



GIFT IFSC 2020: A new
global fund jurisdiction

International Financial Services Centre @ GIFT City

IFSC in India

- In India, an IFSC is approved and regulated by the Government of India under the Special Economic Zones Act, 2005
- Government of India has approved GIFT City as a Multi Services Special Economic Zone ('GIFT SEZ') and has also notified this zone as India's IFSC
- The launch of the IFSC at GIFT City is the first step towards bringing financial services transactions relatable to India, back to Indian shores
- IFSC unit is treated as a non-resident under extant Foreign Exchange Management regulations

Key activities in IFSC

Capital Markets

- Stock Exchanges
- Trading members
- Segregated Nominee Account Providers
- Clearing Corporations, Depositories, other intermediaries

Offshore Banking

- Corporate Banking
- ECB Lending
- Servicing JV/WOS of Indian companies registered abroad
- Factoring/ Forfeiting of export receivables

Offshore Insurance

- General / Life Insurance
- Co-Insurance
- Reinsurance
- Captive Insurance etc.

Offshore Asset Management

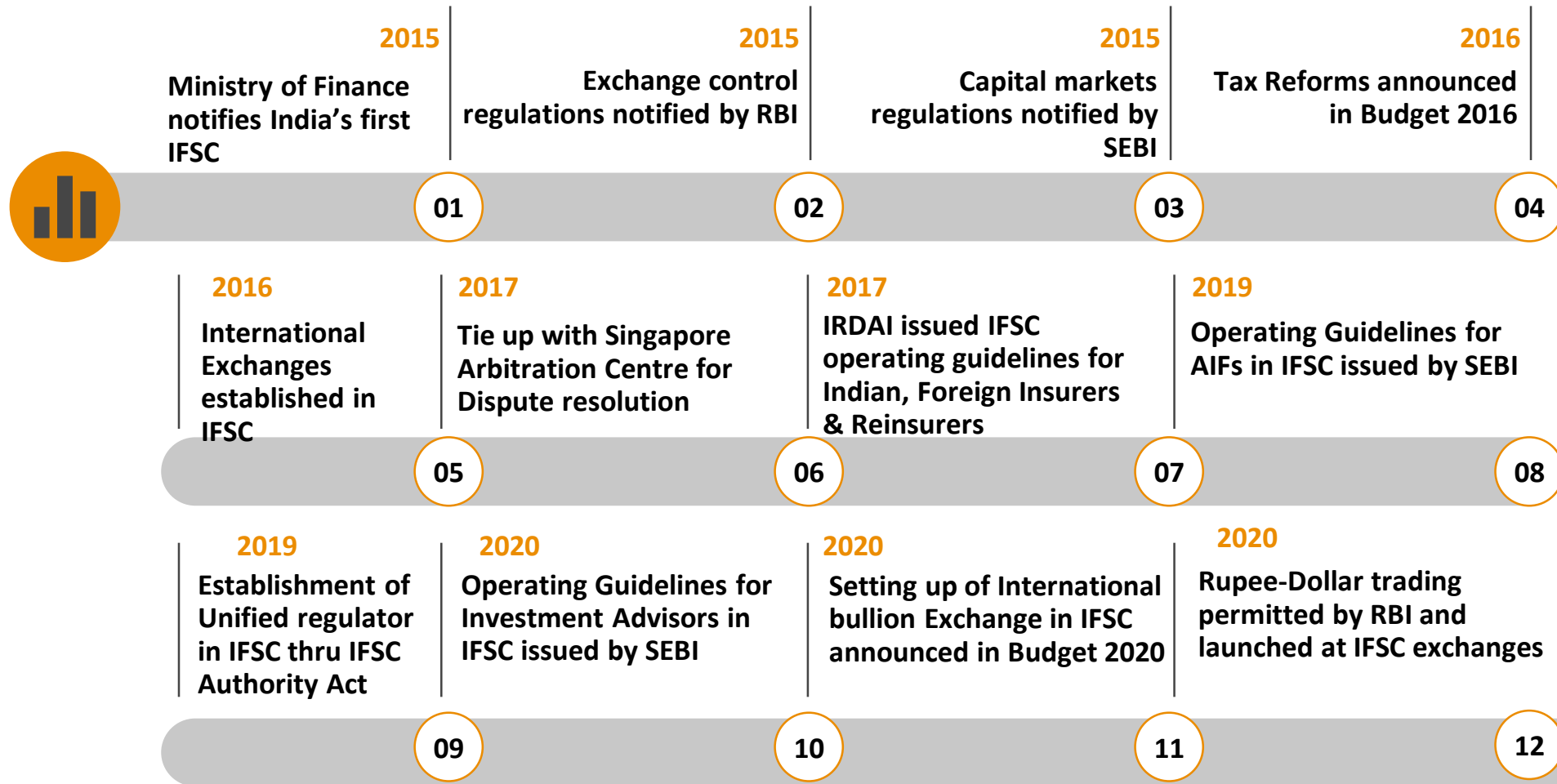
- Alternative Investment Funds
- Mutual Funds
- Portfolio Management Services
- Investment Advisors

Ancillary Services

- Legal, Accounting & Audit
- Research & Analytics etc.
- Fund Accounting
- Risk Management etc.

IFSC Journey So Far

Key reforms and developments



IFSC Ecosystem and Business Growth

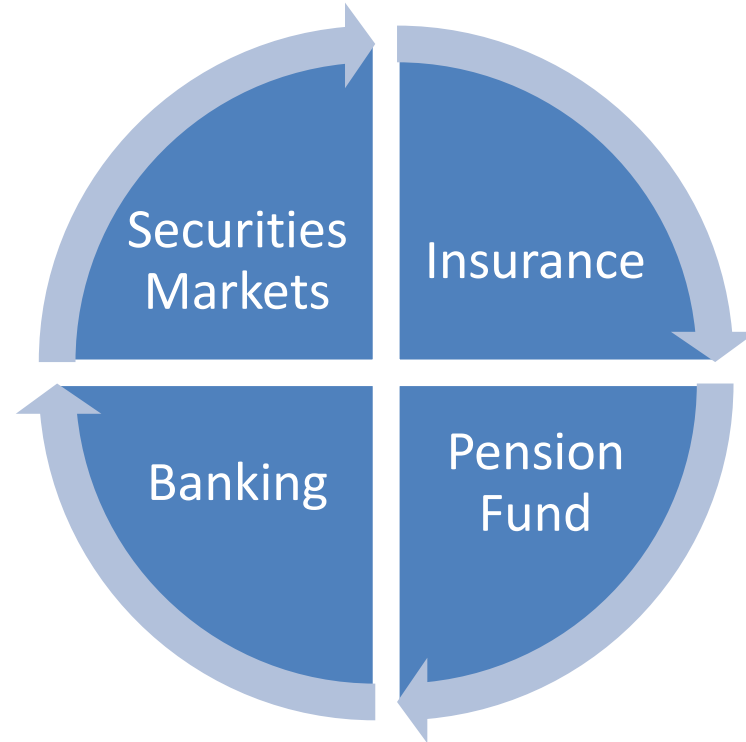
Sr No	Participants	Key business activities and features	Volume and No. of players
1	International Stock exchanges	<ul style="list-style-type: none"> Dollar denominated products No transaction cost (other than brokerage) Trading - 22 hours 	<ul style="list-style-type: none"> India INX and NSE IFSC stock exchange Avg. Daily volume crossed USD 4 Bn+
2	IFSC Banking units	<ul style="list-style-type: none"> External Commercial Borrowing (ECB) Lending Loan syndication and trade finance 	<ul style="list-style-type: none"> 15 IBUs Business - USD 28 Bn+
3	Brokers & Intermediaries	<ul style="list-style-type: none"> Broking services Proprietary trading 	<ul style="list-style-type: none"> 100+ brokers Clearing corporations
4	Insurers & Intermediaries	<ul style="list-style-type: none"> Non-life, Reinsurance business Insurance intermediaries 	<ul style="list-style-type: none"> 18+ Companies Sum insured - USD 30 Bn+
5	IT & ITeS service providers	<ul style="list-style-type: none"> Legal & consultancy firm IT companies 	<ul style="list-style-type: none"> 50+ entities



Recent Developments:

- ❑ Regulatory framework issued for REITs & InvITS
- ❑ Aircraft leasing & Global in-house centre notified as financial service under IFSCA Act
- ❑ 'Bullion' notified as financial product under IFSC Authority Act – **August 31, 2020**
- ❑ IFSC Authority notified with Head office at Gandhinagar, Gujarat – **April 27, 2020**
 - Chairman, Members appointed. Two Board meetings held
- ❑ Launch of INR/USD Trading by Hon'ble Finance Minister at IFSC Exchanges – **May 08, 2020**
- ❑ RBI permitted trading of non-deliverable rupee to IFSC Banking Units from June 01 – **March 27, 2020 (Only banks having IFSC Banking Unit)**
 - Current transaction value of NDF by IBUs – **US\$10 bn**

Unified Regulator



Development and Regulation of financial products, financial services and financial institutions in IFSC

Recent Initiatives

International
Bullion Exchange

REITs and InvITs

Listing of
Depository
Receipts

Global In-house
Centres

Framework for
Regulatory
Sandbox

Alternative Investment Funds

- SEBI's AIF Regulations, 2012 applicable in IFSC
- Operating Guidelines [November 26, 2018]
 - Fund required to be established in IFSC
 - Permitted to invest in India through FPI, FDI and FVCI routes
 - Min. corpus - USD 3 million

AIF in IFSC

Regulatory framework

Fund/Investors



- Any entity registered with SEBI or registered or recognized with a regulator of a foreign jurisdiction may set up an AIF in IFSC
- Regulatory approval needed from SEBI / IFSCA
- The Fund can be set up as a trust or partnership or firm
- Minimum corpus of USD 3 mn
- Investors:
 - Non-residents Including NRIs
 - Domestic institutional Investors eligible under FEMA to invest offshore and
 - Resident individuals with a net worth of at least USD 1 million

Sponsor/Manager



- Either the sponsor or Manager of AIF needs to be in IFSC. The sponsor / manager entity can be:
 - Newly set up company or LLP in IFSC; or
 - Branch of existing AIF sponsor / manager
- Sponsor commitment:
 - Category I & II: Lower of 2.5% of corpus or USD 750,000
 - Category III: Lower of Lower of 5% of corpus or USD 1.5 mn

Contribution/investment



- Minimum contribution:
 - From an Investor: Not less than 150,000 USD
 - From employees or Directors: 40,000 USD
- Investment restrictions:
 - Category I and II: Maximum 25% of the investible funds in one investee company
 - Category III AIF: Maximum 10% of its investible funds in one investee company
- Permitted securities:
 - Securities listed in IFSC
 - Securities issued by Indian cos. or cos. In IFSC or foreign cos.
 - Units of an AIF

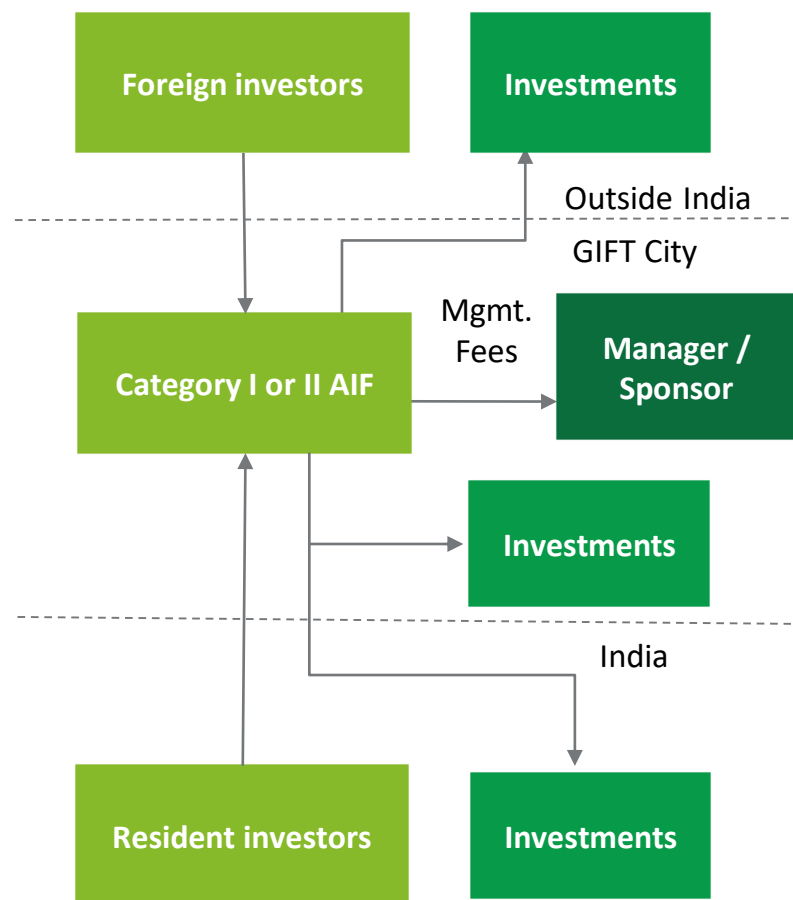
Key conditions



- Leverage:
 - Category I and II – Not allowed except for meeting temporary fund requirements (i) not exceeding 30 days (ii) not more than 4 occasions in a year and (iii) not more than 10% of the investable funds
 - Category III – allowed subject to a maximum limit of 2 times the NAV of the fund
- Need to appoint custodian:
 - Category I and II: Mandatory to appoint a custodian if corpus of AIF exceeds USD 70 million
 - Category III: Mandatory appointment of custodian

Structure 1: Category I & II AIF in IFSC

Inbound & Outbound investments



Benefits

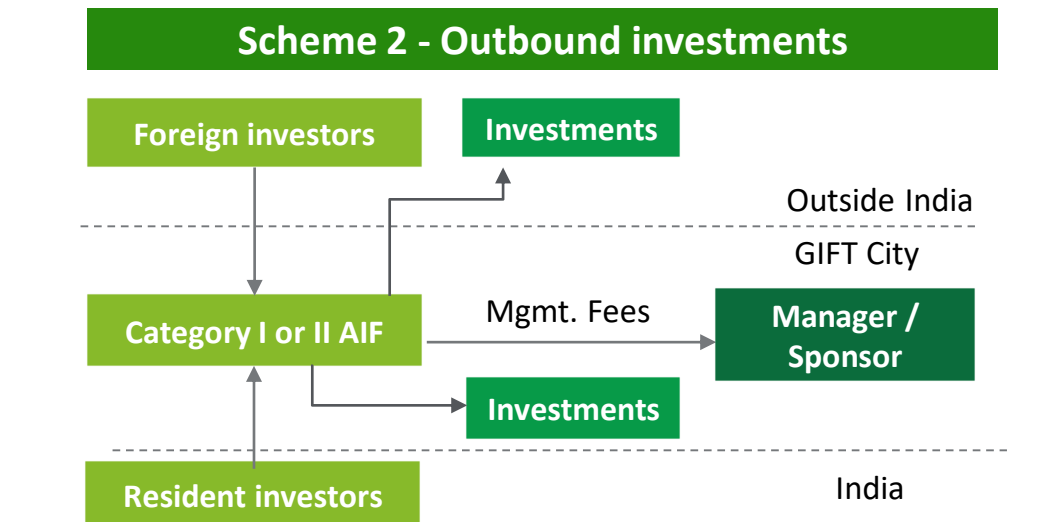
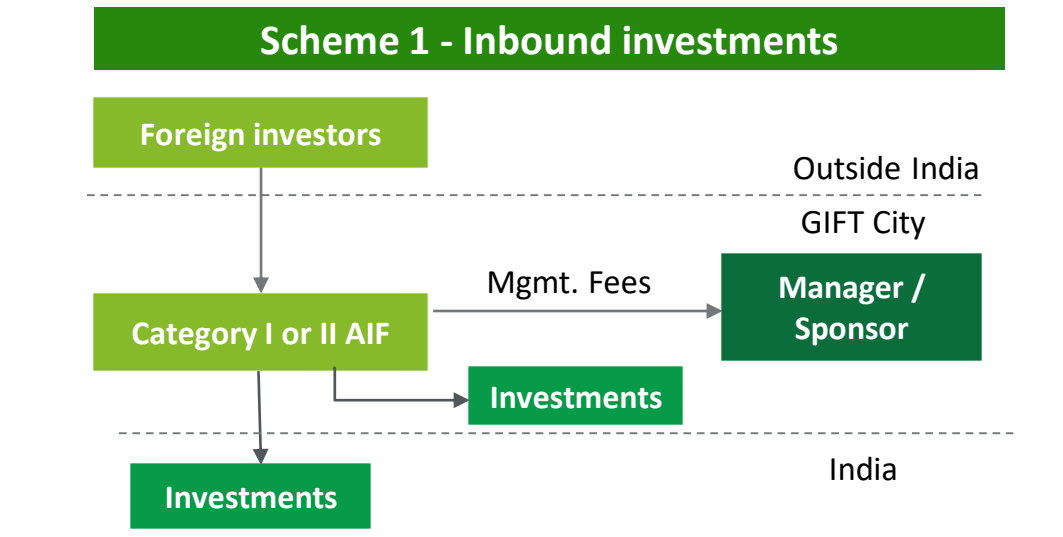
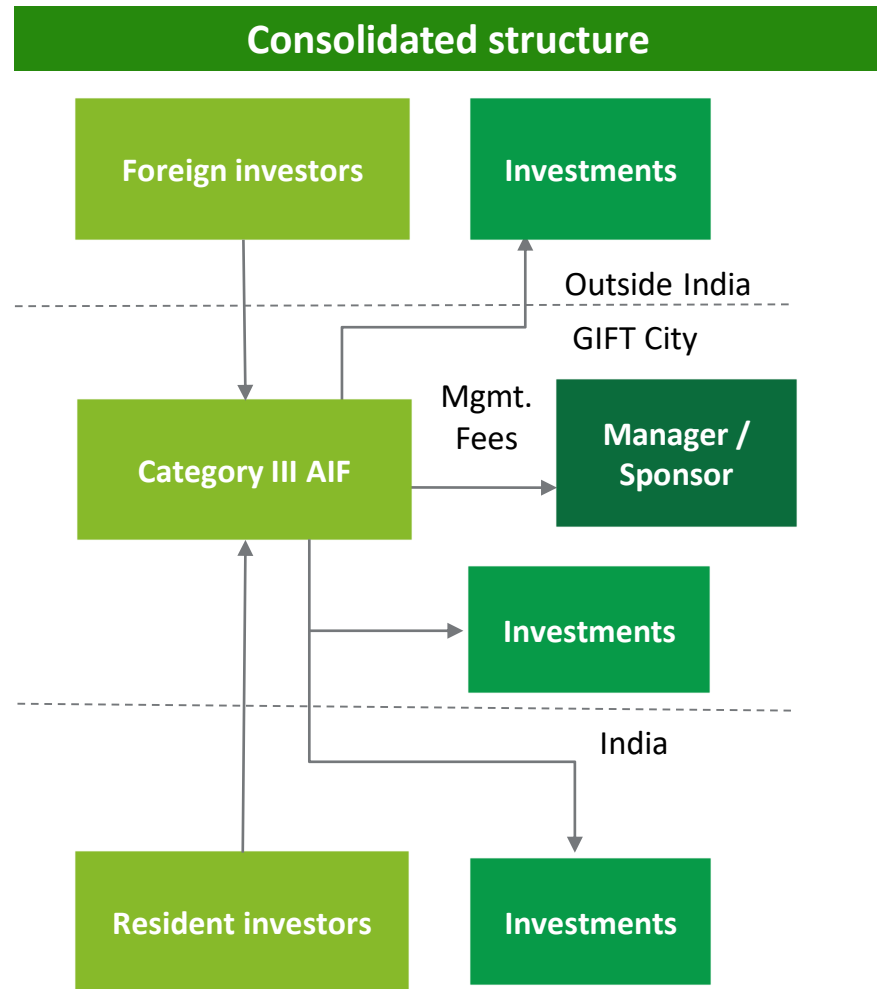
Management fees	<ul style="list-style-type: none"> No tax on Management fees and also not subject to MAT – beneficial for managerial fee income and carried interest No GST applicable on services rendered in IFSC
No capital gains tax in the hands of foreign investor	<ul style="list-style-type: none"> On transfer of any bond, foreign currency denominated equity share, GDR, derivative, units of mutual fund, AIF on IFSC stock exchange
Concessional tax rate	<ul style="list-style-type: none"> 4% tax rate on interest for IFSC exchange listed bond
Overseas investment	<ul style="list-style-type: none"> No restriction on investment in security of foreign co. (no condition of India connection and no SEBI approval required)
PAN and Tax Return	<ul style="list-style-type: none"> Foreign investors exempt from obtaining PAN and filing Tax Return
Other aspects	<ul style="list-style-type: none"> All other aspects on inbound investment remain same as compared to domestic AIF

Points for consideration

Tax exemption	<ul style="list-style-type: none"> Tax exemption to foreign investors on income from overseas investments made by AIF IFSC?
Round tripping	<ul style="list-style-type: none"> AIF IFSC with resident investors investing in Indian securities – round tripping issue

Category III AIF in IFSC

Inbound & Outbound investments



Category III AIF in IFSC

Benefits

Benefits		
Parameters	Scheme 1 - Inbound Investments	Scheme 2 - Outbound Investments
Management fees	<ul style="list-style-type: none">• No tax on Management fees and also not subject to MAT – beneficial for managerial fee income and carried interest• No GST applicable on services rendered in IFSC	<ul style="list-style-type: none">• Same as Inbound Investments
Tax exemption on income	<ul style="list-style-type: none">• No CGT on transfer of derivatives / bonds / units of AIF / REITs / INVITs and any security other than shares of Indian companies• The tax exemption is available to the extent income pertains to non-residents	<ul style="list-style-type: none">• No tax on income from foreign security to the extent units held by NRs• No CGT from transfer of foreign securities to the extent units held by NRs• No tax on gains from derivatives on IFSC stock exchange
Other tax incentives	<ul style="list-style-type: none">• 10% tax rate on dividend from Indian companies• 4% tax rate on interest for IFSC exchange listed bond	<ul style="list-style-type: none">• NA
Tax exemption to investors	<ul style="list-style-type: none">• Full tax exemption to investors in AIF	<ul style="list-style-type: none">• Same as inbound investments

Structure 2: Category III AIF in IFSC

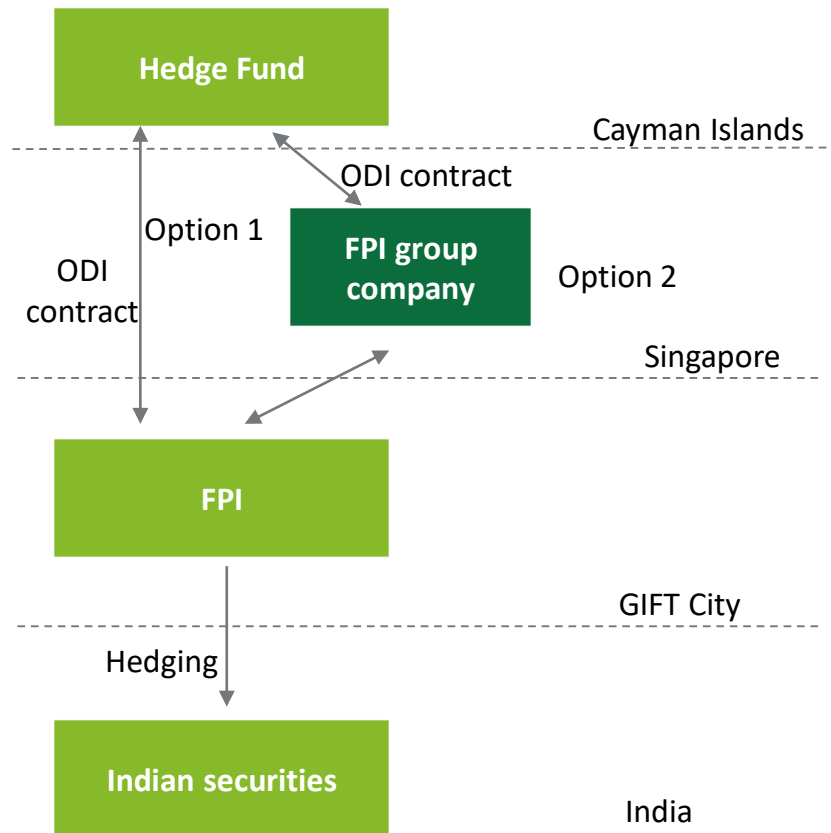
Points for consideration

Points for consideration

Round tripping	<ul style="list-style-type: none">• AIF IFSC with resident investors investing in Indian securities – round tripping issue
FPI restrictions	<ul style="list-style-type: none">• Investment to be less than 10% of paid up share capital of Indian company• Investment not to exceed applicable sectoral limit or limit set up by the Indian Co.• Single NRI/ OCI/ RI & aggregate contribution in FPI is below 25% & 50% respectively• RI has to contribute under LRS subject to FPI's Indian exposure is less than 50%
Surcharge	<ul style="list-style-type: none">• Whether surcharge on dividend capped to 15% since the AIF is registered as FPI?
Tax on interest income	<ul style="list-style-type: none">• Can the AIF qualify for 5% tax rate under section 194LD
Income Allocation	<ul style="list-style-type: none">• Income allocation between foreign and resident investors – can tax officer challenge?
Multiple schemes	<ul style="list-style-type: none">• In Trust structure, form a separate scheme for only outbound investments from round tripping and income-tax allocation perspective
PAN and Tax Return	<ul style="list-style-type: none">• Foreign investors exempt from obtaining PAN and filing Tax Return?
Legal Status relevant	<ul style="list-style-type: none">• Tax exemption to AIF available only if setup as a trust and not a company / LLP

Access products by FPIs set up in IFSC

Offshore Derivative Instruments such as Participatory Notes and Total Return Swaps



Can FPI set up in IFSC issue ODIs

What kind of entity be set up in IFSC which can issue ODIs

Taxation of ODI subscribers

- Under SEBI FPI Regulations, a Category I FPI can issue ODIs
- Since India is a FATF member country and FPI set up in IFSC is deemed to be “regulated”, IFSC FPI should get Category I registration and therefore be able to issue ODIs
- Can an existing FPI set up its subsidiary company in IFSC who can obtain FPI license and thereafter issue ODIs ?
- Alternatively, FPIs can consider to set up in IFSC as broker, clearing member, portfolio manager, investment advisor etc.
- If the income of ODI subscribers is regarded to be taxable in India, FPI would need to withhold tax on income paid to ODI subscribers
- Alternatively, investors may enter into ODI contracts with another entity in treaty jurisdiction which can then enter into ODI contract with FPI set up in IFSC (subject to GAAR / MLI PPT concerns)

Cat-III AIF set up in IFSC vs. fund set up in select offshore jurisdictions

Key aspects concerning investments made in India

Type of income	Luxembourg	Ireland	Singapore	Mauritius	IFSC
Taxability of capital gains on sale of equity shares in India	Taxable	Taxable	Taxable	Taxable	Taxable
Capital gains on sale of other securities in India (including derivatives, bonds, AIF units, mutual fund units etc.)	Taxable (since funds don't get access to treaty)	Exempt under treaty	Exempt under treaty	Exempt under treaty	Exempt under Indian tax law
Set-off of Losses from derivatives with gains from equity shares	Yes	Yes	Yes	Yes	No
Tax on Interest from G-secs and qualifying bonds	5%	5%	5%	5%	10% (section 194LD may not apply to AIFs)
Tax on interest from other securities	20%	10%	15%	7.5%	10%
Dividends	20%	10%	15%	15%	10%
Location of fund manager	Can be outside Luxembourg#	Can be outside Ireland#	Singapore (in case of VCC)	Can be outside Mauritius	Mandatorily in IFSC*

*Law requires either sponsor or manager

in certain jurisdictions

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