meet such an emergency. There is no point in keeping such a large sum in a returns-inefficient savings bank account or a bank FD since the returns earned and tax paid on such returns, will simply deplete the value of the money over time.

I’ve been told that I should invest the money in the name of my wife to reduce my tax liability. Is this correct?

This is not correct. If you invest your money, including your retirement corpus, in your wife’s name, the returns generated are ‘clubbed’ as per Income Tax rules. This means that the tax on such returns is to be paid by you, since the money is yours. If you don’t do so and do not reflect it in your income tax return (ITR), you are violating the rules! But this ‘clubbing’ of income is only applicable for the returns generated on the original amount. Further returns generated on these earnings are not clubbed with your income.

However, that is not the case if you invest the money in the names of your major children, older than 18 years of age, or even your parents, as it is considered a ‘gift’ to them, which is not taxable.

That means I should invest in my children’s name to avoid tax since my children are not earning right now or are in low tax brackets?

If you invest the money in your ‘major’ children’s names, it is taken that you have permanently gifted them that amount of money. If you would like to do that with your life-time savings, it is up to you, and to your and your wife’s comfort level. Please remember that you cannot gift them this money one year and take it back the next year or something like that. It then becomes apparent that you’re doing this to avoid tax and you could be open to serious income tax scrutiny.

I’ve been granted disability pension. Will only the disability part be tax-free or the entire pension?

The entire pension – service part as also the disability part – is fully tax-free.
What parts of my retirement corpus will be taxed? What about my pension?

In case of central government employees, including armed forces personnel, all the retirement corpus amount received is fully tax-free. That means, all the five components – DSOFP, AGIF/NGIS/AFGIS money, leave accumulation, pension commutation and gratuity – are all tax-free. Monthly pension though is taxable like a salary – unless you have a disability pension or you are a gallantry award winner. Please remember that if your pension is exempt from tax and you’ve taken up a job or are re-employed, only the pension is tax-exempt and not any other income or salary.

This is my life-time saving. I don’t want to take any risk with it and will be putting the entire amount in Senior Citizens Savings Scheme (SCSS), Post Office Monthly Income (PO MIS) Scheme and in bank FDs. Hope that’s fine?

You have to peg everything to the general long-term rate of inflation in India. The last 20 years’ data indicates the average rate of inflation in India is above 7 per cent per annum, which is much more than the wholesale or retail inflation rate declared by the govt (ie, WPI and CPI). If your money earns less than 7 per cent after taxation, it implies that the cost of our daily usage items is rising at a rate faster than the rate at which your money is growing. This further implies that the purchasing power of your money is decreasing year-after-year. Such an investment philosophy should be avoided at all costs.

Let’s take the example of SCSS which gives you an 8.7 per cent per annum fully taxable rate of interest. If you are in the 20 per cent tax bracket, the effective rate of interest for you is 6.96 per cent i.e. 20 per cent of 8.7 per cent. If you happen to be in the 30 per cent bracket, which you most probably will be if you opt for re-employment or a civil employment, the effective rate of interest for you comes down further down to 6.09 per cent i.e. 30 per cent of 8.7 per cent. The PO MIS is even worse, since its basic rate of interest is much lower at 7.7 per cent - the effective after-tax rates for the 20 per cent and 30 per cent tax brackets are barely 6.16 per cent and 5.39 per cent, respectively. Bank FDs with their fully taxable 6.5 per cent rate of interest fare even more poorly. So unless you can generate better returns from offsetting investment avenues with the rest of your money, you should think twice before investing in such avenues. Of course, the safety offered by avenues like SCSS, PO MIS and bank FDs is excellent. So, the final choice would be yours – full safety and low returns, or better avenues where you can have a better balance of safety and returns.

Property has always given such good returns in India. It is down right now and available at lower price. I’ll be buying a property with my retirement funds so that I can make good money when the real estate goes up and still get a rental while I hold it.