Nanubhai Desai & Co.

GIFT CITY

About Nanubhai Desai & Co.

Nanubhai Desai & Co., established in 1950 in Mumbai, has evolved into a well-recognized high quality personalized services firm. Our extensive knowledge and expertise across various service areas, including Audit and Assurance, Direct Taxes, Accounting, International Tax, and Consultancy services, enable us to offer a "One Stop Platform" by setting a benchmark of excellence in each domain.

With years of experience, we cater to a diverse clientele, including multinational companies (MNCs), foreign companies and their Indian subsidiaries, as well as public and private enterprises spanning industries such as hospitality, trading, fund & private wealth management, IT, and more. Our team comprises dedicated professionals with diverse skills and proficiency, capable of serving clients of all sizes across different sectors.

NDCo embodies a harmonious mix of seasoned expertise and youthful vigour, united by a shared vision of delivering exceptional services and unwavering support to our clients. It's a source of great professional pride that we have attained high level of trust and confidence of our clients.

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TERMINOLOGY GUIDE

AIF	Alternative Investment Funds
AIF Regulations	Securities and Exchange Board of India (Alternative Investment Funds) Regulations, 2012
FDI	Foreign Direct Investment
FEMA	Foreign Exchange Management Act, 1999
FPI	Foreign Portfolio Investor
FVCI	Foreign Venture Capital Investor
IFSC	International Financial Services Centre
IFSCA	International Financial Services Centre Authority
IRDAI	Insurance Regulatory and Development Authority
ITA	Income Tax Act, 1961
ITR	Income Tax Rules, 1962
LLP	Limited Liability Partnership
ODI	Offshore Derivative Instrument
PFRDA	Pension Fund Regulatory and Development Authority
RBI	Reserve Bank of India
SEBI	Securities and Exchange Board of India
SEZ	Special Economic Zone

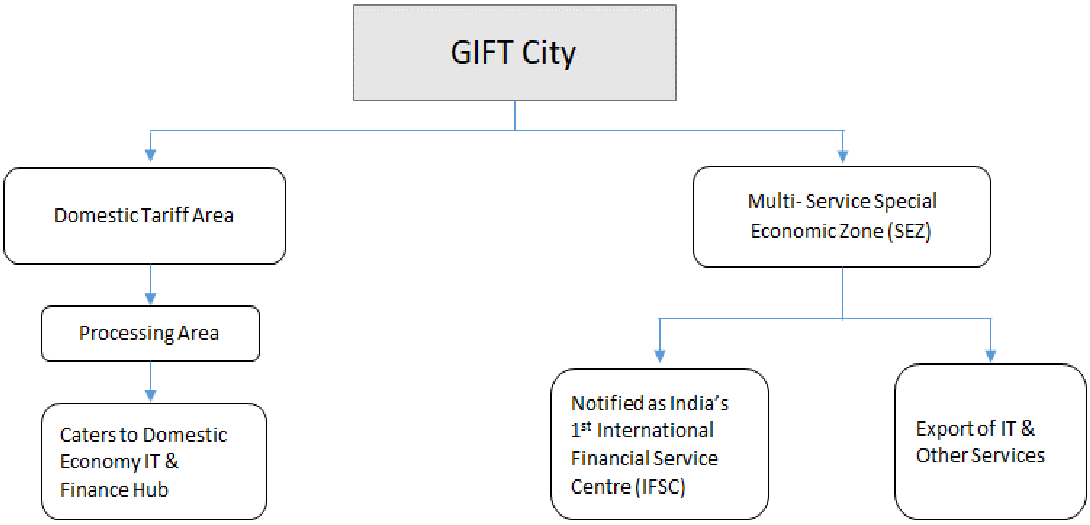
1. INTRODUCTION

A. GIFT City

GIFT City, an acronym for Gujarat International Finance Tec-City, stands as a testament to the visionary aspirations of the Government of Gujarat, India. This ambitious project aims to establish a world-class finance and technology hub, driving economic growth and technological advancement in the financial sector.

Nestled within the Gandhinagar district of Gujarat, GIFT City operates as a SEZ, offering tax benefits and simplified regulatory processes to attract domestic and foreign investment. With modern infrastructure and a focus on innovation, GIFT City is poised to become a leading global financial hub, hosting multinational banks, FinTech entities, and international stock exchanges.

Comprising both SEZ and non-SEZ areas, GIFT City provides a conducive environment for various financial and IT-related businesses, aligning with India's vision for economic development and global competitiveness. As we delve into the myriad facets of GIFT City, we explore its pivotal role in shaping India's financial landscape and its profound impact on the global stage. Join us on a journey through this dynamic metropolis as we uncover the boundless potential and unparalleled opportunities that await within the vibrant corridors of GIFT City.



B. GIFT IFSC

An IFSC serves clientele beyond the borders of a nation's economy, facilitating the movement of finance, financial products, and services across international boundaries. Established financial powerhouses like London, New York, and Singapore are recognized as global financial centres. However, the global financial crisis of 2008 prompted countries, including India, to exercise caution in rapidly liberalizing their financial sectors.

In a strategic move, Finance Minister Arun Jaitley announced in the Union Budget 2015 the establishment of India's inaugural IFSC within GIFT City in Gujarat. GIFT City is poised to become the nation's premier IFSC, having secured agreements with leading stock exchanges such as BSE and NSE to establish international exchanges within its confines. Notably, BSE commenced operations of the India International Exchange on January 9, 2017, marking a significant milestone in GIFT City's journey.

Recognizing the dynamic nature of business within IFSCs and the need for cohesive regulatory oversight, the IFSCA was established as a unified regulatory body with a comprehensive vision. Its mandate is to facilitate a conducive environment for conducting business within IFSCs while ensuring a world-class regulatory framework to attract global investors.

C. GIFT SEZ

GIFT SEZ Limited, established by GIFT Company Limited, oversees the development of a Multi Services SEZ in Gandhinagar, with a primary emphasis on IFSC and related activities. Notably, the Multi Services SEZ primarily targets financial services. The key objectives of establishing IFSC within the GIFT Multi Services SEZ are as follows: -

- To realize the vision of the Government of India to emerge as a major economic power by facilitating development of strong base of International Financial Services in the country.
- Facilitate the implementation of the Government’s strategy for the development of a financial hub in the South Asian sub-continent.
- Position the IFSC as a world-class zone for the long-term provision of office/service accommodation and high technological, economical and commercial infrastructure.

GIFT SEZ is being an integral part of GIFT Area, the design concept of GIFT Area incorporates the integration of GIFT SEZ Area with rest of the domestic area within GIFT. GIFT SEZ is divided into well-defined Processing & Non-Processing areas with emphasis on integrated development such as limited residential & recreational facilities to make the area lively 24 x 7.

Processing Area	**Non Processing Area**
International Financial Service Centre (IFSC)	Related Commercial and Office Buildings
International Techno Park and International Market zone	Business Hotel, Shopping Centre, Retail Stores and Banks
Commodity Exchanges	Hostels, Restaurants and Food Court
Global Trading Exchanges	Service Apartments and Residential Flats
Insurance	Training Centre for Financial Services
Offshore Banking	Medical Centre
IT/ITES	Entertainment Centre/ Theatre
KPO/BPO Services; Data Centre	Regulators Offices

D. GIFT DOMESTIC TARIFF AREA (DTA)

This zone is for domestic companies under Indian laws, offering tax incentives. They can conduct all domestic transactions from the DTA. GIFT DTA hosts various service industries like banks, insurance firms, capital markets brokers, IT & ITeS companies, BPOs, and KPOs, ensuring uninterrupted operations at cost-effective rates.

2. INFRASTRUCTURE

GIFT City at its core, along with an International Financial Service Centre is also a Smart City. The core features of a Smart City are Sustainable buildings, energy efficient, easy availability of basic utilities, efficient transportation system and planning, telecommunication facilities and overall safety. GIFT City comprises of all of these features along with its status of a Central Business District:

a. Transportation Infrastructure

GIFT City prioritizes safety with zero accidents through well-designed roads and segregated traffic. It embraces transit-oriented development, integrating diverse amenities within a walkable neighbourhood near public transportation. With four multilevel parking facilities, it targets a 10:90 modal split, encouraging 90 out of 100 people to use public transport for reduced carbon emissions. The city is well-connected with BRTS and MRTS

b. Water Infrastructure

GIFT City aims to ensure 24x7 access to drinking water, with an estimated requirement of 20 MGD. Water sources include the Narmada main canal and rainwater harvesting. An artificial water body, Samruddhi Sarovar, acts as a 15-day storage solution in case of shortages. Wastewater is managed through Zero Liquid Discharge, involving three-step treatment (primary, secondary, and reverse osmosis). The treated water is repurposed for toilet flushing and landscaping.

c. Power

A 10 MW solar plant is operating in GIFT City as a pilot study, with plans for additional plants as the city expands. To meet the estimated demand of 740 MW, underground cabling ensures efficient power distribution. The overall power infrastructure includes 1000 MW of power plants, along with 200 MW of automated emergency gas-based energy controlled centrally. This setup guarantees 99% reliability, equivalent to only 5.3 minutes of power cuts per annum.

d. District Cooling System

District cooling at GIFT City provides chilled water to cool buildings, often using sea water in winter for cost efficiency. The 3.25 lakh Ton system utilizes a Heat Sharing Network, allowing each building to use a heat pump for heat rejection. Compared to traditional air conditioning, it reduces vibrations, maintenance costs, energy consumption, noise generation, making it eco-friendlier.

e. Waste Management

GIFT City targets to manage 488 TPD of waste with a focus on environmental impact reduction. It employs an automated waste collection and transportation system, using computer-controlled disposal chutes where waste is suctioned through pipes at 90 km/hr. Waste treatment utilizes Plasma Gasification Technology for efficiency.

3. Legal Regime

a. International Financial Services Centre Authority (IFSCA)

The IFSCA was established on April 27, 2020, under the International Financial Services Centres Authority Act, 2019, with its headquarters located at GIFT City, Gandhinagar in Gujarat. IFSCA serves as a unified regulator for developing and overseeing financial products, services, and institutions within the IFSC in India. Prior to its establishment, domestic financial regulators such as RBI, SEBI, PFRDA, and IRDAI regulated business in IFSC. IFSCA aims to facilitate ease of doing business in IFSC and provide a world-class regulatory environment through inter-regulatory coordination. Its primary objective is to foster a strong global connection, cater to the needs of the Indian economy, and serve as an international financial hub for the region and the global economy.

b. Foreign Exchange Management Act, 2002 (FEMA)

i. Even under Foreign Exchange Management Act, 2002 ("FEMA") units in IFSC enjoy the benefits of a non-resident under exchange control provisions.
ii. Foreign Exchange Management (Transfer or Issue of any Foreign Security) Regulations, 2004 ("ODI Regulations") restrict investment by an Indian resident into an overseas firm in the financial services sector. To enable, Indian residents to set-up and invest funds in GIFT City, RBI, vide its Circular dated May 12, 2021 has permitted sponsor contribution from a sponsor Indian party in an Alternative Investment Fund (AIF) established overseas, including IFSC.

c. Securities and Exchange Board of India (SEBI)

SEBI extends its regulatory reach to GIFT City, overseeing the securities and capital market activities. Any entity engaged in securities trading, including stock exchanges and brokers, falls under SEBI's purview.

d. Reserve Bank of India (RBI)

As India's central bank, the RBI plays a critical role in GIFT City's regulatory framework. It regulates banking and financial institutions, ensuring stability and compliance with monetary policies.

e. Insurance Regulatory and Development Authority (IRDA)

For insurance-related activities within GIFT City, IRDAI holds sway. It regulates insurance companies, ensuring consumer protection and market integrity.

f. Companies Act, 2013

The Central Government can exempt certain provisions of the Companies Act, 2013 for specific classes of companies in the public interest. The Ministry of Corporate Affairs has granted procedural exemptions to RBI, SEBI, or IRDA licensed companies operating in IFSCs within approved multi-services SEZs under the SEZ Act.

(Refer Section 462 of the Companies Act, 2013 and G.S.R. 08(E) dated January 4, 2017 for unlisted public companies in an IFSC and G.S.R. 9(E) dated January 4, 2017 for private companies in an IFSC)

4. Taxation Regime

a. Direct tax benefits available to business/investors in Gift City

Units in the IFSC	Investors
100 percent tax exemption for 10 consecutive years out of 15 years	Interest income paid to non-residents for loans to IFSC units is tax-free
Minimum Alternate Tax (MAT) at nine percent of book profits for companies set up in IFSC. No MAT is applicable if the company opts for the new tax regime	Long-term and rupee-denominated bonds listed in GIFT City have reduced taxation: pre-July 1, 2023, bonds taxed at 4%, post-July 1, 2023, at 9%.
Tax-neutral relocation of offshore funds to GIFT City is allowed for fund transfers occurring before March 31, 2025	Transfers of specified securities on IFSC exchanges by non-residents or Category III AIFs in IFSC aren't taxed in India
Dividend received by a non-resident or foreign company from an IFSC unit is taxable at a rate of 10 percent plus applicable surcharge and cess	Non-residents' income from non-deliverable forward contracts, ODIs, or derivatives with an IBU in GIFT City is tax-exempt
	Non-residents' income from portfolios managed by managers within an IBU in GIFT City is tax-free if it accrues outside India and isn't considered to arise within India

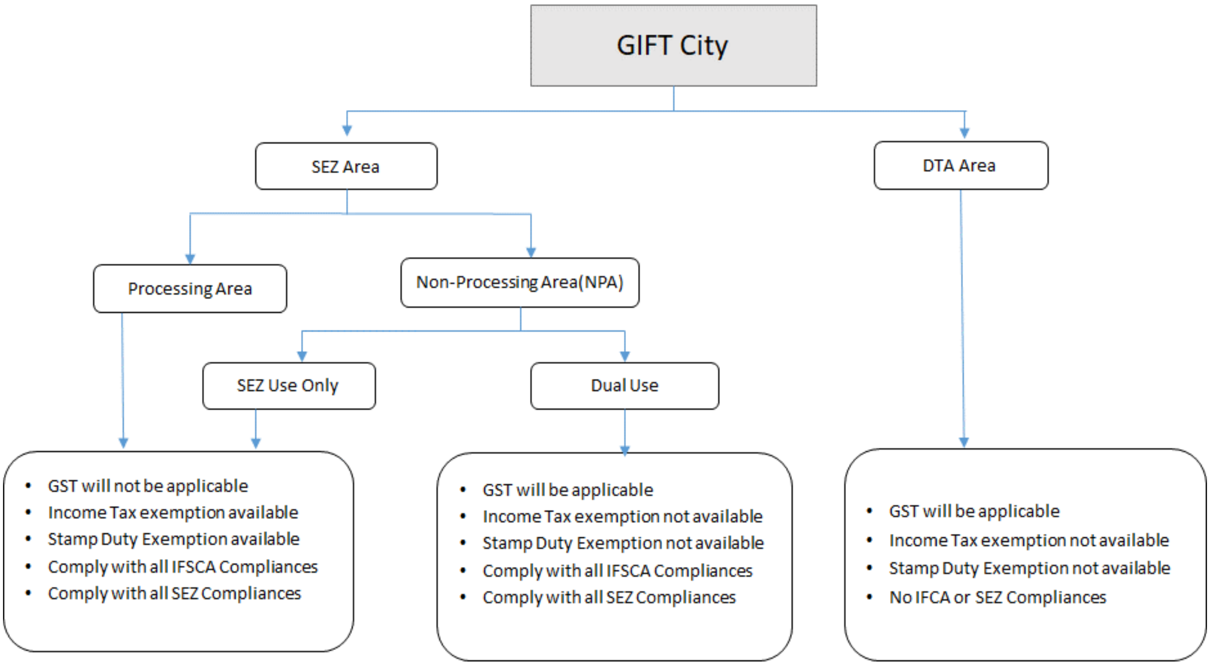
b. Indirect tax benefits available to business/investors in Gift City

Units in the IFSC	Investors
No Goods and Services Tax (GST) on services exchanged within IFSC, received by a unit in IFSC, or services provided from GIFT City to India	Exemption for investors from securities transaction tax, commodities transaction tax, and stamp duty for transactions conducted on IFSC exchanges
State subsidies on lease rental, provident fund contributions, and electricity charges	No GST on transactions carried out in IFSC exchanges

c. GST applicability to Businesses in Gift City

Supplier	Recipient	GST Applicability
SEZ - Processing	SEZ - Processing	Zero Rated Supply
	SEZ -Not Processing (SEZ only)	Zero Rated Supply
	SEZ -Not Processing (Dual use)	Taxable Supply
	DTA	Taxable Supply
SEZ - Non Processing	SEZ -Not Processing (SEZ only)	Zero Rated Supply
	SEZ -Not Processing (Dual use)	Taxable Supply
	DTA	Zero Rated Supply
	SEZ - Processing	Taxable Supply
SEZ - Non Processing (Dual use)	SEZ -Not Processing (Dual use)	Taxable Supply
	DTA	Zero Rated Supply
	SEZ - Processing	Zero Rated Supply
	SEZ -Not Processing (SEZ only)	Taxable Supply
Domestic Tariff Area (DTA)	DTA	Taxable Supply
	SEZ - Processing	Zero Rated Supply
	SEZ - Not Processing (SEZ only)	Zero Rated Supply
	SEZ - Not Processing (Dual use)	Taxable Supply

d. Taxation Summary



5. International Financial Services Centre (IFSC)

a. Alternate Investment Fund (AIF)

The SEBI (Alternative Investment Funds) Regulations, 2012 (“AIF Regulations”) also apply to AIFs in the IFSC. AIFs in IFSCs, on the other hand, have been granted specific dispensations to provide them with greater operational freedom while preserving tax efficiency. SEBI, India's capital markets regulator, which oversees AIF structures, has established special rules and restrictions for AIF formation in GIFT City. The Foreign Exchange Management (IFSC) Regulations, 2015, and the SEBI (IFSC) Guidelines, 2015, read with the Operating Guidelines, are the primary sources of regulation for AIFs in an IFSC. A fund must get registration from the IFSC Authority in order to operate as an AIF.

AIF Regulations and Guidelines in GIFT City

Particulars	Category I	Category II	Category III
Categorization as per SEBI AIF Regulations	Funds which invest in start-ups or early stage ventures, social ventures, SMEs, infrastructure sector or other sectors or areas which Government of India or regulator consider as socially or economically desirable	Residual category i.e. other than Category I AIF and Category III AIF	Funds which employ diverse or complex trading strategies and leverage including through investment in listed or unlisted securities/derivative.
Investment Scheme Type - Open or Close ended fund	Close ended fund	Close ended fund	Can be Open or Close ended fund
Minimum investment by an investor in AIF: • For employees/directors of the AIF or its manager • For other investors	$ 40,000 $ 1,50,000	Same as Category I	Same as Category I
Investment into one investee company	Not more than 25 % of corpus	Same as Category I	Not more than 10 % of the corpus
Investment in other AIF	Investment in Category I AIF permissible	Investment in Category I and II AIF permissible	Investment in Category I and II AIF permissible; Category III not permissible
Eligible structure for AIF	• Trust • Company • LLP • Body corporate	Same as Category I	Same as Category I
Tenure per scheme	Minimum 3 years. Extension of term is possible s.t. condition	Same as Category I	Not Applicable
Minimum continuing interest of manager/sponsor	Lower of: ▪ 2.5% of corpus ▪ $ 7,50,000	Same as Category I	Lower of: ▪ 5% of corpus ▪ $ 15,00,000
FDI Direct Route	Permitted	Permitted	Permitted
Appointment of custodian	Sponsor or Manager of Category I - AIF has to appoint a custodian for securities, if the corpus exceeds $ 70 million	Same as Category I	Mandatory to appoint custodian irrespective of size of corpus

Minimum corpus requirement for each scheme of the AIF	$ 30,00,000 (For Angel funds -$ 7,50,000. Criteria specified for angel investor investing into Angel fund in IFSC is as follows: a) Individual investor with net tangible assets of at least $ 3,00,000 (excluding value of his principal residence). b) Body corporate with net worth of at least $ 1.50 million.)	Same as Category I	Same as Category I
Borrowing of funds / leverage	Not permitted to borrow or engage in leverage directly or indirectly except for temporary funding requirements (subject to conditions with respect to no of times in a year and quantum specified by SEBI)	Same as Category I	Permitted with the consent of investors and subject to a maximum limit specified by SEBI)
IFSCA Application Fee	$ 2,500	$ 2,500	$ 2,500
IFSCA Registration Fee	$ 7,500	$ 15,000	$ 22,500

Taxation of AIF in GIFT City

Category I & II AIFs	Category III AIF
Business income of AIF is taxable in than hand of AIF for which 100% tax exemption can be claimed for consecutive 10 years out of block of 15years.	No tax on income earned by category III AIF on overseas investment made, which are attributable to Non-resident investors.
Investor are taxed on the income from investment made by AIF as if investment made directly be them. Investor are allowed to claim losses subject to holding more than 12 months	Income on transfer of shares on an Indian company is liable to capital gain tax as follows: - Short-term Capital Gains -15% - Long-term Capital Gains -10%
Income accruing or arising or received by non-resident investors from offshore investments through a Category I and II AIF is not taxable in India.	Income in respect of securities (such as interest, dividend) is taxable to the Category III AIF at the rate of 10% (5% in case of interest income on certain rupee denominated bonds, government securities or municipal debt securities referred to in section 194LD)
Non-resident are exempt from filing ITR subject to earning income from investment made in only categoryI & category II AIF funds and Tax has been deducted on distribution made by AIF	Exemption from stamp duty, Securities Transaction Tax and Commodities Transaction Tax for transactions carried out on IFSC exchanges
	Any income accruing or arising to or received from the Category III AIF or on transfer of its units is exempt from tax in the hands of investors

Taxation for AIFs Manager/Sponsor in GIFT City

1. 100% corporate tax exemption for 10 consecutive years out of block of 15 years (from date of approval from regulator) in respect of income from business carried on in IFSC.
2. The Minimum Alternate Tax ('MAT')/ Alternate Minimum Tax ('AMT') rate has been reduced to 9% (as against 18.5%). However, companies in IFSC choosing to opt for new tax regime under domestic tax law shall be exempt from MAT provisions.
3. The dividend distributed by Manager may be taxable in the hands of its shareholders under the domestic tax law.
4. Supply of services by Manager to AIFs in IFSC is exempt from Goods and Services Tax (GST).
5. Interest payable to a non-resident in respect of monies borrowed exempt from income tax.

Key differences in IFSC AIFs vs AIF regulations in India

1. **Single Window Clearance**

   The Regulatory powers of 4 regulators (RBI, SEBI, IRDA and PFRDAI) are vested in IFSCA which ensure a smooth and single window approval for setting up in IFSC.

2. **Leverage**
   a. The SEBI AIF regulations prohibit Category I and Category II AIFs from borrowing or using any leverage. The only exception is to cover temporary finance requirements for up to 30 days on not more than four occasions each year, with a maximum of 10% of investible funds. Category II AIFs are able to engage in leverage with the permission of the fund's investors up to a maximum limit of two times the Net Asset Value.
   b. However, these restrictions do not apply to IFSC AIFs. They are permitted to take leverage subject to -
      - The maximum leverage by the IFSC AIF, along with the methodology for calculation of leverage, shall be disclosed in the placement memorandum.
      - The leverage shall be exercised subject to consent of the investors.
      - The IFSC AIF employing leverage shall have a comprehensive risk management framework appropriate to the size, complexity and risk profile of the fund.

3. **Co- investment**
   a. The regulatory framework for AIFs requires that cash from all investors be pooled in the AIF, and that all investors participate in deals based on their pro-rata share of the AIF. The AIF is not permitted to allow investors to raise their allocation to a specific transaction on an individual basis.
   b. However, IFSC AIFs are permitted to co-invest in portfolio companies through a segregated portfolio by issuing a separate class of units, provided that the investments by such segregated portfolios are not on terms more favourable than those offered to the AIF's common portfolio, and appropriate disclosures regarding the creation of such segregated portfolio have been made in the placement memorandums. This will simplify deal structuring and give AIFs and investors the freedom to commit more capital to profitable opportunities.

4. Diversification Norms

a. According to SEBI regulations, category I and II AIFs cannot invest more than 25% of their investable funds in any single investee business. For Category III AIFs, the limit is set at 10%. However, for IFSC AIFs, these constraints do not apply if sufficient disclosures are disclosed in the placement memorandum and the AIFs' investments are consistent with the investors' risk appetite.

b. Offshore funds are frequently established with the goal of investing in a few specific firms or industries. As a result, guaranteeing that these limitations do not apply to IFSC AIFs will help to develop IFSC among global financial centres such as Singapore and Mauritius.

5. Deployment of Funds

a. IFSC AIFs have 5 investment avenues to deploy funds -
   - Securities listed in IFSC;
   - Securities issued by companies incorporated in IFSC;
   - Securities issued by companies incorporated in India or foreign jurisdiction
   - Units of an AIF
   - Securities which a domestic AIF is permitted to invest in.

b. For investments in India, FPI/ FDI/ FVCI limits would apply. However, existing conditions on outbound investments by AIFs do not apply to IFSC AIFs i.e., no SEBI approval required for investments outside India.

b. Family Investment Fund (FIF)

The SEBI (Alternative Investment Funds) Regulations, 2012 ("AIF Regulations") also apply to

FIF Structure

- The IFSC Regulations define FIF as a self-managed fund that only accepts funds from one family. The term 'single family' has been defined as "a group of individuals who are the lineal descendants of a common ancestor and include their spouses, children, and entities such as sole proprietorship firm, partnership firm, company, limited liability partnership, trust, or a body corporate, in which an individual or a group of individuals of a single family exercises control and directly or indirectly holds substantial economic interest."
- FIF is gaining popularity as a flexible option for Indian residents to invest overseas. It has the potential to replace Singapore as a jurisdiction for setting up family offices, at least for Indian families. In India, individuals or entities can establish a FIF through a contributory determinate trust, an LLP, or a company in the IFSC.

Taxation of FIF

Unlike AIFs, the Income Tax Act does not grant FIFs pass-through status. As a result, all income earned by FIF will be taxed at the FIF level. Tax rates would vary depending on the type of entity set up as a FIF. If FIF is established as a business or LLP, its investment will be taxed at the rates (excluding surcharges and cess) outlined below.

<table>
<tr><th>Income Stream</th><th>Company</th><th>LLP</th></tr>
<tr><td>Dividend Income</td><td rowspan="2">Ordinary applicable rate (ranges from 22% to 30%)</td><td rowspan="2">30%</td></tr>
<tr><td>Interest Income</td></tr>
<tr><td>Long term capital gain on sale of listed shares or sale of shares under offer for sale, which is subject to STT</td><td colspan="2">Gain exceeding INR 100,000, taxable at 10%</td></tr>
<tr><td>Long term capital gain on sale of listed shares outside the exchange</td><td colspan="2">10% (without indexation) or 20% (with indexation), whichever is lower</td></tr>
<tr><td>Long term capital gain on sale of listed securities (other than shares)</td><td colspan="2">10% (without indexation) or 20% (with indexation), whichever is lower</td></tr>
<tr><td>Long term capital gain on sale of unlisted shares and securities</td><td colspan="2">20%</td></tr>
<tr><td>Short term capital gain on sale of shares which is subject to STT</td><td colspan="2">15%</td></tr>
<tr><td>Short term capital gain on sale of other shares and securities</td><td>Ordinary applicable rate (ranges from 22% to 30%)</td><td>30%</td></tr>
<tr><td>Gain on market linked debentures and specified mutual fund2, deemed as short term capital gain in all cases</td><td>Ordinary applicable rate (ranges from 22% to 30%)</td><td>30%</td></tr>
</table>

Any subsequent distribution of profits by FIF (being a company) as dividend would be taxable for shareholders at ordinary rate (maximum being 30%, plus surcharge and cess). On the other hand, profit distribution by LLP to its partners is tax exempt.

c. Offshore Banking Units in GIFT IFSC

Introduction

Non-resident investors typically gain exposure to Indian stocks through offshore derivative instruments ("ODIs") issued by foreign banks registered as FPIs. In order to enable direct access, IFSC-registered banking units can now issue ODIs to non-resident investors. The taxation aims to align with the taxation of ODIs issued by offshore banking units established outside of India.

Taxation

1. An investment division of an offshore banking unit (set by a non-resident in IFSC), which is registered as a Category I FPI and has commenced its operations on or before 31 March 2024, is exempt from tax (refer section 10(4D)) on income arising from:
   - Transfer of bonds, global depository receipts, rupee denominated bonds of an Indian company and derivatives, on a recognised stock exchange located in any International Financial Services Centre and where the consideration for such transaction is paid or payable in convertible foreign exchange.
   - Transfer of securities (other than shares of an Indian company).
   - Securities issued by a non-resident (not being a permanent establishment of a non-resident in India) and where such income otherwise does not accrue or arise in India.

2. Securitisation trust subject to certain conditions. Accordingly, the investment division of an offshore banking unit is liable to pay tax only on following income streams (refer section 115AD):
   - Interest and dividend income earned from India: Taxable at 10% with no surcharge and cess being applicable.
   - Capital gain on sale of shares in an Indian company: Long term capital gain is taxable at 10% (plus surcharge and cess) and short term capital gain is taxable at 30% (plus surcharge and cess); or 15% plus surcharge and cess (for gain on sale of shares which is subject to STT).

3. Non-residents can earn tax-free income via the transfer of non-deliverable forward contracts or ODIs with offshore banking units. The tax exemption applies to income dispersed by offshore bank units on ODIs. Non-residents who have engaged into ODIs with an offshore banking unit in an IFSC are excluded from taxation on distributions of interest, dividend income, and capital gains from the sale of shares in an Indian firm, which are taxable for offshore banking.

4. Business income from an offshore banking unit established in an IFSC qualifies for a 100% tax exemption for 10 consecutive assessment years out of 15 years, starting with the year approval was granted under Section 23(1) (a) of the Banking Regulation Act.

6. Setting up Operations in Gift City

STEPS FOR SETTING UP OPERATIONS IN GIFT CITY

Space identification

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GIFT SEZ to issue Provisional Letter of Allotment (PLOA)

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Application in Form-F (new Unit application) to SEZ authorities

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Application to IFSCA for requisite license

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GIFT SEZ to issue Final Letter of Allotment

↓

Finalization of space with the developer

↓

Other registrations for operationalising

7. Business Opportunities in IFSC

a. Capital Markets

- Global access to capital market intermediaries
- Availability of foreign products on IFSC exchanges
- NSE IFSC-SGX Stock Connect

b. Aircraft Leasing and Financing

- Analyse ancillary products and infrastructure in a phased manner such as fuel hedging, leasing of ground support / ramp handling equipment and permitting MRO service providers to set up shop in IFSC for the benefit of IFSC lessors
- Demarcate special geographical areas within the Indian sub-continent for parking and servicing of aircrafts leased from IFSCs to support the sector
- With the revised Framework in place for aircraft operating and finance leases, stage is now set for development of full-fledged Aircraft leasing ecosystem in India

c. Ship Acquisition, Financing and Leasing

- Expert committee was constituted to examine global practices on Ship Financing and Leasing to identify and recommend opportunities for IFSC
- The committee submitted its Report SAFAL (Ship Acquisition, Financing and Leasing) to IFSC Authority providing measures extending to SAFAL products and services, including ancillaries.
- It has proposed notifying vessel leasing or operating lease of any equipment as a 'financial product' to enable ship leasing entities to set up a unit in IFSC.
- It has also proposed the introduction of a new category of 'Indian IFSC-controlled tonnage' with global benchmarking of regulation, tonnage tax and other tax and seafarer regimes, besides overcoming pricing and other limitations of the existing ROFR regime for import of bulk cargoes.
- Direct and Indirect tax changes have been proposed based on the competitive gaps identified through the financial models developed for India-IFSC.
- The Central Government has recently notified operating lease of any equipment as a financial product under the International Financial Services Centre (IFSC) Authority Act, 2019. With this, the IFSCA is now empowered to develop and regulate leasing of all equipment which shall include aircrafts, ships, etc.

d. Fintech

Key Fintech driven business sectors that can thrive in GIFT IFSC under the newly introduced Fintech Framework

- Longevity Finance
- Neo Banks for NRIs
- Sustainability finance
- Digital Asset Exchange for alternative investments
- Trade Finance optimization
- Insurance solutions
- Digital lending
- Quantum computing, web 3.0 and other emerging technologies

e. Fund Management

- Best in class regulatory regime for different categories of Funds like Environmental Social and Governance, Special Situation Funds, Family Office Funds, etc.
- Framework for pooling of global funds in India now possible with ease of regulations
- Competitive tax framework for attracting foreign funds
- Green channelling for accredited investors for select schemes
- Once the Fund Management entity is regulated, schemes therein is not sought to be regulated. This is in lines with the global best practices

f. Other Developments

- GIFT IFSC notified zone for Global In-house Centres and High-end processing
- Expert committee constituted to recommend setting up of Longevity Finance Hub in GIFT IFSC
- Expert Committee constituted for creating a framework for transfer of stressed loans from domestic lenders to financial institutions in IFSC

8. Recent Announcements/Developments

A. Key developments at GIFT IFSC

- In May 2023, Exim Bank received approvals from GIFT Special Economic Zone and IFSCA to establish a subsidiary in GIFT City. The Ministry of Finance granted a Letter of Allotment on July 11, 2023, and operations on office space began in August 2023.

- During the Vibrant Gujarat Global Summit in January 2024, the state government formalized MoUs with Australian firms for strategic partnerships in the digital technology sector and the establishment of finance sector entities in Gujarat's GIFT IFSC. Prime Minister Narendra Modi emphasized India's position as a rapidly growing FinTech market at the summit, envisioning GIFT City as a global FinTech gateway and a FinTech laboratory in India.

- On January 24, 2024, Union Minister for Finance Mrs. Nirmala Sitharaman announced the enabling of direct listing of Indian companies at GIFT-IFSC exchanges in the first phase.

- The Companies (Amendment) Act, 2020, allows unlisted Indian public companies to directly list on international stock exchanges regulated by IFSCA, such as India International Exchange and NSE International Exchange at GIFT-IFSC. This aims to enhance the Indian capital market, offering start-ups and tech firms access to global capital, potentially improving valuations, attracting foreign investment, and expanding the investor base. It also boosts the capital market ecosystem at GIFT-IFSC, introducing new investment opportunities, diversifying financial products, and increasing liquidity.

B. Promises made under Union Budget FY 2023-24

On February 1st 2023, Mrs. Nirmala Sitharaman, Finance Minister, unveiled a series of strategic initiatives aimed at bolstering business activities at the GIFT IFSC under the Union Budget FY 2023-24:

- Delegating powers under the SEZ Act to IFSCA to avoid dual regulation.
- Setting up a single window IT system for registration and approval from IFSCA, SEZ authorities, GSTN, RBI, SEBI and IRDAI.
- Permitting acquisition financing by IFSC Banking Units of foreign banks.
- Establishing a subsidiary of EXIM Bank for trade re-financing.
- Amending IFSCA Act for statutory provisions for arbitration ancillary services, and avoiding dual regulation under SEZ Act.
- Recognizing offshore derivative instruments as valid contracts.
- In her address to Parliament, Finance Minister highlighted the recognition of offshore derivative instruments as valid contracts under the proposed measures. Moreover, in a forward-looking initiative, she announced the facilitation of Data Embassies in GIFT IFSC for countries seeking digital continuity solutions. This decision will position GIFT IFSC as an attractive destination for nations exploring secure data management options.

What support do we offer?

→ Help clients understand and comply with relevant laws, regulations, and guidelines applicable to their specific situation.

→ Assist in preparing accurate and timely financial statements, reports, and disclosures to meet regulatory requirements and stakeholders' needs.

→ Develop tax-efficient strategies to minimize tax liabilities while ensuring compliance with tax laws and regulations.

→ Identify and assess potential risks to the client's business or investment activities, and recommend risk mitigation strategies.

→ Provide in-depth financial analysis and interpretation to support decision-making processes, such as investment evaluations, performance assessments, and financial forecasting.

→ Offer advice and support throughout various stages of transactions, including due diligence, valuation, negotiation, and deal structuring.

→ Assist clients in developing and implementing strategic plans aligned with their objectives, whether it involves growth, diversification, restructuring, or exit strategies.

→ Establish systems and processes to monitor ongoing compliance with regulatory requirements, tax obligations, and internal policies.

→ Facilitate communication and collaboration between the client and relevant stakeholders, such as regulators, investors, auditors, and legal advisors.

→ Provide training sessions or educational materials to keep clients informed about changes in laws, regulations, and best practices relevant to their business or investments.

→ Advising on structuring investments in Gift City entities, considering tax efficiency, regulatory requirements, and business objectives.

→ Assisting in structuring cross-border transactions involving Gift City entities, including mergers, acquisitions, and joint ventures, while ensuring compliance with regulatory frameworks.

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