

## Taxation

Interest, even if compounded, is fully assessable for Income Tax in the tax year it is paid.

If the deposit is invested for longer than 12 months and interest is not paid until maturity, a portion of the interest will be assessable in each tax year.

Interest on term deposits may be subject to pay as you go (PAYG) taxation.

## Security and Risk

Term deposits may have lower risk than other types of investments but they do still have some risk. The risk mainly relates to the financial institution guaranteeing or securing the funds. Investors should ensure they are confident the institution is safe and will continue to operate.

NICRI's *'Risk Meter'* and *'Safety, Risk & Scams'* publications may be of assistance in assessing the risk and time frames suited for investments. Assistance may also be obtained at <http://moneymap.nicri.org.au>.

Banks, Credit Unions and Building Societies are regulated by the Australian Prudential Regulation Authority (APRA).

APRA seeks to promote the financial integrity and efficiency of the financial institutions system and to ensure that depositors are adequately protected.

## Investing with Safety

- Choose the length of term for the deposit carefully, ensuring access will not be required until maturity.
- Investors should not place all their money in term deposits. Some money should be held at call in case of unforeseen expenses. Refer to NICRI leaflet - *'Money at Call'*.
- Consider options for re-investment prior to maturity.
- If term deposits are the main investment, spread money across different maturity dates and possibly different institutions.
- Investigate conditions for early redemption or alternatives offered in case access to capital is required in an emergency.

When choosing deposits remember **'the higher the return the greater the risk'**. If the institution is offering a much higher rate than everywhere else be cautious.

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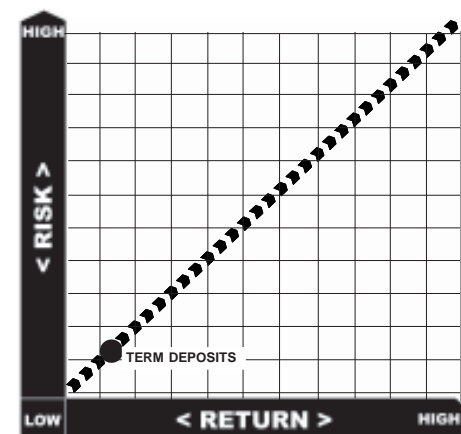
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National Information Centre on Retirement Investments Inc.

# Term Deposits



[www.nicri.org.au](http://www.nicri.org.au)

<http://moneymap.nicri.org.au>

Investment Product Series

INFORMATION CURRENT FROM 18/03/10

## What are Term Deposits?

Term deposits are interest bearing accounts offered by banks, building societies and credit unions. The interest rate is fixed for a selected period of time, generally ranging from 7 days to 5 years. Interest payments can be made regularly throughout the term or deferred until maturity. At maturity the amount invested is either returned or re-invested for a term chosen by the investor at the prevailing interest rate, terms and conditions. Penalties for withdrawal before maturity may apply. (refer *Early Withdrawal*)

Term deposits are considered high security investments. The security of a term deposit is determined by the overall financial stability of the institution offering the product. (see *Security and Risk*)

Term deposits provide a regular known amount of income for the specified time.

Although term deposits have a fixed term, they shouldn't be confused with Fixed Interest Investments. For further information on these refer to NICRI leaflet - '*Fixed Interest Investments*'.



## Features

- A low risk investment which is usually guaranteed by the offering institution.
- A short to medium investment time frame.
- All costs are factored into interest rate.
- Guaranteed rate of return for a set period of time regardless of changes to interest rates during that period. A disadvantage if interest rates rise during the term, an advantage if they fall.
- Interest is calculated daily and can be paid monthly, quarterly, half yearly, yearly and/ or at maturity. A lower interest rate may apply when interest payments are made frequently eg monthly.
- Interest payments can be paid to another account or compounded (reinvested). Compounding usually takes place at maturity or, if the term is more than 6 months, at 6 months and maturity.
- A minimum investment amount is required but may be as little as \$500.
- Can be used as security for a loan.

## But Remember...

- Money may not be readily available in an emergency.
- Penalties usually apply for early withdrawal
- If interest rates rise the investment continues to earn the contracted rate.
- No capital growth.
- No tax concessions.

## Government Income Support

The full balance of a term deposit is assessable as an asset for the Assets Test.

Term deposits are assessed as financial assets and are assumed to earn income at the deeming rates applying at the time, irrespective of the return actually received.

For further details check with Centrelink's Financial Information Service (FIS), the Department of Veterans' Affairs or refer to NICRI leaflet '*Deeming Accounts*'.

## Early Withdrawal

When investing in a term deposit an agreement is made between the investor and the financial institution that the money is invested for a fixed period of time at a fixed rate of interest.

Read and understand the terms and conditions of investment before lodging any money.

There is no obligation on the institution to release funds early. In most cases a penalty will be imposed for early redemption. This is usually a reduction in the rate of overall interest paid on the amount withdrawn. It could mean a reduction in the capital amount returned if interest has already been paid.

Most institutions require a written request, stating the reason for early withdrawal, before they will release any money. They may also require proof of the reason for withdrawal.