. Solanki says, "If you compare interest offered by banks in these two products, you'll find that FD scores higher with net earnings for a longer horizon. RD may work well for short period, though. Investors with regular savings can use these two products simultaneously by starting an RD for the short term, say one

year, and then investing the proceeds from it in FD to avail maximum benefit.

## Things to remember

Although investing in FD is a sound medium- to long-term investment option, there are a few stipulations that one needs to remember. For instance, experts advise that you should go for investing lump sum amounts in FD only when you have surplus money lying in your bank savings account that you don't need immediately.

Further, tax benefits also differ on FD and RD. Under income tax rules, if you earn interest income of more than Rs 10,000 from FD or RD or any other instrument in any financial year, banks mandatorily deduct TDS on it. However, RD is an exception. In other words, TDS is not applicable on the interest earned by RD as per income tax rules but you'll have to file the tax on interest income separately if it's above Rs 10,000 in a financial year.

But whatever is the mode of paying tax, it nonetheless eats into the return you finally get.

The biggest disadvantage in both these instruments is the taxability, Solanki maintains.

He says interest earned through FDs and RDs is added to income and is taxed at individual tax slab which reduces returns substantially. A 7-8 per cent interest may actually earn you only 4-5 per cent post tax if you fall in highest tax slab. Comparing both, there are fixed deposits which fall under the Section 80C benefit and give good interest. But RD has no such benefits. There are other avenues which are more tax efficient, he adds.

## Citibank India launches 'PremierMiles Credit Card'

In a bid to grow its credit card business in the growing air travelling space, Citibank India has launched 'Citibank PremierMiles Credit Card', an airline agnostic card. With this, Citibank has mutually agreed to exit its co-branded card partnership with

Jet Airways, which was in existence from 1999, the foreign bank said. "There is a significant increase in domestic traffic vis-a-vis international, consumer preference has shifted to low cost airlines and travel has become spontaneous.

Keeping these in mind, we strongly believe that an airlines agnostic card is the way for the future for cards in the industry segment," Country Business Manager, Global Consumer Group of Citi India, Anand Selvakesari said.