Case Study

Plan Money

Title: Overseas Fixed-term Deposits

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Author: Peter Chadborn **Date:** November 2012

With the Bank of England interest rate stuck at 0.5% for the last four years it has been quite difficult to find a savings account providing a decent rate of interest.

However, State Bank of India has launched a fixed-term deposit bond paying 9% interest. The only condition is the deposit will be converted into rupees for the term and then converted back into pounds sterling when the account matures.

I am a UK resident for tax purpose. Would you be able to confirm if the remittance back into pounds sterling will incur any additional taxes?

Deals like this remind me of the Icelandic banking crisis, where the attractive rates on offer were so high that many savers overlooked the financial security of the organisations offering the deals. A similar risk applies with this deal because the ICICI Bank is not authorised and regulated by the Financial Services Authority (FSA) and no protection is available to investors via the Financial Services Compensation Scheme (FSCS).

You also need to factor in the additional risk of exchange rate fluctuation. The nature of a fixed-term investment means that the commencement and maturity are fixed and as such you will have to accept whatever the prevailing exchange rate is and if this goes against you it could completely undermine the returns you have made.

As such, I would recommend that any capital committed to such an arrangement is limited to a relatively small proportion of your available capital; certainly no sum should be invested on which you are heavily reliant.

In terms of taxation, as a UK taxpayer you are liable for income tax on the interest, wherever it is made. However, there will be no Capital Gains Tax, assuming that the CGT exemption applies.

Plan Money Ltd. Bentley House, Gt Bentley, Colchester CO7 8GD
Telephone: 01206 257501 **Email:** peter.chadborn@plan-money.co.uk **Web:** www.plan-money.co.uk