

## Will moving this investment create a taxable event?

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**Q. I have a one-year \$5,000 Certificate of Deposit (CD) that has been with a bank for three years and I want to move it to another bank. Would this create a taxable event?**

— Investor

A. Shopping around for the [best rates](#) on a Certificate of Deposit is always smart.

Here's how it works.

When you invest in a CD, the interest compounds on a regular basis, said Marnie Hards, a certified financial planner with Aznar Financial Advisors in Morris Plains.

She said the CD holder will [pay taxes on the interest](#) that was earned and credited for that tax year.

“So assuming the CD is not held in an individual retirement account, you have already paid taxes on the interest you earned each year and will pay taxes on the interest you earn in 2020 when you file your 2020 tax return,” Hards said.

For both [one-year and multi-year CDs](#), the interest is taxable in the year it is credited, she said. So if you had multiple one-year CDs over the span of three years, you would have paid taxes on the interest you received annually, she said.

“Once the CD comes due, you can move the cash to another bank if you would like,” Hards said. “The movement of the cash itself will not create a taxable event, but you will be taxed on any [interest income](#) that you received.”

If the CD is held in an IRA, please be sure to initiate a trustee-to-trustee transfer from your bank to the new bank to ensure the funds go directly from one to the other to avoid any negative tax implications, she said.

Also don't forget to check for [any penalties](#) before you make any moves.

Email your questions to [Ask@NJMoneyHelp.com](mailto:Ask@NJMoneyHelp.com).

*This story was originally published on July 16, 2020.*

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