

Your FD pays 6.25%. After tax and inflation, you may be losing money

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Maxim: *Invest for maximum total real return.* — Sir John Templeton

The number printed on a deposit receipt is not your return. Your return is what is left after the tax office and rising prices have taken their share, and in October 2026 that can be less than zero.

A return that does not beat inflation after tax is not a return. It is a slow refund of your own money with less buying power.

This month made that sum uncomfortably concrete. On 7 October the Reserve Bank raised the repo rate to 5.50%, its first increase since February 2023, and changed its stance to “calibrated tightening”. Its policy statement, summarised by [SCC Online](#), expected consumer inflation to average almost 5.8% over the next three quarters. Five days later, official data showed retail inflation had already jumped to 5.54% in September, with food prices up 7.74%, [Business Today](#) reported.

Now look at the safest, most popular savings product in the country. State Bank of India's one-year fixed deposit pays 6.25% to most customers, according to [BankBazaar's rate table](#). The interest is added to your income and taxed at your slab rate. For a depositor in the highest bracket, what remains after tax is roughly 4.3%. Set that against inflation running above 5.5%, and the depositor ends the year with more rupees and less purchasing power.

Nothing about the deposit has failed. It has paid exactly what it promised. The problem is that it promised the wrong thing.

Templeton's first rule

Sir John Templeton put this at the top of his [16 Rules for Investment Success](#), first published in 1993. The only rational objective for most long-term investors, he wrote, is maximum total real return: what is left after taxes and inflation. A strategy that ignores “the insidious effect of taxes and inflation” starts with a severe handicap.

His example was deliberately undramatic. At 4% inflation, a \$100,000 portfolio loses about a third of its buying power in ten years, and needs to grow to about \$147,000 merely to stand still. And that, he noted, is before tax.

The rule is easy to agree with and easy to forget, because the two costs it names are invisible in different ways. Inflation never sends a statement; it simply shows up in the grocery bill. Tax arrives once a year, long after the interest has been spent or reinvested. The deposit receipt, meanwhile, shows a clean, nominal 6.25% every time you look at it.

Indian savers have been here before

This is not the first time. In June 2013, consumer inflation was 9.9% while one-year bank deposits paid about 8.25%, a negative real rate of almost two percentage points before any tax, Andy

Mukherjee wrote in [Business Standard](#). He argued that savers were looking elsewhere. Gold imports had more than doubled in two years to \$62 billion in 2011-12, and a collapsed chit fund that spring had shown how easily households could be drawn to promises of returns no bank could match.

The lesson of that episode cuts both ways. Running from negative real returns into whatever promises more is how savers end up in the wrong products. The better response is to measure every option the same way, after tax and after inflation, and then choose.

Tax rules matter as much as rates in that comparison, and they change. From April 2023, gains on debt mutual funds holding no more than 35% in equities are taxed at the investor's slab rate, like deposit interest, instead of the earlier long-term treatment with indexation, [Outlook Money](#) reported. That removed one of the main ways debt investors in high brackets had protected their real returns. By contrast, the Public Provident Fund still pays 7.1% for October to December 2026, according to [Business Today](#), and its interest is tax-free, which puts it well ahead of a taxable deposit in real terms, within its annual limit and long lock-in.

None of this makes equities the automatic answer. Over September 2006 to September 2023, the BSE 500 total return index compounded at about 12.3% a year against 6.4% for Treasury bills, [Marcellus](#) found, but shares can lose money for years at a stretch. Money needed within a year or two still belongs in deposits or similar products. The point is to know what that safety is costing, and to stop treating a nominal rate as a real one.

Three numbers for every product

To apply Templeton's rule, you need three numbers for anything you own: the stated return, the tax you will pay on it at your own slab, and a sensible estimate of inflation over the holding period. The Reserve Bank's own projection is a reasonable starting point for the inflation figure; this month, that is somewhere between 5% and 6% for the year ahead.

Then compare like with like. A tax-free 7.1% in the Public Provident Fund and a taxable 6.25% deposit look less than a percentage point apart; for someone in a high bracket, the gap after tax is far wider. A debt fund and a deposit now face similar tax, so compare their costs and risks rather than assuming one is more tax-efficient. For investors in the higher slabs, an equity fund held for more than a year faces a lower tax rate than either, but it brings volatility that deposits do not.

Two cautions. A single month's inflation figure is a snapshot, not a forecast; the RBI's 4% target, if met, would change the arithmetic. And chasing real returns with money you cannot afford to see fall is its own mistake. The rule asks you to see clearly, not to take risks you cannot carry.

If you do one thing: List your deposits, savings schemes and funds, and next to each write its after-tax return at your slab. Cross out any that fall below the RBI's inflation projection, then ask whether that money truly needs to be that safe.

The depositor holding a 6.25% receipt this October has done nothing wrong. She has simply measured success in rupees while her costs rise in prices. Templeton's rule changes the measuring stick, and with it the question: not how much did my money earn, but how much more can it buy?

That second number is the only one that pays for anything.

Sources

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