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SINCE 1985

exceeding expectations

# GIFT City

REGULATORY AND TAX PERSPECTIVE

# Introduction

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- Gujarat International Finance Tec-City ("**GIFT CITY**") located in Gandhinagar, Gujarat, India gained prominence because it is India's first and only International Financial Service Centre ("**IFSC**").
- GIFT CITY comprises of a domestic tariff area and a special economic zone that is divided into IFSC and IT/ITES zone.
- The domestic tariff area provides residential spaces, schools, hospitals, shopping malls, etc.
- GIFT CITY is a greenfield smart city, that boasts of state-of-the-art and sustainable infrastructure, including utility tunnel and district cooling systems.
- Access to world class infrastructure and talented workforce.
- The International Financial Services Centres Authority ("**IFSCA**") is the unified regulatory body for GIFT IFSC.

# Advantages

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- A financial institution set up in GIFT IFSC is treated as a person resident outside India under foreign exchange laws of India.
- Transactions between person residents outside India are not regulated under foreign exchange laws of India.
- Transactions in GIFT IFSC in a freely convertible foreign currency.
- Tax exemptions and incentives by Government of India and Government of Gujarat.
- Multiple services like banking, capital market, aircraft leasing, etc. available in one zone.
- Single window clearance system is provided in GIFT IFSC.



- Reduced operational costs and greater employment opportunities.
- The units in GIFT IFSC are not charged with any GST/CTT/STT or capital gains tax on the services received by them.
- Tax holiday for 10 consecutive years (out of 15 years).
- 100% corporate tax exemption for 10 consecutive years (out of 15 years).
- Electricity duty exemption.
- Lease rental subsidy- INR 3 to INR 8 per sq.ft./month.
- Stamp duty and registration exemption on instruments.



## *Banking*

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- IFSC banking units can be established by Indian and foreign banks.
- Specified banking activities permitted with residents and non-residents in foreign currency.
- Can set up a Global Administrative Office in GIFT IFSC to provide support services to group entities.
- Certain norms such as cash reserve ratio and statutory liquidity ratio not applicable.
- Transactions in a freely convertible foreign currency.
- INR denominated loans to residents and non-residents permissible.
- Maintenance of prudential ratio at the parent entity level.
- Priority sector lending obligations to agriculture, small and medium industries, etc. not applicable.

# Capital Markets

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- GIFT IFSC has two internationally recognized stock exchanges namely: (i) India International Exchange (IFSC) Limited and (ii) National Stock Exchange (IFSC) Ltd.
- Direct listing of equity shares by Indian public companies permitted on these international exchanges.
- Prior to this, Indian companies were not permitted to directly issue, or list equity shares abroad.
- Depository Receipts can be listed by both Indian and foreign companies.
- Products such as equity indices, single stock futures and options, commodity futures, currency and commodity derivatives are traded in GIFT IFSC.
- GIFT IFSC also provides for an International Bullion Exchange.
- REITs & InvITs incorporated in FATF compliant jurisdictions can be listed on GIFT IFSC stock exchanges and are permitted to invest in assets in GIFT IFSC, India or abroad.
- The IFSC (Capital Market Intermediaries) Regulations, 2021 have enabled capital market intermediaries to participate in the IFSC ecosystem.
- Intermediaries can engage in cross-border business in both Indian and foreign capital markets.
- Ease of operations and prospects for better valuation due to access to foreign capital markets in GIFT IFSC.
- The capital market transactions in GIFT IFSC must be undertaken in a freely convertible foreign currency.

# Fund Management

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- Unified registration for fund manager instead of separate registration of different funds.
- Fund Management Entities can engage in leveraging activities without any restriction subject to certain conditions.
- **Venture Capital Scheme:** Invest primarily in unlisted securities of startups, early-stage venture capital undertakings, mainly involved in new products, technology or IPR based business models.
- **Restricted Schemes (Non-Retail Schemes):** Schemes launched for investing in social ventures or economically desirable ventures such as infrastructure, social venture funds, ESG funds, special situation funds, etc.
- **Retail Schemes:** Schemes launched for pooling money from all or a section of investors.

# *Foreign Education* \_\_\_\_\_

- Eligible foreign universities and institutions permitted to set up their International Branch Campuses and Offshore Educational Centres in GIFT IFSC.
- Financial Management, FinTech, Science, Technology, Engineering and Mathematics courses can be offered.
- The campuses of foreign universities and institutions set up in GIFT IFSC are not subject to the jurisdiction of University Grants Commission and All India Council for Technical Education.
- The foreign parent university will be eligible to repatriate profits, without any restrictions.
- All remittances for transactions to be in a freely convertible foreign currency.
- Deakin University has become the first foreign university to set up its International Branch Campus in India at GIFT IFSC.

# *Aircraft Leasing* \_\_\_\_\_

- Aircraft lease has been classified as a financial product permissible in GIFT IFSC.
- Exemption from stamp duty available on documents pertaining to aircraft leasing and financing, carried out from GIFT IFSC.
- Operating and financing lease for an aircraft lease arrangement including sale and lease-back, purchase, novation, transfer, assignment and other similar transactions and ground support equipment.
- Asset management support services for assets owned or leased out by the entity or by its WOS set up in IFSCs in India.
- A hybrid lease is also permitted.

# *Ship Leasing* \_\_\_\_\_

- The shipping fleet of India comprises 1,500+ ships, and 490+ companies.
- The IFSCA has specified 'Ship Lease' (*including operating lease and hybrid of operating and financial lease, of a ship or ocean vessel, or any part thereof*) as a financial product.

- Ship leasing entity can be set up as a company, LLP, trust or a branch of an entity regulated by financial sector regulator, or any other form as may be specified by IFSCA.
- IFSC based ship leasing companies can lease shipping vessels in India as well as overseas.
- Stamp duty exemption for 5 years.

## *Fintech*

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- The establishment of a unified framework for fintech entities in GIFT IFSC encourages and facilitates a more flexible approach towards the sector.
- The framework also provides for a dedicated regulatory sandbox for fintech products or solutions.
- Certain fintech companies, can also receive direct entry authorization by IFSCA without entering the regulatory sandbox.
- Cross country fintech collaboration arrangements being entered into which further facilitate the fintech landscape in GIFT IFSC.

## *Insurance*

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- Indian insurance companies and foreign insurers with a no-objection certificate from their home authority can set up branch offices or their subsidiaries as IFSC Insurance Office ("**IIO**") in GIFT IFSC.
- Such IIO is permitted to provide the following classes of business: (i) Life Insurance; (ii) General Insurance; (iii) Health Insurance; and (iii) Re-Insurance.
- An IIO is eligible to transact with both residents and non-residents in freely convertible foreign currencies.
- The assigned capital can be maintained in home jurisdictions for foreign insurers.
- IIOs have more flexibility in terms of investment norms and products compared to insurance companies in domestic territory.

## *Regulatory Framework*

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- IFSCA has been vested with the authority of 4 key regulators: (i) Reserve Bank of India; (ii) Securities and Exchange Board of India; (iii) Insurance Regulatory Development Authority of India; and (iv) Pension Fund Regulatory and Development Authority.

- IFSCA regulates financial institutions, financial products and financial services in GIFT IFSC.
- Financial institutions set up in GIFT IFSC are treated as 'person resident outside India' and any transaction of such person with another non-resident will not attract restrictions under foreign exchange laws of India.
- Pricing guidelines and reporting requirements for issue and transfer of securities not applicable.
- Entities operating in GIFT IFSC are required to carry out transactions in a freely convertible foreign currency.
- However, INR is permitted for administrative and statutory expenses.
- RBI has also permitted resident individuals to make remittances in units in securities listed in GIFT IFSC through Liberalized Remittance Scheme ("**LRS**").
- IFSCA has released specific regulations for the sectors operating in GIFT IFSC which set out the framework and exemptions applicable to each sector.

## *Business Ease*

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- IFSCA acts as the single unified regulator for GIFT IFSC and facilitates ease of doing business by providing a single window clearance system to entities operating in GIFT IFSC.
- GIFT IFSC provides various exemptions from payment of stamp duty and compliances under company and employment laws.
- A regulatory sandbox has also been setup in GIFT IFSC which provides a space for startups and other entities to freely test and develop their financial products and services.
- GIFT IFSC has tied up with Singapore International Arbitration Centre (which has opened its office in GIFT IFSC), to provide dispute resolution services. This move will ensure speedy resolution of disputes.
- Global In House Centre ("**GIC**") can also be set up in GIFT IFSC, to provide support services such as customer onboarding/servicing, security and trade reconciliation, account setup and maintenance, etc.
- The Government of Gujarat provides various incentives for entities in GIFT CITY at large including : (i) Stamp Duty Reimbursement; (ii) Incentives under its IT/ITes policy (2022-27); (iii) reduction in operational costs by 20%.

# *Tax Exemptions*

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- Tax holiday for 10 consecutive years (out of first 15 years).
- Residential status under Income Tax will depend on the constitution and nature of the unit.
- Branch of a foreign bank located in IFSC: Categorized as Non-resident.
- Indian company setting-up a WOS in IFSC: Categorized as Resident.
- Foreign company setting-up an office in IFSC: Categorized as Non-resident.
- Units located in IFSC can claim the benefit of concessional tax rate of 22% (plus surcharge and cess).
- Concessional rate of Minimum Alternative Tax / Alternative Minimum Tax of 9%.
- Dividend paid to non-resident by a unit located in IFSC shall be taxable at the concessional rate of 10% (plus surcharge and cess).
- Tax exemption on interest income payable by an IFSC unit to a non-resident in respect of monies borrowed on or after 1.09.2019.
- Subject to treaty benefits, royalty and fees for technical service paid to non-resident by an IFSC unit shall be taxable at the rate of 20% (plus surcharge and cess).
- Transfer of specified securities (i.e., bond, GDR, derivatives, etc.), by a non-resident will not be subject to capital gains tax provided the consideration for such transfer is paid in foreign currency.
- Non-resident having no income except for income from investment in AIF located in GIFT IFSC in India will not be required to file tax returns or obtain tax registration.
- Fund managers providing advisory services in GIFT IFSC can claim 10-year tax holiday benefit.
- The units in the GIFT IFSC are not charged with any GST/CTT/STT or Capital Gains Tax on the services received by them.
- Payment of aircraft lease rent to an IFSC unit are exempted from withholding tax.
- Dividend received by any IFSC unit from another unit exempted from income tax if both are primarily engaged in aircraft leasing business.
- Income relating to Royalty / Lease Rent/ Interest paid by IFSC unit to non-resident lessor is exempt if the unit is primarily engaged in aircraft leasing business.
- IFSC units eligible to claim refund on GST on services provided in GIFT IFSC.
- GST applicable on services provided to domestic tariff area.



# *Notable Trends*

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- Hiranandani led Yotta Data Services and NVIDIA to build an AI data center in GIFT IFSC.
- On March 11, 2024, two subsidiaries of Adani Green Energy Twenty-Three Limited raised USD 409 Million by allotment of USD denominated senior secured notes, which are to be listed on India INX in GIFT IFSC.
- GIFT IFSC based fund management schemes have invested \$2,930 million by the end of 2023 out of which \$2,769 million have been invested in India.
- Institutions such as Standard Chartered Bank, HSBC, Barclays Bank, JP Morgan, Citibank, Hongkong and Shanghai Bank Corporation Ltd have set up IBUs in GIFT IFSC.
- India INX Global Access IFSC Limited provides direct access to over 135 exchanges situated in 33 countries in 23 currencies worldwide for India based investors and entities in GIFT IFSC.
- Axis Bank, HDFC Bank and ReNew Power have listed their foreign currency bonds on the exchanges located in GIFT IFSC.
- Recently, HDFC raised \$700 million from two tranches of a foreign bond issuance which shall be listed on the India International Exchange (India INX) in GIFT IFSC.
- Interglobe Aviation Ltd, the parent company of Indigo, and Air India have received IFSCA approval for establishing an aircraft leasing venture at GIFT IFSC. Air India has also acquired its first A350-900 via a financial lease from GIFT IFSC.
- ModAir Aviation IFSC Private Limited is one of the aircraft leasing and finance company based out of GIFT IFSC, which commenced its operations in 2021.
- Sharjah based aviation company, Sky One has placed a bid for Go-First and has also set its aircraft leasing unit at GIFT IFSC.
- A 100 per cent subsidiary of Singapore-based RBB Ship Chartering Pte Ltd, RSCPL (IFSC) Private Ltd, has been issued a license to operate from GIFT IFSC.
- Recently, on March 18, 2024, Star Health and Allied Insurance Company has also opened its office in GIFT IFSC to provide dollar denominated insurance at its GIFT IFSC branch.

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