


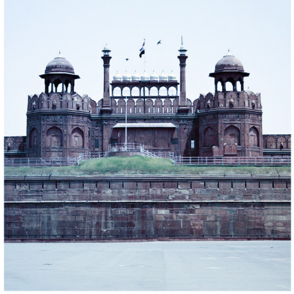

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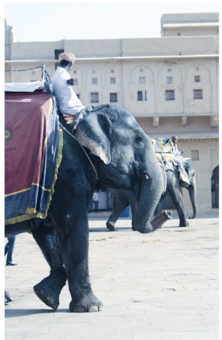

# JOURNAL

## OF FINANCIAL PLANNING IN INDIA

September 2025

Earn
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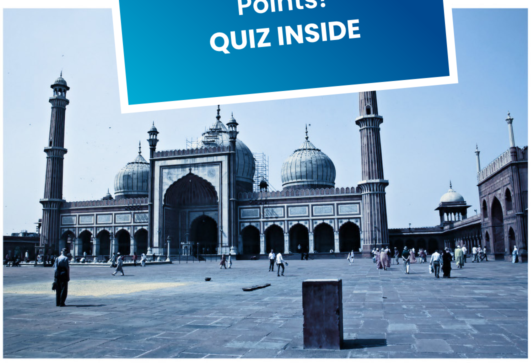
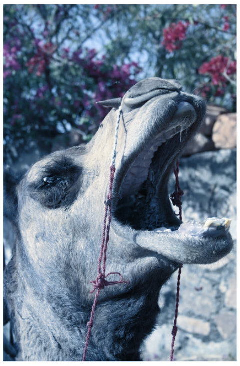
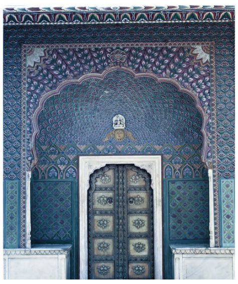
**QUIZ INSIDE**









**CFP Certification**

*Global symbol of excellence in financial planning*

# WHAT'S INSIDE



**CPD Quiz: Pass the CPD Quiz and Earn 4 CPD points**

# EDITOR'S NOTE

## DEAR READERS!

A very warm welcome to this edition of the Financial Planning Journal.

As financial planners, educators, and practitioners, we are committed to investor education, transparent advisory practices, and the promotion of informed financial decision-making.

Securities and Exchange Board of India (SEBI) recently released Investor Survey 2025 - a significant initiative by them aimed at understanding the evolving landscape of investor behaviour, awareness, and participation across India's financial markets.

This survey covers responses from a diverse demographic, encompassing urban and rural investors across all regions. The key findings offer a revealing snapshot of the opportunities and challenges that lie ahead for India's financial ecosystem.

Some of the noteworthy insights include:

- Increased Retail Participation, particularly in Tier II and Tier III cities, underlining the impact of digitization and greater accessibility to investment platforms.
- Shift in Investment Preferences towards equity mutual funds, direct equities, and SIPs, especially among the younger demographic.
- Financial Literacy Gaps with a significant portion of investors relying on informal sources for financial advice.
- Role of Technology being pivotal in democratizing access to capital markets.
- Trust in SEBI's Regulatory Frameworks and investor protection measures — a testament to the robust policy efforts in recent years.

In this environment, role of the CFP professionals in reaching out to the community for guiding and helping them in their own individual ways cannot be emphasized enough. Let us collectively use these insights to further bridge the gap between awareness and action in India's journey toward a financially inclusive future.

Please continue to engage with our articles, sharing your feedback at **akumar@fpsb.in**

Best Regards!

# CEO NOTE

## DEAR **READERS!**

It gives me great pleasure to connect with you through this edition of the Journal of Financial Planning in India. As I step into the role of leading FPSB India, I acknowledge the positive initiatives taken by my predecessors which has set FPSB India on path of progress. I continue to be inspired by the core purpose of our profession, which is the financial well being of people. To achieve that purpose, we will continue to strengthen the CFP Certification program in India by taking all round initiatives in the near term as well as long term.

Leadership transitions are moments of both reflection and renewal, an opportunity to recognise and strengthen the achievements and to launch new initiatives and chart the course for what lies ahead. I am deeply inspired by the unwavering commitment of our team, our Board, and the growing network of CFP® professionals who continue to uphold the values of integrity, competence, and client-first service that define our community.

In that spirit of shared learning and progress, this edition of the Journal brings together a range of thought-provoking themes that reflect the evolving contours of financial planning in India. From exploring The National Pension System (NPS) as a cornerstone of the country's retirement security framework to a deep dive into Tax Jurisprudence: Planning vs. Avoidance, this issue encourages readers to reflect on the balance between innovation, regulation, and client-centricity. It also delves into emerging trends such as Exchange Traded Funds (ETFs) as an evolving investment avenue and Passive Investing as a growing approach to wealth creation. Adding to this intellectual diversity is an engaging exploration of Policy Experiments and Their (Un)Intended Consequences through the lens of financial systems, followed by an insightful perspective on Understanding Your Client's Mindset, a reminder that empathy and behavioural insight remain central to effective financial planning.

As we continue to strengthen the foundations of the profession, we are equally focused on shaping the future through strategic collaborations. At FPSB India, our vision is steadily translating into action through academic and institutional partnerships to promote the growth of our profession in India. It gives me immense pleasure to declare that our partnerships with premier institutions are coming to life with integrated programs launched in collaboration with IIM Ahmedabad, SIMSREE, and SP Jain Global. From the inception of the Executive Program in Financial Planning & Investment Advisory with IIM Ahmedabad to the M.Sc. (Finance) Program at SIMSREE and the Masters in Applied Finance & Wealth Management at SP Jain Global, each initiative represents a step forward in creating a dynamic and future-ready financial planning ecosystem. These partnerships exemplify our commitment to transforming ideas into opportunities, aligning academic excellence with industry aspirations, and nurturing a new generation of finance professionals equipped to lead India's financial transformation.

Continuing this momentum of engagement, we recently celebrated World Financial Planning Day (WFPD), a global movement uniting over 230,000 CFP® professionals to champion financial well-being and promote financial literacy. The enthusiasm, participation, and creativity we witnessed from our community reaffirm our collective purpose and the strength of India's growing network of financial planners. Celebrating WFPD is an important highlight of the year as it aligns with our vision & mission. Relive the moments from our celebrations by visiting our social media pages on **LinkedIn**, **Instagram**, and **YouTube.**

As we move forward, I invite each of you to stay connected, contribute your insights, and play an active role in shaping the evolving narrative of financial planning in India. Together, we can build a profession that not only transforms individual lives but also strengthens the financial fabric of our nation.

I trust, you enjoyed the festive season just gone by and FPSB conveys its best wishes to its readers for happiness and prosperity for the year ahead.

Warm regards,
**Chandrakant Sureka**
*CEO, FPSB India*

# ABOUT THE JOURNAL

The purpose of the Journal of Financial Planning in India is to expand the knowledge base of CERTIFIED FINANCIAL PLANNER professionals and those interested in the profession. Future contributions will span a variety of areas including industry interviews, viewpoint columns, insightful articles and peer-reviewed technical papers. We wish to provide content that is interesting, original and, most importantly, beneficial to CFP professionals and their work on behalf of their clients.

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FPSB INDIA

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# Brand Guidelines

These brand guidelines are applicable to Education Providers, Universities, Business Schools, Colleges, and the Corporates, collectively referred to herein as "Partner(s)."

**CFP® Certification** *Global excellence in financial planning*

# About FPSB India

FPSB India is the leading financial planning body in India and is dedicated to establishing, upholding and promoting professional standards in financial planning throughout India. FPSB India offers the globally recognized CFP certification, which represents excellence in financial planning through rigorous competency and ethical standards. It is home to over **3215** CFP professionals in India and part of a global network of organizations representing more than **230,648** CFP professionals worldwide. FPSB India is the Indian subsidiary of Financial Planning Standards Board Ltd., the global standards-setting body for the financial planning profession and owner of the international CERTIFIED FINANCIAL PLANNER® certification program.

# Purpose

The main objective of these brand guidelines is to ensure the consistent positioning and promotion of the CFP marks throughout India. These guidelines are essential for maintaining a unified and cohesive visual and tonal representation of the CFP certification. Our partners play a crucial role in spreading awareness about CFP certification among potential students. Therefore, it is vital to use accurate messaging and provide students with trustworthy information. This approach not only helps build trust within the student community but also safeguards the integrity of our brand.

## Promoting yourself as an Authorized Education Partner / Accredited University / Business School / Approved Corporate Partner

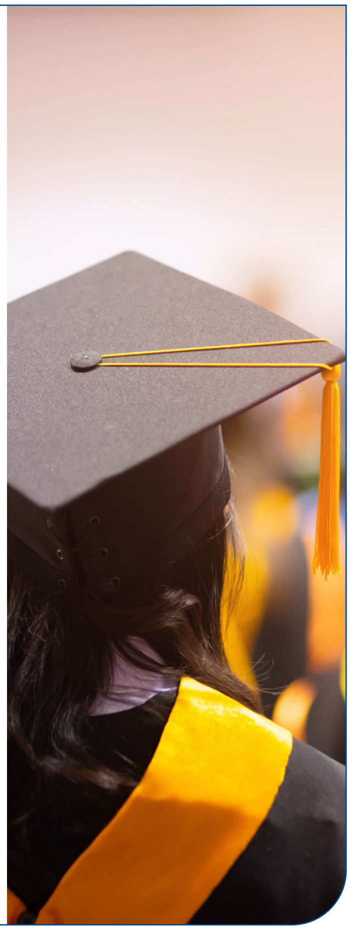
**Status Prerequisite:** Partners must not self-promote as Authorized or Approved partner until they have obtained the required status.

**B2B Collaborations Responsibility:** Partners engaging in B2B collaborations must ensure that all affiliated entities adhere to FPSB's promotional guidelines and best practices in student counselling.

**Modification of Program:** Partners intending to alter program structure, teaching methods, or study modes must notify FPSB India in advance to maintain transparency and program quality.

**Websites, Social Media, & Press Releases:** Partners cannot host websites or profiles resembling FPSB India's. However, they can include hyperlinks from FPSB India's site to their own.

**Promoting as Authorized Education Provider:** Advertise yourself as an Authorized Education Provider (AEP) of FPSB India. Refrain from using terms like AEP of "US FPSB" / "Global FPSB" / "Global CFP Certification".



# Promotion of Integrated Program

Few examples of how to promote an Integrated Program

- Course name with CERTIFIED FINANCIAL PLANNER®
- Pursue CFP® certification along with your post-graduation/MBA.
- Unlock the potential for a dual achievement – embark on your journey towards CFP® certification while pursuing your post-graduation/MBA.
- Fast-track your progression towards a thriving career in financial planning by pursuing a dual degree – Course name with CERTIFIED FINANCIAL PLANNER®
- Plan your studies to complete CFP® certification along with your xyz course, FPSB India conducts exam every month, to know more visit FPSB India.
- Course name (CFP ® Logo) - powered by FPSB India (to be mentioned below the course name)

## Student Counselling & Messaging

- **Respectful Promotion:** Avoid comparing CFP certification with other qualifications in a way that discredits any institute or qualification.
- **Transparency:** Ensure students are well-informed about program details, fees, exams, ethics module, work experience requirements, and the suitable pathway.
- **Avoid Unsubstantiated Claims:** Avoid making unsubstantiated claims such as declaring to be the "Best tuition provider" or offering pass guarantees. Claims must be substantiated by evidence, and it is advised to refrain from offering pass guarantees.
- **Clarification on Promises:** When making promises regarding placements, exercise caution and clarify that employment guarantees are offered by the partner institution, not by FPSB India.
- **Promotion of Course Completion:** Avoid promoting the certification with claims like "can be completed within 6-8 months." Or “easy to pass” Instead, highlight the flexibility of the certification program, emphasizing higher exam frequencies and remote/center-based options, while also addressing the program's rigorous curriculum.
- **Fast Track Pathway Promotion:** In promoting Fast Track pathways, emphasize recognizing prior learning and experience, rather than the number of exams exempted. Fast Track pathways aim to credit a student's prior learning and experience, making this the primary focus of promotion.

## Logo Usage

01

### FPSB Ownership:

The CFP marks must be used in a way that makes it clear that FPSB owns them.

02

### Logo Alteration:

The FPSB India/ CFP marks logo should not be altered by modifying in text form, animating, making three dimensional, or using them on patterned background as a watermark or as part of background itself.

03

### Territory Specific Trademark:

Use a territory specific trademarks symbol. For India we use registered trademark. i.e., ®

04

### Color Alterations and Logo Size:

The logos cannot be used in different colors other than which is provided below. To ensure optimum legibility of the logo, a minimum size of 6mm width is recommended.

## Logo for CFP Marks:

## FPSB India Logo:

### Logo on white Background

### Logo on Dark Background

# CFP Marks Usage guidelines

**E.g.,** Jane Smith is a CFP® professional. She achieved the CERTIFIED FINANCIAL PLANNER® designation in 2010. The CFP mark represents the global symbol of excellence in financial planning.

- Always use CFP and CERTIFIED FINANCIAL PLANNER as adjectives.
- Always use an approved noun with CFP and "CERTIFIED FINANCIAL PLANNER:
- Mark(s), professional, practitioner, exam/examination, certification, designation, credential, certificant, education.
- CERTIFIED FINANCIAL PLANNER must always be used in all caps or small caps in copy. This distinguishes the words to confirm its status as trademark.
- CFP should not be used as an acronym for CERTIFIED FINANCIAL PLANNER including in parentheses.
- CFP mark in India is now listed as a Registered Trademark.
- Do not use or pronounce CFP in a plural form, such as "CFPs." Instead, refer to individuals as CFP Professionals or use other approved nouns from the list mentioned above.
- First use of CFP and CERTIFIED FINANCIAL PLANNER must appear with ® (superscript) in its first use in written/printed materials.

# Compliance with FPSB India Guidelines:

**Consent for Student Data:** Always obtain written consent from students before uploading their details or declaring results on your social media channels.

**Result Accuracy:** Present results exactly as provided by FPSB India; avoid any alterations, combinations, or recalculations.

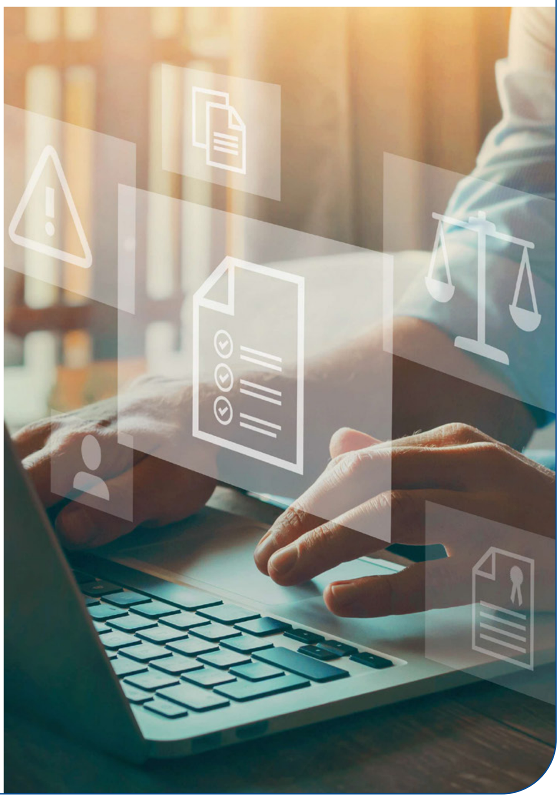
**Avoid Misleading Claims:** Refrain from making claims such as having the highest number of rankers or members in your region or country.

**Pass Percentage Comparisons:** Do not compare your pass percentages with National Pass Rates or reference them.

**Continuous Education:** Stay informed and updated about the latest information and changes related to CFP certification to provide accurate guidance to students.

**Creative Approval:** Prior to publishing, obtain approval for your promotional materials and creatives from the regional team of FPSB India.

**Listing FPSB India Official Names:** Do not use the names of FPSB India officials for marketing events or engagement activities without their written consent.



# Violation of Brand Guidelines Consequences:

In cases where partner and their affiliates breach the advertising regulations outlined herein, FPSB India will follow a specific course of action:

### Written Warning

FPSB India will issue a written warning to the partner, specifying the breach and setting a reasonable timeline for them to respond and rectify the issue in 3 days.

### Resolution Deadline

If the partner fails to resolve the breach within the stipulated timeframe or commits repeated breaches, FPSB India reserves the right to take further action.

### Suspension or Removal of Accreditation

FPSB India may, at its discretion, suspend or revoke accreditation or authorized approval if a breach persists or if there are repeated violations of the advertising regulations. The decision to suspend or remove accreditation will be made solely by FPSB India and will be considered final.

# THANK YOU

For any query feel free to contact us at

**fpsb.institute@fpsb.in**

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# THE NATIONAL PENSION SYSTEM (NPS): BUILDING INDIA'S RETIREMENT SECURITY FRAMEWORK

*Dayadhar Raj Srivastava, CFP*

Retirement planning has emerged as one of the most critical pillars of financial security in the 21st century. With increasing life expectancy, shrinking family support systems, and rising healthcare costs, the need for a robust pension framework is greater than ever before. For India, the urgency is even sharper. The country has traditionally relied on family support for the elderly and government pensions for its employees. But as the population ages and fiscal pressures rise, the old models have proved unsustainable.

In this context, the National Pension System (NPS) represents one of the most important policy innovations in India's financial history. It marks a clear shift from defined benefit pensions, where the government or employer guaranteed a fixed post-retirement income, to a defined contribution system, where the individual's contributions and market returns determine the pension corpus.

The NPS, designed as a low-cost, portable, and transparent pension product, has grown significantly since its inception. Once confined to central government employees, it is now open to all citizens, including private sector employees, self-employed professionals, and even workers in the informal sector through simplified variants.

Yet, despite its growth, the NPS remains under-penetrated. Many Indians still rely on traditional savings instruments like gold, real estate, and fixed deposits, which may not provide adequate retirement income. The challenge, therefore, is not just to build a robust pension infrastructure but also to ensure mass adoption and trust.

## Growth in Assets

Since 2010, when the AUM was under ₹10,000 crore, the NPS ecosystem has expanded to exceed ₹14 lakh crore by August 2025, encompassing over 8 crore subscribers across NPS and APY. This renders it one of the fastest-growing pension schemes worldwide, but its penetration remains modest in relation to India's workforce of over 960 million.

## Architecture of NPS

The NPS functions on a multi-tiered architecture aimed at ensuring transparency, accountability, and operational efficiency. Every stakeholder possesses a specific role, reducing conflicts of interest and fostering trust.

## 1. Regulator: PFRDA

The Pension Fund Regulatory and Development Authority (PFRDA) is the statutory regulator overseeing NPS. It frames regulations, licenses intermediaries, ensures compliance, and protects subscriber interests.

## 2. NPS Trust

Set up under the Indian Trusts Act, the NPS Trust acts as a fiduciary on behalf of subscribers. It supervises Pension Fund Managers (PFMs) and ensures investments are made prudently.

## 3. Central Recordkeeping Agencies (CRAs)

CRAs maintain subscriber data, issue the Permanent Retirement Account Number (PRAN), process contributions, and provide statements.

- Protean eGov Technologies Ltd. (formerly NSDL e-Gov)
- KFin Technologies Ltd. (KFintech)
- CAMS (Computer Age Management Services Ltd.)
- FinNest Technologies Pvt Ltd.

Subscribers must select one CRA at the time of registration.

## 4. Pension Fund Managers (PFMs)

These are SEBI-registered fund managers who invest NPS contributions. Leading PFMs include:

- SBI Pension Funds. LIC Pension Fund, HDFC Pension Management, ICICI Prudential Pension Fund, UTI Retirement Solutions, Kotak Mahindra Pension Fund, Aditya Birla Sun Life Pension Management, Tata Pension Fund, Axis Pension Fund, Max Life Pension Fund

## 5. Custodian

The Stock Holding Corporation of India Ltd. (SHCIL) acts as the sole custodian, holding securities purchased by PFMs in demat form. This prevents misuse and ensures safe keeping.

## 6. Trustee Bank

Currently, Axis Bank acts as the Trustee Bank. It handles the flow of contributions from subscribers/PoPs to PFMs.

## 7. Points of Presence (PoPs)

Point of Presence (POP) is an intermediary entity appointed by the Pension Fund Regulatory and Development Authority (PFRDA) to serve as the primary interaction point for citizens to open and operate their NPS accounts. POPs handle essential functions such as subscriber registration, KYC verification, and managing contributions, and they perform these services through their authorized branches, known as POP Service Providers (POP-SPs).

### How NPS Works: Step-by-Step

1. Subscriber registers via a PoP or eNPS portal.
2. A PRAN is generated by the CRA.
3. Contributions are routed through the Trustee Bank.
4. Funds are allocated to chosen PFMs.
5. PFMs invest in Equity (E), Corporate Bonds (C), Government Securities (G), and Alternate Assets (A).
6. Securities are held by the Custodian.
7. CRA updates subscriber accounts and provides statements.
8. On exit, subscriber can withdraw up to 60% lump sum and must use 40% to buy an annuity from empanelled providers (LIC, SBI Life, HDFC Life, ICICI Prudential Life, etc.)

## Allocation and Investment Strategies

The NPS offers two investment choices:

1. **Active Choice:** Subscribers decide the allocation among E, C, G, and A subject to limits (Equity capped at 75%).
2. **Auto Choice:** Lifecycle funds where allocation shifts automatically with age (Aggressive, Moderate, Conservative).
   - **Equity (E):** Invests in listed equities.
   - **Corporate Debt (C):** Bonds issued by corporates.
   - **Government Securities (G):** Long-term sovereign bonds.
   - **Alternate Assets (A):** REITs, InvITs, etc.

This flexible structure allows both risk-averse and risk-seeking investors to customize portfolios.

## Taxation Framework

One of the strongest selling points of NPS is its tax efficiency.

- Tier I Account: Mandatory retirement account.
  - o Employee contribution deductible under Section 80C (₹1.5 lakh) and 80CCD(1B) (₹50,000).
  - o Employer contribution deductible under 80CCD(2) up to 10% of salary (basic + DA).
- Tier II Account: Voluntary savings account, with liquidity but fewer tax benefits (except for government employees).
- Maturity:
  - o 60% withdrawal is tax-free.
  - o 40% annuity purchase is tax-exempt at purchase, but annuity income is taxable as per slab.

This makes NPS quite attractive and complements instruments like PPF and ELSS.

## Real-Life Impact

### 1. Central Government Employees

When NPS replaced OPS in 2004, it faced resistance. Over time, it has reduced the pension burden on the government while ensuring market-linked growth for employees. Today, nearly all new government employees are under NPS.

### 2. Private Sector Professionals

Many large Indian companies encourage employees to use NPS as a tax-saving tool. Many CFOs report NPS as a part of CTC structuring, especially for senior executives.

### 3. MSMEs

Through PoPs like fintech apps and banks, self-employed professionals, doctors, lawyers, Ola/Uber drivers, and Swiggy/Zomato delivery partners are increasingly joining NPS. For many it is the only formal retirement savings avenue.

### 4. Women Subscribers

Financial literacy campaigns have highlighted the need for women—especially homemakers and self-employed entrepreneurs—to build independent retirement savings. Initiatives by banks and NGOs have led to higher NPS enrolments among women.

### 5. Comparative Analysis: OPS vs NPS

- OPS guaranteed lifelong pension → fiscal burden on government.
- NPS provides market-linked pension → sustainable model.

## Challenges and Criticisms

1. Low Penetration in Informal Sector: Despite APY, awareness level among rural and unorganized workers is low.
2. Complex Exit Rules: Mandatory annuity purchase is seen as restrictive.
3. Low Annuity Returns: Current annuity rates are considered unattractive compared to mutual fund SWPs.
4. Awareness Gap: NPS is often misunderstood as "just another mutual fund."

## Future of NPS

The future growth of NPS depends on addressing challenges and leveraging technology such as:

- **Digital Onboarding:** Aadhaar-based eKYC, DigiLocker integration, mobile apps.
- **Flexible Annuity Rules:** There should be a provision to allow phased withdrawals instead of compulsory annuity.
- **Fintech Distribution:** Platforms like Zerodha, Groww, and Paytm Money expanding NPS reach.
- **ESG Investing:** Scope for green and sustainable pension funds.
- **Global Partnerships:** Potential tie-ups with foreign pension funds for knowledge and product innovation.

NPS can emerge as India's universal retirement platform, like Australia's Superannuation or the US 401(k).

## Conclusion

The National Pension System is more than a retirement scheme; it is a social contract between the state and its citizens. It represents India's attempt to balance fiscal prudence with social security, individual responsibility with collective sustainability. While the journey has not been without challenges—resistance from unions, policy reversals, low annuity returns—the NPS has steadily matured into a credible, large-scale pension system. Its transparent architecture, professional fund management, and tax efficiency make it one of the most attractive long-term savings vehicles available to Indian citizens today. As India marches toward becoming a developed economy by 2047, building a culture of saving to create a retirement corpus will be as critical as creating physical infrastructure.

The NPS is well positioned to play that role. The key lies in simplifying processes, improving returns, and enhancing trust. With these refinements, the NPS can become not just a pension scheme but the very foundation of India's financial security.

As a financial planner, one can advocate for the National Pension System (NPS) to their clients due to its long-term retirement strategy, tax efficiency, minimal expense and structured savings approach.

***Some of the benefits can be summarized as under:***

i. NPS assists clients in accumulating a substantial retirement fund through consistent long-term contributions. The defined contribution framework guarantees systematic savings and growth connected to market performance.

ii. It is highly transparent as Digital systems (e-NPS, CRA) facilitate transparency and enable straightforward tracking.

iii. NPS is administered by prominent pension fund managers. This investment is well diversified among Equity (E), Corporate Debt (C), Government Securities (G), and Alternatives (A). Clients may alter fund managers or modify asset allocation.

iv. Maintains a balance between retirement objectives and liquidity requirements.

NPS is more appropriate for salaried individuals, independent professionals and entrepreneurs, emerging investors (25–40 years) and risk-averse clients in middle age (40–55 years) because an automatic life-cycle fund progressively diminishes equity exposure, enhancing safety as retirement approaches.

**Dayadhar Raj Srivastava is a CFP professional and can be reached at**
**drajsrivastava@rediffmail.com**

# TAX JURISPRUDENCE – PLANNING VS. AVOIDANCE

*Balwant Jain, CA, CFP*

"Taxes are the price of civilisation, and one would like to pay that price to buy civilisation." Oliver Wendell Holmes

The above quote succinctly justify existence and levy of tax system in the modern era. The tax collectors and tax payers always play a game of hide and seek. Though the rules of the game are predefined in the appropriate legislation, the tax payers sometimes play mischief with the tax collectors and the result of the game is sometimes decided by the third umpire called the judiciary where the rules though defined to some extent but are somewhat ambiguous.

The annual feature of amendment to the Income Tax Act is evidence to the never ending tussle between taxpayers and tax-collectors where the former always attempt to minimise their tax liability by resorting to exploiting the loopholes in the law and the latter always attempting to plug the such loopholes in the law year after year and the process continues like merry go round.

Taxman cannot collect tax from you except with the express authority of law and the taxpayer is entitled to reduce his/her tax liability within the framework of the law. If revenue department attempts to collect tax without legal basis, it is unconstitutional. Likewise, when an assessee evades the legitimate tax liability beyond law he is considered as an evader and liable for tax, penalty and prosecution.

Income Tax has does not sound good in our ear, after all nobody wants to share a pie from his hard earned income with the government. So majority of the taxpayers are reluctant to pay taxes and always keep finding ways to avoid/ reduce it.  While doing this some may end up opting for ways which are unlawful or illegal. All the tax saving/evading activities can be divided into three distinct categories i.e. Tax Planning, Tax Avoidance and Tax Evasion. Let us attempt to understand differences between these three.

"Tax Planning", "Tax Avoidance" and "Tax Evasion", each of these three words broadly convey the same meaning to a layman but in legal parlance all convey different meanings.

Though the purpose of indulging into any of these exercise is to reduce taxes and quite often these terms are used interchangeably but are different and have different meaning. At one end is tax planning which is ethical and legitimate whereas at the other extreme is tax evasion which is illegal and unethical. In between both lies tax avoidance which sometimes gets the colour of tax planning and sometimes shade of tax evasion.

Let us discuss what these three words mean under legal parlance.

## Tax Planning

Tax planning is availing of all the benefits, deductions and exemptions which are legally available under the law and which the legislature specially intended to be available to you. Tax planning is ethical and is encouraged by the government through the tax statutes. Tax planning is an art to reduce your tax outgo by making sure that all the applicable provisions of the tax laws as designed to reduce your tax liability have been complied with. Tax planning ensures minimization of your tax liability within the four corner of the law.

So when you avail various tax benefits under Section 80 C in respect of various items, or opt for one tax regime over the other this comes in the category of tax planning. For allowing the taxpayers these benefits the government has some design and intent behind the provision.

For example, when payment of life insurance premium is allowed as deduction, the government wants you to secure financial risk for your dependents by your buying a life cover thereby mobilising resources for the country. Likewise, when school fee is allowed for tax deduction, the purpose of the government is to encourage citizens to get their children educated. When the government allows you the exemption from long term capital gains, on investment in residential house under section 54 and 54F, the purpose is promoting housing sector in the country.

Likewise structuring of salary of a salaried person in tax friendly components like House Rent Allowance (HRA), Leave Travel Assistance (LTA), contribution by the employer towards your superannuation fund, employee provident funds etc are also some of the examples of tax planning at the individual tax payers level. The form and substance for all the transactions of tax planning are legitimate and ethical which is clearly approved under the law. The tax collector does not have any objections to you availing and structuring your affairs within the four walls of the law legitimately.

Tax planning ensures the optimal minimization of your tax liability within the legal frame and it also takes care of your short and long term financial planning. So, the purpose of tax planning is not to avoid payment of taxes but to avail all the benefits which are legally available to the taxpayer.

## Tax Avoidance

Tax avoidance can be defined as an arrangement made by the taxpayer to reduce or altogether avoid his tax liability by exploiting the loopholes and shortcomings in the existing tax laws and availing the tax benefits which are not intended expressly to be available to assessee.

Tax avoidance is an exercise undertaken by the taxpayers to use the loopholes of tax laws to reduce his or her ultimate tax liability, though the exercise undertaken is always within the legal framework. Tax avoidance involves dynamic process of finding the loopholes or shortcoming in the law to exploit the drafting infirmities in the law. Tax avoidance is resorted to for the purpose of avoiding or reducing the tax burden by entering into perfectly legitimate but ethically not correct transactions without breaching law. Minimization of tax liability, by taking such means which expressly do not violate the tax laws, is Tax Avoidance.

One such example of tax avoidance, which was used by many tax payers, is to launder their black money into white money by receiving gifts from many people after abolition of the Gift Tax Act, which taxed the donor @ 30% on all the gifts made in excess of thirty thousand rupees. Since the donor was not liable to pay any tax on the gifts made by him after repeal of the Gift Tax Act and the recipient was not liable to pay any tax on the gifts so received as there was no provision to tax the recipient on such receipts. Rampant exploitation of this lacunae forced the government to bring in a law to tax the recipient of gifts if the aggregate of gifts received during the financial year exceeded above fifty thousand rupees.

Likewise, people used to buy the equity shares on announcement of dividends/bonus and sell them when the same were quoted ex-dividends/ex-bonus and book short term capital loss and set off such loss against other taxable income which was allowed in those days. This helped them reduce their liability as the dividends received at the that time was partially tax free. This tax avoidance practice necessitated introduction of dividend/bonus striping provisions in the Income Tax Act.

One more example of tax avoidance can be traced to the era before introduction of tax on minimum profits or what is popularly called tax on book profits. In order to avoid payment of tax, big companies used to invest huge sums of money in items of fixed assets on which huge depreciation, sometimes upto 100% of the cost of asset was claimed under income tax laws and on which the rate of depreciation for accounting purposes was nominal thus resulting into books of accounts showing decent profits whereas the taxable income would be nil or negative due to the impact of huge depreciation claim on such items. Though legal in term of tax laws, such methods deprived the government of its shares in the profits of the company while the shareholders enjoying dividends. This practice necessitated introduction of various section like Section 115J, 115JA, 115JB, 115JC etc. to make the company pay tax on the books profits even if there was no taxable income as per the provisions of the Income Tax Act.

Likewise, all the provisions dealing with transfer pricing across the world are introduced to combat the tax avoidance means adopted by the multinational Companies.

The mere fact that the government had to bring in these amendments goes to prove that such practices could not be classified as tax planning but could only be categorised as tax avoidance.

So, an arrangement made to defeat the intent of the law by exploiting the shortcomings in the tax laws can be defined as Tax Avoidance. It involves finding out new methods or devices to avoid payment of taxes which should morally be paid but are not paid due to such practices.

The tax avoidance sometimes is done by adjusting the books of accounts and the supporting documents in such a way that it will not violate any tax rules while reducing the tax incidence at the same time as elaborated in the examples given above. Whether tax avoidance is legal or illegal will depend on the stand taken by the judiciary at the relevant time as the stand of the judiciary is dynamic and changes as per circumstances and facts of the case which we will discuss later in the article.

Legally there is hardly any difference between tax planning and tax avoidance except that tax avoidance is not what our government expects us - to use the loopholes and keep the government plugging the loopholes from time to time.

## Tax Evasion

Tax evasion is the illegal practice of not paying taxes, by not reporting income, reporting expenses not legally allowed, or by not paying taxes owed. Tax evasion is the illegal act or practice of failing to pay taxes which are owed. So, tax evasion is a practice of reducing or altogether avoiding your tax liability through illegal means, i. e. by suppressing income or inflating expenses or by showing lower income. Tax evasion is illegal and objectionable, both in script and moral. Tax Evasion is considered as a crime in the whole world, as it resorts to various kinds of deliberate manipulations. It is immoral in nature and involves breaking the law.

Tax Evasion happens, when any tax payer attempts to reduce his tax liability by increasing the amount of available deductions, benefits or exemptions or by decreasing their income by under reporting. It is completely illegal and anti-national act and the law strictly deals with such actions. To deal with such activities, tax laws have strict provisions imposing heavy penalties and/or prosecuting the tax evaders and putting them behind the bar.

So tax evasion is an illegal act which is made to escape from paying taxes. Such illegal practices can have various forms like deliberate concealment of income, manipulation in accounts, disclosure of unreal expenses for deductions, showing personal expenditure as business expenses, overstatement of tax rebates or exemptions and suppression of profits and capital gains, etc.

Generally, tax evasion involves cash transactions at some point of time in relation to the transaction. For example, in cases of bogus transactions of exemption of long term capital gains in respect of penny stocks under erstwhile Section 10(38) where the tax payer converts his black money in white money by paying the difference to the stock brokers in cash who in turn issues a cheque for the shares allegedly sold through him. Likewise booking bogus purchases to inflate the expense when goods in facts have not been purchased is also tax evasion where the cash comes back to the person who books such invoices in his books as expenses.

Understatement of closing stock in trade is also tax evasion – it is aimed to reduce the profits of the taxpayers or accepting payments of sale of goods or services in cash whether partly or fully. So, the practice of doctors and lawyers accepting fees in cash and not accounting for it in the books of accounts also comes in the category of tax evasion.

## Difference between Tax Planning, Tax Avoidance and Tax Evasion

Tax planning and tax evasion are at the extremes of the thread. Metaphorically speaking Tax planning can be termed as white colour and on the other extreme is tax evasion with black colour. In between these two colour lies tax avoidance having different shades of grey. Sometime dark grey tilting towards tax evasion and sometimes light grey tilting towards tax planning.

The basic difference between tax avoidance and tax evasion is about legality. Tax avoidance is legally exploiting the tax system to reduce your tax liabilities by means which are not intended by the law makers. It generally involves artificial transactions that are contrived to produce a tax advantage. So, tax planning is fully legal and permissible whereas tax evasion is illegal and not permissible. Tax avoidance lies somewhere in between and will take the character of tax planning or tax evasion depending on the facts of the case, methods used, intention of the law makers, intention of the parties, overall result of all the transactions in the series of transactions and the stand taken by the judiciary at the relevant time.

## Tax jurisprudence in relation to tax avoidance and tax evasion

The Indian tax jurisprudence is based on the various decisions under the British laws. The leading judgement dealing with tax avoidance and tax evasion is that of Inland Revenue Commissioners v. Duke of Westminster of British judiciary where Lord Tomlin famously said:

> ***"Every man is entitled if he can to order his affairs so that the tax attaching under the appropriate Acts is less than it otherwise would be. If he succeeds in ordering them so as to secure this result, then, however unappreciative the Commissioners of Inland Revenue or his fellow tax-payers may be of his ingenuity, he cannot be compelled to pay an increased tax."***

The above statement is corner stone for judging whether a transaction is tax avoidance or tax evasion. However, in a later decision, popularly known as Ramsay case and cited as W. T. Ramsay Ltd. v. Inland Revenue Commissioners, the House of Lords have held that:

> ***"Where a transaction has pre-arranged artificial steps that serve no commercial purpose other than to save tax, the proper approach is to tax the effect of the transaction as a whole."***

If one is looking at a tax avoidance scheme which involves a transaction effected via a series of steps, one should look at the effect of the whole series and not at the tax position of each individual step. The approach involves giving the statutory provision a purposive construction to determine the exact nature of the transaction to which it was intended to apply and then determining whether the actual transaction answers the statutory description.

So, the British jurisprudence while upholding the right of the taxpayers to minimise its tax liability also protects and safeguards the interest of the revenue by requiring the courts to give a purposive meaning to the law and the transactions.

## Tax avoidance and Indian Jurisprudence

Decision of Hon'ble Supreme Court in McDowell case: In McDowell's case the Hon'ble Supreme Court followed the decision of British jurisprudence of Ramsay principle and pierced through the series of steps for obtaining tax advantage without any commercial purposes and decided that the colourable devices used by the taxpayer just to avoid the tax cannot be allowed and thus held against the taxpayer.

In the McDowell case, the Supreme Court confirmed that tax planning might be legitimate provided it is within the framework of law. Colourable devices cannot be part of tax planning and it is wrong to encourage or entertain the belief that it is honourable to avoid the taxes. In this case, the question under the Sales Tax law was whether excise duty voluntarily paid directly to the State by the buyer should be included in the turnover of the manufacturer, who contended that sales tax was payable only on the contractual sale price, which did not include excise. The Supreme Court held that excise duty even if paid by a third party would still form part of the sale consideration and thus liable to sales tax.

## Conclusion

In the last few years, globally as well as in India, the issue of what constitutes tax avoidance has increasingly gained attention. While different Courts have expressed their views in different ways, the one core thread is that the transaction must be a real commercial transaction, as opposed to a contrived one; and if the transaction is not contrived and is indeed genuine, then adopting a tax efficient means of consummating a transaction should not constitute tax avoidance.

Tax planning is not tax evasion. Tax planning is in fact an acceptable form of tax avoidance. Tax avoidance is legal but not liked by the Revenue. Tax evasion is perfectly illegal and against the law. Drawing the line between acceptable and unacceptable tax avoidance depends on the tax laws of the country and its jurisprudence prevailing at that time. There is no single rule across different jurisdictions which hold good for always.

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# EXCHANGE TRADED FUNDS (ETFs) – AN INVESTMENT PATH WORTH BEING TAKEN!!

*Arti Arora, CFP*

As the name suggests, Exchange traded funds (ETFs) are investment funds traded (bought / sold) on the exchange. The underlying investment of the ETFs could be commodities as gold & silver, stock indices & specific sectors / themes in equity, govt securities / bonds / liquid papers in debt & international equities, currencies, multi asset funds, in the alternate space.

In simple words, by investing in chosen ETFs, an investor can get exposure to a specific index, a particular sector or across sectors through a chosen theme and even the international stock markets.

Since they are exchange traded, having a demat account is mandatory to invest in them. The pricing here is more real time vis a vis mutual funds that can be bought / sold at day end NAV only. This does offer the needed flexibility / liquidity in an individual's investment journey.

The ETF space is fast evolving in India as it offers a great diversification opportunity wherein one can take exposure across different asset classes (as noted above) through the ETF route. The perfect asset allocation thus can be built through investment across different kind of ETFs.

In the cost ambit too, they score a brownie. Being mostly passively managed, they are a low cost investment proposition.

From the launch of the Nifty BeEs, India's first ever ETF in the year 2002, this space has grown exorbitantly with around 253 ETFs listed today.

Let us delve a little deeper and know about the different type of ETFs available for investment:-

## 1 Equity ETFs

These ETFs primarily invest in the company stocks with an aim to track / mirror the performance of specific market indices, sectors, etc. Some of examples of Equity ETFs would be Nippon India ETF Nifty 50 BeES, SBI Nifty 50 ETF, Kotak Nifty ETF, etc. These ETFs basically give an easier way to capture the overall market performance and earn market linked returns with much ease at lower cost.

The Equity ETFs can be categorised into different types depending on their investment purpose and the market index that they track. Some of the common categories here include the broad based market index equity ETF such as the ones discussed above. Next, we have theme based ETFs that track some particular theme such as consumption, digital, etc. Examples here would include the Mirae Asset India New Age Consumption ETF or Nippon India ETF Consumption, etc that track the performance of the Nifty India Consumption Index. Strategy Equity ETF & Market capitalisation based Equity ETFs are other categories slowly gaining traction.

Below is a brief synopsis of the index equity ETFs:-

Returns < 1 year are absolute while more than 1 year returns are annualized

| Scheme Name | Launch Date | Fund Size (Rs Crs) Jul25 | Latest NAV | 3 Months | 6 Months | YTD | 1 Year | 3 Years | 5 Years |
|---|---|---|---|---|---|---|---|---|---|
| Bandhan Nifty 50 ETF | 07-Oct-16 | 24.18 | 270.97 | 1.00 | 12.91 | 5.70 | -0.68 | 13.32 | 18.04 |
| HDFC BSE SENSEX ETF | 09-Dec-15 | 523.91 | 90.76 | 0.18 | 11.55 | 4.34 | -0.85 | 12.44 | 17.37 |
| HDFC NIFTY 50 ETF | 09-Dec-15 | 4664.38 | 276.20 | 1.00 | 12.94 | 5.72 | -0.66 | 13.33 | 18.22 |
| ICICI Prudential BSE Sensex ETF | 10-Jan-03 | 22093.98 | 919.79 | 0.19 | 11.56 | 4.36 | -0.82 | 12.47 | 17.39 |

Source-Fund Barometer, Bajaj Capital Ltd

## 2 Bond ETFs

These ETFs are another highly popular mode of investment in India. They invest the funds in bonds / fixed income securities for a steady income stream with much lower risk than what is associated with equities. The underlying herein include government bonds, corporate papers, etc and by investing in these ETFs, one can get a diversified exposure to the bond market as well as debt as an asset class. These ETFs offer a highly cost effective exposure to government bonds, commercial papers as well as money market instruments. Steady source of income through stable, predictable returns is the primary investment objective served through investment in these Debt ETFs. Some examples here would include SBI Nifty 10 year Benchmark G-Sec ETF, Nifty Bharat Bond Index funds, etc that invest in bonds of AAA rated government enterprises & organizations. The average return from these ETFs ranges between 8-10% and are taxed at regular tax slabs of the investor.

| Scheme Name | Launch Date | Fund Size (Rs Crs) Jul25 | Latest NAV | 3 Months | 6 Months | YTD | 1 Year | 2 Years |
|---|---|---|---|---|---|---|---|---|
| UTI Nifty 10yr Benchmark G-Sec ETF | 29-Jan-24 | 23.36 | 25.90 | -0.55 | 4.31 | 5.63 | 8.29 | |
| Nippon India ETF Nifty 8-13 yr G-Sec Long Term Gilt | 05-Jul-16 | 2931.85 | 28.77 | -0.51 | 4.50 | 5.76 | 8.53 | 8.81 |
| Mirae Asset Nifty 8 - 13 yr G-sec ETF | 31-Mar-23 | 92.63 | 29.15 | -0.50 | 4.48 | 5.74 | 8.49 | 8.77 |
| Mirae Asset Nifty 1D Rate Liquid ETF-IDCW | 27-Jul-23 | 506.43 | 1000.00 | 1.26 | 2.68 | 3.71 | 5.78 | 6.16 |

## 3 Commodity ETFs

These ETFs invest in physical commodities such as gold, silver, etc and replicate the price movements therein. The Gold ETFs are one of the most popular and vastly adopted ETFs that allow investment in the yellow metal without the hassle of actually holding and preserving it and being concerned about its purity and other parameters. Examples of some commodity ETFs include Kotak Gold ETF, HDFC gold ETF, Kotak Silver ETF, etc. One of the biggest advantage of investing in these ETFs is to provide oneself hedge against inflation and to some extent market volatility too.

***Below is the synopsis of some of the gold & silver ETFs:-***

Returns < 1 year are absolute while more than 1 year returns are annualized

| Scheme Name | Launch Date | Fund Size (Rs Crs) Jul25 | Latest NAV | 3 Months | 6 Months | YTD | 1 Year | 3 Years | 5 Years | Since inception returns |
|---|---|---|---|---|---|---|---|---|---|---|
| Aditya Birla Sun Life Gold ETF | 13-May-11 | 1170.31 | 93.27 | 8.88 | 22.05 | 37.88 | 46.99 | 26.66 | 14.49 | 10.51 |
| Aditya Birla Sun Life Silver ETF | 31-Jan-22 | 944.27 | 123.77 | 21.32 | 28.66 | 42.17 | 49.91 | 31.85 | -- | 20.61 |
| Axis Gold ETF | 10-Nov-10 | 1955.47 | 88.60 | 8.85 | 21.99 | 37.84 | 46.94 | 26.68 | 14.56 | 10.46 |
| ICICI Prudential Silver ETF | 24-Jan-22 | 6762.09 | 123.65 | 21.33 | 28.64 | 42.13 | 49.85 | 31.90 | -- | 18.44 |
| Kotak Gold ETF | 27-Jul-07 | 7842.26 | 88.60 | 8.84 | 21.95 | 37.72 | 46.82 | 26.65 | 14.47 | 13.58 |
| Mirae Asset Silver ETF | 09-Jun-23 | 145.08 | 120.93 | 21.28 | 28.61 | 42.05 | 49.74 | -- | -- | 24.50 |
| SBI Gold Fund - Growth | 12-Sep-11 | 4739.69 | 31.07 | 8.29 | 21.58 | 37.30 | 46.86 | 26.46 | 14.36 | 8.44 |
| UTI Gold ETF | 10-Apr-07 | 2054.23 | 89.18 | 7.90 | 21.90 | 38.14 | 48.33 | 27.06 | 14.42 | 12.96 |

## 4 Real Estate ETFs

As an investor you are bullish on real estate sector owing to the realty boom post Covid. These Real Estate ETFs offer you a great investment opportunity to take exposure to the sector and benefit from appreciation therein. These ETFs invest in real estate related stocks; could be companies involved in development or management of real estate or even REITs that operate by investing in rental income generating real estate opportunities as commercial spaces, etc. They allow you to gain exposure to the sector minus the requirement of huge capital outlay and the hassle of directly purchasing and managing these properties. By spreading your investment across multiple properties and real estate companies, these ETFs also yield the diversification benefit. Motilal Oswal Nifty Realty ETF is an example in this space that was launched in '24, has AUM of about 108 crore. The fund has negative performance if the last 1-year returns are to be considered but is slowly picking up in the last 6 months.

## 5 International ETFs

These ETFs invest in the international markets / stocks, providing investors with exposure to global equities or indices. They track the indices in the global equity markets such as the S&P 500, Nasdaq 100, Hang Seng Index, NYSE FANG+, etc. These ETFs are a great way for Indian investors to gain exposure to high quality foreign companies where otherwise investing for them may be challenging. India being a developing economy, INR depreciation is for real due to comparatively higher interest rates. This economic phenomenon of currency (rupee) depreciation makes up a great case for investment in these international ETFs to benefit from global investing. Some examples of popular international ETFs are the Mirae Asset NYSE Fang+ ETF, Motilal Oswal Nasdaq 100 ETF, etc. The Mirae ETF is in fact one of the largest technology funds that invests in leading US tech companies to tap in their innovation as well as growth. This fund has an AUM of 3244 crores and has delivered plus of 45% returns in the last 3 years.

While the Indian stock market has delivered a relatively subdued performance in the last 1 year, several global ETFs delivered robust returns in range of 25-30% and in some cases even more than 50%. This performance differential underscores a strong and rational investment case for these Global ETFs.

The Motilal Oswal Nasdaq fund 100 ETF is the international fund category has been a consistent performer as can be seen below:-

| Scheme Name | Launch Date | Fund Size (Rs Crs) Jul25 | Latest NAV | 6 Months | YTD | 1 Year | 3 Years | 5 Years | 7 Years | 10 Years | Since Inception |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Motilal Oswal Nasdaq 100 ETF | 29-Mar-11 | 10016.73 | 203.29 | 17.21 | 15.74 | 31.03 | 28.53 | 19.15 | 21.09 | 21.94 | 22.91 |

In India, investment in equities and gold through Index ETFs and Gold ETFs, respectively, has emerged as a rapidly growing and increasingly popular avenue, offering well-established benefits to investors.

However, the percentage allocation across the different asset classes should be defined and determined by an investor's individual journey and their investment objectives as there is no universally established rule or benchmark that one can follow.

Generally speaking, the asset class specific ETFs should ideally form a part of the core investment portfolio while theme based ETFs are a good add-on in the satellite ambit depending on the investor risk profile and financial goals.

As is the case with every investment, ETFs have a flip side too - the passive investment style that most ETFs come with. Since they replicate the performance of their underlying, the alpha opportunity is limited.

This scenario is however undergoing change now with the launch of factor ETFs with growth & alpha as their underlying theme. These new smart beta ETFs work on factor based approaches & algorithms for generation of enhanced returns. Nifty Alpha 50 ETF, dividend yield and momentum based ETFs, etc fall in this category of these actively managed ETFs.

Some of the funds such as Kotak Nifty Alpha 50 ETF have yielded an average of 17% annualized returns in the last 3 years while the ICICI Prudential Nifty Alpha Low-Volatility 30 ETF has yielded negative returns in the last 1 year, the 5-year annualized return from the same fund is 18%.

One more concern around ETFs despite being exchange traded is that sometimes they become illiquid with large spreads between the bid and ask prices making it difficult to transact in them. The natural advantage with ETFs thus can turn into disadvantage too.

To sum it up, there is a heightened interest in ETFs in recent times primarily because of the features, advantages and benefits that are associated with them. Each type comes with its unique benefits such as Equity ETFs provide an opportunity to invest across stocks while the bond ETFs serve the objective of yielding regular income with lower risk. The Commodity ETFs let you invest in physical assets without having to literally hold them and thematic ETFs help in getting mileage from the favoured themes such as AI, digital or automatic vehicles, etc. The return appreciation from currency movements can be gathered through investment in global ETFs.

With the variety of ETFs and each with its own investment philosophy, there is a lot of choice for the investor which is great but can become challenging too.

Choosing the right ETFs is highly important for financial prosperity. It is best to align these investments to one's financial goals & risk tolerance. A 360 degree view with a financial plan in place always adds that invisible value to one's investment decisions that can never be over emphasized but experienced with time, if followed consistently.

To sum it up, it is not about the investment alone but also the investment strategy as suited to one's own cash flows & other relevant metrics where referring to a certified expert and having a well-defined financial plan does add value and helps a great deal!!

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# A BRIEF ARCHAIC ROMANCE: POLICY EXPERIMENTS AND THEIR (UN)INTENDED CONSEQUENCES

***Rajesh Krishnamoorthy,***
*Adjunct Faculty, NISM*

An insightful reflection on economic lessons from history—drawing parallels between global trade stability and the value of long-term financial planning discipline.

Student "Sir, what does constant tinkering of Tariffs lead to?"

Teacher "A Quirky History Lesson in Self-Inflicted Trade Wounds!"

Synopsis: If history has been a great teacher, then, what it shows is repeated meddling with tariff levels – even modest adjustments – has consistently backfired. It has inflicted sharper downturns in global trade and growth than any possible short-term protective benefit might justify.

In June 1930, the United States enacted the Smoot–Hawley Tariff Act, raising average import duties by about 20 percent atop a preexisting 40 percent burden. What followed was not a patriotic bulwark for American farmers, but a 66 percent collapse in world merchandise trade between 1929 and 1934, as 25 nations retaliated in kind and global commerce plunged into a dramatic free-fall.

Global tariff levels have shrunk to roughly 2.6 percent, as reported by the World Trade Organization (WTO), after decades of incremental tinkering and liberalization. That slender remainder of duty seems innocuous – until one recognizes that even these small rates can rock the global economy. Staring at 100+% tariffs, my mind is reminded of the idiom – from Titanic to Tugboat!

So, what has been the Empirical Verdict? In short, small tariff hikes, big growth slumps!

Modern macroeconomic studies confirm a chilling causal link. An increase of 3.6 percentage points in applied tariffs—roughly a one-standard-deviation shock—leads to about a 0.4 percent reduction in GDP five years later, with effects compounding year after year. In an era when global GDP growth hovers near 3 percent, shaving off nearly half a percentage point is no trivial matter.

In a recent release, the International Monetary Fund (IMF) shed light that steep tariff volatility—characterized by abrupt hikes and the threat of further retaliation—inflicts an immediate drag on business confidence, stalling investment and dampening world growth projections by 0.8 percentage points.

Let us be reminded of the Smoot–Hawley Act of 1930. Aimed at aiding agriculture, it ultimately devastated U.S. exports (down two-thirds to Europe by 1932) and plunged banks into insolvency.

Recent U.S. moves, which prompted this column, propelled the effective tariff rate from under 3 percent to above 100 percent, the highest since the Great Depression. When it was 20 percent, short-term front-loading spiked trade volumes, but the rebound has proven illusory, sowing recessionary risks worldwide. There is the added danger of piecing out exemptions. These temporary carve-outs for key sectors merely shift uncertainty; once exemptions expire, global supply chains buckle under renewed duty burdens.

At the end of the day, triggered by policy uncertainty, firms delay investment stunting innovation and job creation. Then there is fragility in the global supply chain, forcing costly rerouting, inventory gluts, and idled capacity.

From the home country perspective, (i.e. the one imposing tariffs), while some jobs might gain short-lived protection, the net effect erodes efficiency and consumer welfare, as tariffs inflate prices on imported inputs and final goods. Ultimately it will lead to deadweight losses.

And what about the world? Well, you just sounded the global retaliation bugle! An eye for an eye, tariff hikes invite symmetrical reprisals. The more the world breaks out the tax wrenches, the more growth stalls.

This leads me to an Ironic Prescription: Stability Over Spikes

If our goal were to nurture sustained global trade and buoyant growth, history and data converge on a single prescription: minimize tariff tinkering. Constant adjustments, even if well-meaning, undermine the very market confidence and integration that generate prosperity. We encourage people to look at longer term horizons when it comes to personal financial planning, like retirement planning.

In investment planning, we encourage people to come out of the short-term trader mentality and embrace a logical and workable asset allocation that delivers over time. World leaders must think in similar lines for the whole world! Empirical studies across fifty years and 150 countries find that lower, predictable tariffs foster higher growth and productivity.

The IMF went on record with adequate proof that removing or stabilizing tariff schedules can erase recession risks more effectively than occasional protectionist bursts. We all know that trade liberalization will lead to increased economic efficiency.

A Cambridge University paper presented a pertinent point that I gleefully add to my prescription: Equitable Liberalization: This term implies a proactive and balanced approach to globalization. It recognizes that while trade liberalization offers potential economic benefits, some sectors or communities may face job displacement, wage pressure, or other negative consequences.

Equitable liberalization emphasizes the importance of accompanying trade reforms with measures that address these negative impacts and promote fair outcomes for all citizens.

I am THOR! Well, not really!

Reinventing the tariff wheel every few years might feel like wielding a mighty policy hammer—but experience shows it's usually just nailing the global economy's coffin. A world trading system thrives not on protectionist jolts, but on the steady hum of low, predictable duties.

In practice, the secret to winning at global trade is not constantly rewriting the rules but leaving them alone. That, more than any highfalutin strategic tariff play, is the one change the data—and centuries of commerce – demand.

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# PASSIVE INVESTING – AN OPTION WORTH CONSIDERING

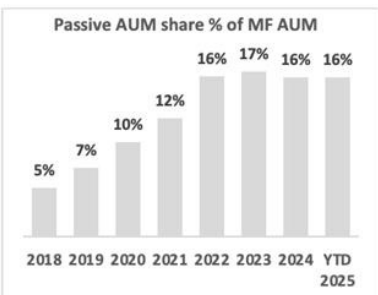
*Sunita Panigrahi, CFP*

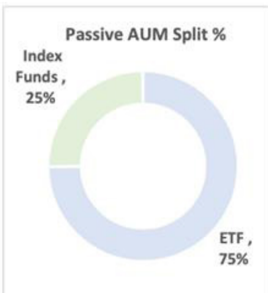
When I first started working in wealth management industry over a decade ago, the conversation around mutual funds was very different. Clients wanted the "best" fund manager, the stock picker with an edge, the person who could beat the market. Passive investing was often dismissed as "average returns for average investors."

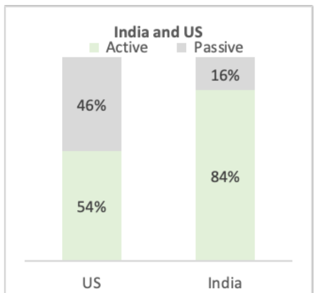
Over time with a lot of investor awareness and evidence showed that simplicity can be one of the most effective strategies in investing. Instead of chasing short-term gains or relying on star fund managers, approaches built on low costs, discipline, and patience proved far more reliable. By staying invested and allowing the market to compound wealth over the long run, passive investing has steadily shifted from being dismissed as "average" to becoming mainstream.

To give some context on how passives have grown, in the U.S. passive funds have grown fourfold in the last decade to reach $17 trillion in assets under management (AUM). Since 2024, they've overtaken active funds in market share, holding nearly half the industry's assets.

Back in India, the industry is still catching up, but the shift is unmistakable. In 2018, passive funds accounted for just 5% of industry AUM. Today, they've reached ₹12.2 lakh crore, or about 16% of mutual fund AUM. Within passives, ETFs dominate this space, making up three-quarters of the total, while index funds account for the rest.


Source: AMFI

With markets evolving continuously, investing today goes beyond simply "buying the index." While passive investing lays the foundation with low costs, diversification, and discipline, investors now have access to a powerful complement: Smart Beta strategies.

Smart Beta sits between passive and active investing. Like passive funds, it follows clear rule-based methodologies — but instead of simply tracking the largest companies by market capitalization, it tilts portfolios toward specific factors that have historically delivered better risk-adjusted returns. And it achieves this at a fraction of the cost of actively managed funds.

The table below highlights the key Smart Beta strategies and their practical applications. As shown, different factors align with different economic environments, giving investors a way to tilt portfolios intelligently instead of relying on guesswork.

| Metrics | Quality | Momentum | Low Volatility | Growth | Value | Equal Weight |
|---|---|---|---|---|---|---|
| Key Focus | Financially healthy companies with high ROE and low debt. | Stocks with strong recent price performance. | Stocks with lower price fluctuations | High earning and revenue growth potential | Focuses on undervalued stocks (relatively inexpensive) | Broad diversification with no single sector bias |
| Parameters | ROE, ROCE, Debt to Equity | 3m/6m/12m price Change | Standard Deviation of price returns | Revenue, EBITDA, PAT growth rate | Low valuation ratios like P/E, P/B | Equal weight across stocks |
| Best Used During | Stable or bullish markets, and economic expansion cycles | Recovery phases, captures market effectively during strong bull phases | Market downturns, periods of uncertainty, crises provides a cushion during market turbulence | Performs well in economic recoveries and bullish periods | Late-cycle recoveries, inflationary environments | Ideal for long term investing and diversification benefits |
| Top 3 Sectors | FMCG<br>IT<br>Auto | IT, Consumer Service and Healthcare | FMCG<br>Financial Services<br>Healthcare | Auto IT Healthcare | IT Financial Services Auto | Financial Services Auto |
| Top 5 Stocks (based on Index) | Nestle India, HDFC Bank, TCS, ITC and Infosvs Ltd | Bharti Airtel Ltd, M&M, Divi's Laboratories, Bharat Electronics and BSE | Nestle India Ltd<br>Britannia Industries Ltd<br>ICICI Bank Ltd<br>ITC Ltd<br>HDFC Bank Ltd | M&M<br>HUL<br>Infosys<br>Sun Pharma | ICICI Bank<br>Infosys<br>ITC TCS<br>State Bank of India | Indusind Bank<br>Bharat Electronics<br>Jio Financial Services<br>Adani Ports<br>Hero MotoCorp Ltd |

In short, passive investing builds the foundation, while Smart Beta adds adaptability.

## Smart Beta Through Market Cycles

One of the key lessons from Smart Beta investing is that no single factor outperforms across all periods. Different styles tend to lead at different points in the market cycle, depending on macro conditions, liquidity, and investor sentiment.

Over the last decade, Indian markets have offered valuable lessons in how different factors perform across market cycles.

In 2014, the Modi wave and reform optimism sparked a sentiment-driven rally. Investors priced in political stability and economic reforms, boosting Momentum and Value factors. But by 2015, the optimism faded as earnings disappointed and global risk-off events weighed on sentiment. Investors shifted towards defensiveness, with Low Volatility and Quality becoming the preferred choices for stability.

The 2016 demonetisation shock brought fresh uncertainty. While markets reacted cautiously at first, Value made a comeback as beaten-down stocks rebounded later in the year. Confidence returned in 2017, as the GST rollout coincided with a global synchronized recovery. This broad-based optimism lifted Momentum and Equal Weight strategies, with midcaps and wider market participation driving gains.

Then came 2018, a turbulent year marked by the IL&FS crisis, rising crude oil prices, and global tightening. Sharp corrections hurt overall returns, but Low Volatility and Quality offered some cushion. In 2019, performance was led narrowly by large-cap heavyweights, making Low Volatility and the Nifty 50 index relatively more resilient compared to broader indices.

The COVID crash of 2020 was one of the most dramatic downturns in recent memory, followed by an equally sharp rebound. Defensive factors like Low Volatility and Quality outperformed as investors flocked to resilient businesses. This was quickly followed by the liquidity-fuelled bull run of 2021, when global liquidity and retail participation drove up Momentum and Value, with cyclicals and high-beta names leading the rally.

By 2022, inflation, rate hikes, and geopolitical tensions pushed investors back into defensive mode. Quality and Low Volatility became the go-to strategies again. However, in 2023, domestic resilience despite weak global cues reignited Value and Momentum, particularly in cyclical sectors and PSUs. The growth theme strengthened further in 2024, when the ongoing capex cycle and broad-based economic expansion allowed Quality, Value, and Momentum to perform strongly together.

So far, 2025 has been about consolidation and sector rotation. While markets remain volatile, it will be interesting to see which factor stays resilient

The performance numbers in the table below reinforce this point. While indices like the Nifty 500 and Nifty 50 have delivered strong returns in aggregate, the factor indices show that leadership shifts dramatically across cycles. For example, Momentum surged 70% in 2014, but lagged in 2022. Similarly, Value soared in 2014 and 2023, but underperformed in years of market stress.

| Indices | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | YTD 2025 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Nifty 500 | 39% | 0% | 5% | 38% | -2% | 9% | 18% | 32% | 4% | 27% | 16% | 3% |
| Nifty 50 | 31% | -4% | 3% | 29% | 3% | 12% | 15% | 24% | 4% | 20% | 9% | 4% |
| Low Volatility | 36% | 8% | 2% | 32% | 7% | 8% | 25% | 21% | 7% | 33% | 16% | 7% |
| Quality | 49% | 9% | 1% | 34% | -2% | 2% | 28% | 30% | -3% | 42% | 23% | -2% |
| Equal Weight | 62% | 7% | 3% | 51% | -21% | -7% | 27% | 50% | 2% | 42% | 23% | 1% |
| Momentum | 70% | 11% | -1% | 70% | -11% | 9% | 21% | 79% | -8% | 48% | 27% | -9% |
| Value | 79% | -7% | 25% | 47% | -26% | -14% | 8% | 56% | 23% | 63% | 20% | 4% |

Source: Bloomberg

**Key Takeaways**

The lesson from both passive and Smart Beta investing is clear: you don't need to outguess the market to build wealth. Passive funds give you the foundation — low costs, diversification, and discipline — while Smart Beta adds an intelligent layer of adaptability to different market environments.

No single style wins in every cycle, and that's precisely the point. By combining the simplicity of passive investing with the flexibility of Smart Beta, investors can create portfolios that are not only cost-efficient but also resilient through uncertainty.

In the end, successful investing isn't about predicting what comes next. It's about preparing for it — with a structure that works across cycles, and a strategy that helps you stay invested for the long run.

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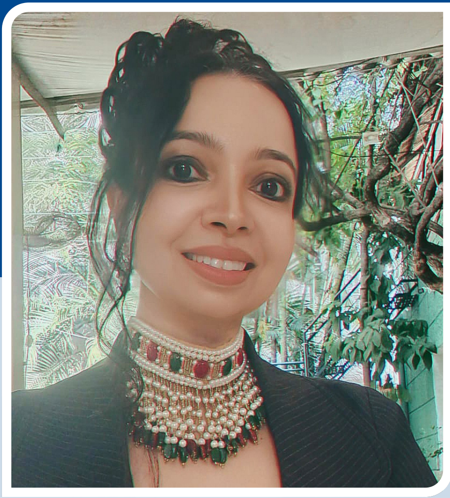
# WHY UNDERSTANDING YOUR CLIENT'S MINDSET IS THE KEY TO GREAT FINANCIAL PLANNING



*Amisha Sethi*
*Senior Vice President – Policy and Communication, FPSB India*

**"Money is not just a number or a spreadsheet. It's emotion, memory, trust, and fear—all rolled into one."**

As a financial planner, you're not just managing money. You're managing human behavior. That's why truly exceptional planners go beyond asset allocation and tax efficiency—they tap into something deeper: the psychology of their clients.

**Why Psychology Matters in Financial Planning**

Financial decisions are rarely made on pure logic. A client might delay investing not because they lack the funds, but because of fear—fear of loss, fear of the unknown, or even childhood money trauma. Others may overspend not due to carelessness but as a way to feel in control, valued, or secure.

A 2018 study by Morningstar* found that behavioral coaching—guiding clients through emotional decisions—can be more valuable than portfolio construction alone, adding up to 1.5% in additional annual returns through reduced behavioral mistakes.

**Understanding Motivations Unlocks Trust**

When you understand your client's money mindset, you gain insight into their core values and life aspirations. Is your client a security-seeker, an experience-chaser, or a legacy-builder? Each profile requires a tailored approach—not just financially, but emotionally.

*"A good financial plan is a road map that shows us exactly how the choices we make today will affect our future."*

*— Alexa Von Tobel, CFP®, founder of LearnVest*

But the road map only works if you know where the client really wants to go—and sometimes they don't even know that themselves.

**Lifestyle Goals vs. Financial Goals**

Modern clients are not just chasing net worth; they are seeking life worth—freedom, purpose, and time. When planners focus only on financial metrics and miss the why behind the goals, they lose the client's emotional engagement.

By embracing financial life planning, a growing approach that merges psychology with money management, planners help clients align wealth with well-being.

"People don't buy financial plans. They buy a better version of themselves."

— Carl Richards, author of The Behavior Gap

## INDIA CONTEXT

**India's New Financial Reality: More Aspirational, More Complex**

Consider this:

- India has over 700 million internet users, with a growing appetite for digital investments and financial independence.
- Millennials and Gen Z now make up over 50% of India's working population, with vastly different attitudes towards wealth, lifestyle, and risk.
- The rise in dual-income urban households, single parents, and gig economy workers is redefining traditional financial goals.

Yet beneath all this modernity lies a deep emotional undercurrent: anxiety about the future, social pressure to succeed, and emotional baggage linked to money (especially from past generations who experienced scarcity).

*"Personal finance is more personal than it is finance."*

*— Tim Maurer, financial behavior expert*

As a financial planner in India, you are not just advising on SIPs or insurance. You are helping clients navigate emotional terrain: guilt over spending, fear of markets, confusion about priorities, and sometimes even marital discord over money.

**What Clients Want vs. What They Say in India**

You may hear a client say:
"I want to retire at 55."

But dig deeper, and you'll find they actually want:

More time with their children
Freedom from a stressful job
A sense of identity beyond work

These are not just financial goals. These are psychological goals, wrapped in numbers.

A 2023 Axis My India study found that 80% of Indian families ranked peace of mind and life satisfaction as more important than just "wealth creation." Financial goals are no longer standalone—they are enablers of meaningful lifestyles.

**Why CFP Professionals Must Embrace Psychology Now**

In India, where family, culture, and emotions heavily influence financial decisions, understanding behavioral biases and psychological triggers is critical.

The Psychology of Financial Planning isn't a theoretical concept anymore—it's a must-have lens to:

- Address client indecision and procrastination
- Help navigate intergenerational money conflicts
- Create stickier, long-term client relationships
- Deliver advice that resonates beyond just returns

"Financial planning without psychology is like prescribing medicine without knowing the patient's history." — Unknown

By adding this layer of human insight, you move from being a planner to becoming a life architect—helping clients not only plan for tomorrow, but live better today.

*Amisha Sethi is the Senior Vice President of Policy and Communication at FPSB India, and can be reached at* **asethi@fpsb.in**

## PRESS COVERAGE

# From Wealth Creation To Wealth Protection: How Financially Planned Is India?

**By Dante De Gori CFP,** CEO, FPSB Ltd.

Outlook MONEY

# CALL FOR ARTICLES

## Writing Guidelines for Contributions

- Articles: We welcome previously written work and ideas that pertain to one of the areas of financial planning: tax planning, debt management, cash flow management, ethics and legal and regulatory environment, education planning, retirement planning, investment planning, insurance planning, and estate planning.

  The articles should be of about 1200-1500 words in length, including all photos and graphics. Articles must be written in English and be relevant to Indian CFP professionals and/or the global CFP community.

- Audience: You are writing for people like you – other CFP professionals! Please provide timely and accurate information that has practical implications.

- Style: The Journal of Financial Planning in India is focused on providing and promoting easy-to comprehend, professional written work. A contributor's thoughts, comments, ideas, and graphics should be easy to understand and structured for flow.

## ELEMENTS TO BE INCLUDED FOR SUBMISSION:

- Publication date - Dec 2025.
  Article submission date: 15 Nov 2025.
- Publication date - Mar 2026.
  Article submission date: 15 Feb 2026.
- Send to: akumar@fpsb.in
- Format: When submitting an article, please include author name(s), email address, phone number, author(s) picture, and a brief profile of the author(s).
- Executive Summary: The executive summary is not a sales pitch for the article, but instead, a summary telling the reader what to expect, the purpose, the topic, the why, and the important practitioner implications. Executive summaries should be no more than 250 words.
- Graphics: No more than 5 photos and graphics per article.
- Endnotes/References: Please be sure to use APA formatting for references and endnotes.

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FPSB INDIA

# CPD QUIZ

## FOR JOURNAL OF FINANCIAL PLANNING IN INDIA

(SEPTEMBER 2025 EDITION

# WELCOME TO THE CPD QUIZ!

This quiz is 5 questions long, and you need to answer 4 questions correctly to earn 4 CPD points. Your quiz results will be displayed after you complete all the questions.

Current CFP professionals are required to take the CPD Quiz by logging into their MyFPSBLearning portal. Once the Quiz is submitted, CPD points earned shall be reflected directly in the LMS portal of the candidate.

**To improve your score in this Quiz, you will be able to take the CPD Quiz up to two times.**


# GOOD LUCK!

### Tax Jurisprudence – Planning vs. Avoidance

1. In the purview of the Income Tax Act, all incidences where any taxpayer attempts to reduce his tax liability by increasing the amount of available deductions, decreasing income by under reporting, engages in disclosure of unreal expenses for deductions, shows personal expenditure as business expenses, come under ____

   a. Tax Avoidance

   b. Tax Planning

   c. Tax Evasion

   d. Both (a) and (b)

### Exchange Traded Funds (ETFs) – An investment path worth being taken!!

*2. Which of the asset categories given below can be an underlying investment of the ETFs?*

a. Commodities
b. Stock indices
c. Government securities, including bonds
d. All of the above

### The National Pension System (NPS): Building India's Retirement Security Framework

*3. The author advocates National Pension System (NPS) for the citizens based on its _____*

a. Tax efficiency
b. Lower risk
c. Fixed asset allocation
d. Above-market returns

### Passive Investing – An Option Worth Considering

*4. The author emphasizes that while Smart Beta investing could be the middle path between Active and Passive investment styles, a key lesson which the planners must keep in mind is that _____*

a. simplicity can be one of the most effective strategies in investing
b. passive investments have grown many fold in the last decade
c. no single factor outperforms across all periods
d. staying diversified and sticking to discipline works better

### A Brief Archaic Romance: Policy Experiments and Their (Un)Intended Consequence

*5. From the home country's perspective (the one imposing tariffs), the author points out that an increase in applied tariffs eventually leads to _____*

a) easing of the global supply chains
b) an increase in the GDP
c) inflation of prices of imported inputs & goods
d) increase in employment rates

**END OF THE QUIZ**

# JOURNAL OF FINANCIAL PLANNING IN INDIA

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