



FOUNDATION OF INDEPENDENT FINANCIAL ASSOCIATES

Formerly known as Foundation of Independent Financial Advisors

29th August 2025

Hon'ble Chairman and Members,
Good and Service Tax (GST) Council,
The Office of the GST Council Secretariat
5th Floor, Tower II, Jeevan Bharti Building, Janpath Road,
Connaught Place, New Delhi-110 001
Telephone No.: 011-23762656

Subject: Request for Rationalization of GST on Services Provided by Mutual Fund Distributors (MFDs)

Respected Sir/Madam,

On behalf of the *Foundation of Independent Financial Associates (FIFA)*, a not-for-profit company representing over 4,100 Mutual Fund Distributors (MFDs) across 433 cities in India we respectfully submit this request for reduction in GST on services rendered by MFDs.

At the outset we would like to state that we are heartened by the Government's comprehensive exercise to review and consolidate GST rates, and we wish to draw your kind attention to a matter of great importance to our Hon'ble Prime Minister's vision of a self-reliant and financially inclusive India, to the investing public at large and to our industry.

This petition seeks a reduction in the GST rate applicable to the commissions paid for the distribution of the Mutual Funds schemes. We are confident that a favorable consideration of our plea will not only provide much needed succour to a vital segment of the financial services industry but also align perfectly with our Hon'ble Prime Minister's vision of a self-reliant and financially inclusive India.

MFDs play a critical role in financial literacy, inclusion, and nation-building by guiding retail investors towards disciplined savings through Systematic Investment Plans (SIPs). Presently, over ₹20,000 crore is invested monthly via SIPs, with more than 9 crore live SIP accounts, the majority contributed by first-time investors from Tier II & III towns. This movement has been possible largely due to the work of MFDs.

However, the current 18% GST on distributor earnings disproportionately impacts the servicing of small investors, discouraging penetration at grassroots levels where financial awareness is most needed. A reduction in GST will:

- Make financial distribution more accessible and affordable for the common investor.
- Deepen household participation in markets, supporting India's capital formation.



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- Advance the Government's vision of a financially empowered, self-reliant India.

Rationale for reduction of GST on services provided by MFD:

- MFD's provide a very essential and critical services to Indian Household and retail investors, by creating financial awareness, spreading financial literacy, and channelizing households especially via Systematic Investment Plans (SIP) to Mutuals Funds and enabling capital formation leading to economic growth of the country.
- These financial savings are essential and critical for ensuring the financial independence of the small retail investors and spread the countries prosperity across the length and breadth of the countries and to the bottom of the pyramid. It would enable all Indians to become financially independent and free.
- The service that Mutual funds can provide to make Indians become Financially Independent provides a greater social service more important than Insurance Protection.
- We urge that the Council recognizes this critical service and reduces the service tax to the lowest GST slab.

The Disparity in GST Treatment: A Contradiction to Indirect Tax Principles

The fundamental principle of an indirect tax like GST is that it is a consumption-based tax, where the ultimate burden is borne by the final consumer of the goods or services. The supplier of the service acts merely as a collection agent for the government. However, the current regulatory framework for mutual funds creates a significant and inequitable deviation from this principle, specifically in the treatment of GST on distributor commissions.

We are writing to bring to your attention a significant and inequitable disparity in the application of Goods and Services Tax (GST) within the mutual fund industry. This issue, which affects mutual fund distributors, stems from the current regulatory framework as outlined in the SEBI (Mutual Fund) Regulations, 1996, and the SEBI Master Circular for Mutual Funds, June 2024.

A review of these regulations reveals a clear inconsistency:

- Rule 52(6A)(b) & (c) of the SEBI (Mutual Fund) Regulations, 1996, explicitly permits Asset Management Companies (AMCs) to charge GST on management fees and certain expenses to the mutual fund scheme. This provision allows AMCs to pass on the burden of GST to the end consumer — the investor.
- In contrast, a combined reading of the SEBI Master Circular for Mutual Funds, June 2024, particularly Paras 10.3 and 14.3.3.4(b)(i) concerning commissions, does not



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extend this same benefit to distributors. This is further reinforced by the section on Goods and Services Tax on page 741, which contains no provision for passing on the GST burden on distributor commissions to the scheme.

This regulatory anomaly forces mutual fund distributors to absorb the GST burden themselves, rather than passing it on to the final consumer. This is a direct contradiction of the fundamental principle of GST as a consumption tax.

Our Humble Request:

In light of the above, we humbly pray that the GST Council, under your able leadership, will consider our petition:

- We request you to reduce the rate of GST from 18% to 5% on the commissions paid for the distribution of mutual fund schemes. While we are mindful of the Government's fiscal responsibilities, we believe this proposed rate reduction is revenue-positive in the medium to long term. A lower tax burden will stimulate growth in the distribution network, leading to greater financial inclusion and a larger volume of assets under management. This expansion will, in turn, increase the overall tax base from other sources like capital gains and corporate taxes, offsetting the initial impact on GST collections.
- That at the instance of the Government and the GST Council, this issue be weighed upon by SEBI for considering an increase in the TER **only to the extent of GST chargeable** on commission paid to distributors, just as it has allowed GST charged by the asset management companies to be charged to the scheme over and above the maximum chargeable TER, and also as was the case in the regime on distribution commission in financial products. If this is allowed, the treatment of chargeability of GST will be equitable. It may be relevant to highlight that the said increase will ultimately and entirely flow to the Government by way of GST and hence there will be no loss of revenue.

We urge the GST Council to reduce GST on MFD services to 5% or the lowest applicable slab, or alternatively exempt distribution services provided to small investors, recognizing their social and economic utility, similar to other essential financial services like insurance.

This step will not only enhance retail participation but also strengthen long-term savings, expand financial independence, and contribute meaningfully to India's inclusive growth journey towards a \$5 trillion economy.

With respectful regards,

Dhruv Mehta
Chairman

Annexure – Supporting Data for GST Reduction on MFD Services

1. Growth of Mutual Fund Industry & SIP Base

- SIP Book Size (Monthly): Approx. ₹20,000 crore inflows every month (AMFI, 2025).
- Live SIP Accounts: Crossed 9 crore mark in 2025, showing mass adoption of mutual fund investing by retail investors.
- Average SIP Ticket Size: ~₹1,750–₹2,000 per investor per month, indicating participation by small household investors, not just high-net-worth individuals.

2. Investor Profile – Retail & Small-Town Penetration

- Total Investor Folios: Over 17 crore folios (2025) of which retail investors form the vast majority.
- Geographical Reach:
- 65%+ of investor folios are now from Tier II & Tier III towns, demonstrating wide financial inclusion beyond metros.
- 75% of SIP registrations in the last 3 years have come from non-metro India, supported largely by MFD outreach.
- Women Investors: Growing participation with ~30% folios registered in women's names, highlighting increased financial independence.
- 3. Economic Contribution of Mutual Funds (via MFDs)
- Assets Under Management (AUM): Indian MF industry AUM now exceeds ₹60 lakh crore (2025), a nearly 4x rise in ten years.
- Household Finance: Mutual funds are among the fastest-growing vehicles for channeling financial savings into long-term capital markets.
- Capital Markets Development: Domestic MF flows are now a stabilizing counterbalance to volatile Foreign Institutional Investor (FII) flows, ensuring market resilience.

4. GST Impact on MFD Services

- High-Cost Barrier: The current 18% GST levied on distributor earnings reduces already modest incentives, especially for servicing small-ticket investors.
- Disincentivizing Inclusion: For an MFD in smaller towns, the effective income post-tax often becomes unviable for ₹500–₹1000 SIP clients — discouraging expansion into rural/semi-urban segments.
- Comparative Global Practices: In countries like UK, Singapore, and Australia, financial advisory/distribution for retail investors enjoys preferential or concessional indirect tax treatment, recognizing its welfare role.



5. Alignment with National Priorities

- Financial Literacy & Inclusion: Supports the vision of Jan Dhan → Jan Suraksha → Jan Nivesh.
- Self-Reliant India (Atmanirbhar Bharat): By increasing savings, reducing dependence on welfare schemes, making middle and low-income households financially independent.
- Roadmap to \$5 Trillion Economy: Domestic savings channeled through mutual funds aid productive capital formation, boosting infrastructure and industrial growth.