**BETTER CHOICE** No TDS on these fixed income products make them attractive, say advisers

# Non-Tax Filers may Move to NCDs, Select Debt MFs on High TDS Fears

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## Taxman's Axe

| Product Name | Tax Deduction at Source (TDS) | On Amount Above (₹) |
|---|---|---|
| Bank Fixed Deposit | 10% | 40,000/50,000 (Individual /Sr Citizen) |
| Dividend Income | 10% | 5,000 |
| Company Deposits | 10% | 5,000 |
| RBI Floating Rate Bond | 10% | 10,000 |


**Mumbai:** Appetite for fixed income products like non-convertible debentures (NCDs) and select debt mutual funds is likely to increase among individuals who have not been filing tax returns.

This follows a Union Budget announcement in February that requires individuals who have not filed tax returns for the previous two financial years and whose aggregate TDS (tax deducted at source) on interest income in each of these financial years exceeded ₹50,000 to pay a higher TDS from July 1.

Wealth advisors and tax consultants said many of these individuals will now consider these debt products as a replacement to fixed deposits because of the likelihood of a higher tax outgo.

"The rate applicable shall be twice the rate mentioned in this section and as such, TDS will be deducted at the rate of 20% instead of the normal rate of 10%," said Suresh Surana, founder at tax consultant RSM India.

Currently, banks deduct a tax at the rate of 10% on fixed deposits if the aggregate interest income of the holder earned in a financial year exceeds ₹40,000 per annum and ₹50,000 for senior citizens.

Individuals can also submit a declaration asking banks not to deduct this tax if their total income is below the taxable limit.

The onus is on the individual to pay the balance tax depending on their total taxable income and the tax bracket they fall in.

Many individuals including senior citizens avoid filing income tax returns as they do not want to declare earnings from various sources including interest income, dividend income and rental income. The fear is that they would come under the tax net.

From July 1, individuals, who have not filed income tax returns for FY2018-19 and 2019-20, could be subjected to higher TDS.

Wealth advisors said these deposit holders are likely to move to NCDs or target maturity mutual fund schemes as there are no taxes deducted at source in these products.

"In the case of NCDs held in demat form and listed on the stock exchange, there is no TDS on interest income," said Vikram Dalal, managing director, Synergy Capital. "Many fixed deposit investors could consider high-quality non-convertible bonds as an alternative."

Some financial planners are advising clients to consider target maturity debt funds or a good quality portfolio comprising of G-secs, PSU bonds and SDLs (state development loans or state government bonds). Investors also get the tax benefit of indexation if they hold debt funds for more than three years.