Deloitte.

India at the centre of global investments
Seize the India moment

Financial services

April 2025

Executive summary

As one of the fastest-growing economies, India offers a compelling narrative of robust economic indicators, a favourable business environment and a strategic position in the global market. This report, "India at the centre of global investments: Seize the India moment," provides a comprehensive guide for investors looking to capitalise on India's growth trajectory.

What makes India a standout destination for investors

India's economic opportunity is nothing short of remarkable, with robust growth positioning it as the fastest-growing economy through FY2026. The country's strong domestic demand and burgeoning digital economy provide a buffer against global uncertainties. However, effectively managing the rapid pace of technological advancements is crucial to sustaining this growth and mitigating potential disruptions.

Strong economic indicators

India's GDP is projected to grow between 6.3 percent and 8 percent over the next two years, underscoring the nation's resilience and economic potential. This steady growth trajectory is a testament to India's robust economic framework, making it an attractive destination for global investments.

The country's competitive edge is further bolstered by four key pillars: favourable demographics, improving logistics, rapid technological innovation and the rise of sunrise sectors. A young and dynamic workforce enhances productivity, while advancements in infrastructure and technology drive efficiency and global integration. The contribution of emerging sectors ensures long-term growth and competitiveness.

Continuous reforms and supportive initiatives

Continuous reforms and supportive initiatives
Since 2016, India has implemented many reforms to strengthen its economic foundations. Key initiatives, such as the insolvency and bankruptcy code and the Goods and Services Tax (GST), have streamlined financial and tax frameworks, fostering a more dynamic business environment. Addressing infrastructure gaps, enhancing regulatory clarity and ensuring consistent policy implementation are essential to sustaining growth.

Favourable business environment

India has made significant strides in creating a business-friendly environment, reflected in its improved performance in key areas. Government initiatives, such as the insolvency and bankruptcy code, national infrastructure pipeline, Production-Linked Incentive (PLI) scheme, PM Gati Shakti National Master Plan, recapitalisation of public-sector banks, national monetisation pipeline, and national logistics policy have been instrumental in enhancing the ease of doing business and attracting foreign investment.

Achieving the "Developed Nation (Viksit Bharat)" Vision

Sustained 8.5 percent growth could position India as a developed nation, with its economy reaching about US$30 trillion by 2047. India is on track to transition into a high-income nation in the next few decades by focusing on increasing its manufacturing share and expanding its customer base through exports.

A preview of developed India

Technology

	2024	2047
Rank on the Government AI Readiness Index	40	Top 5
Space Technology and Exploration	**Top 5** spacefaring nations	**Top 3** global space powers
Quantum Computing and Emerging Tech the global quantum ecosystem	**Early stage**	**Major player** ranking within the top 5
Digital Infrastructure & Connectivity	**5G rollout**	**6G or 7G** world's most digitally connected nation
Ranking in global innovation index	40th (2022)	Top 5

Infrastructure

	2024	2047
National highways network	1,45,240 km	+ 50,00 km high-speed highway
Railway route length	68,043 km	+1,00,000 km
Number of operation airports	157	350
Cargo handling capacity at ports	2,600 MT	10,000 MT
Urbanisation	35.4%	78-93%

Sunrise sector

	2024	2047
Reduction in Carbon Emission intensity from 2005 levels	~33%	>55%
Renewable energy, installed capacity (GW)	191	1500
Semiconductor Manufacturing	Dependent on semiconductor imports	A semiconductor manufacturing hub
Electric vehicle penetration	18% (2023)	87%
Domestic production of semiconductors	~10%	50%

Economy & demography

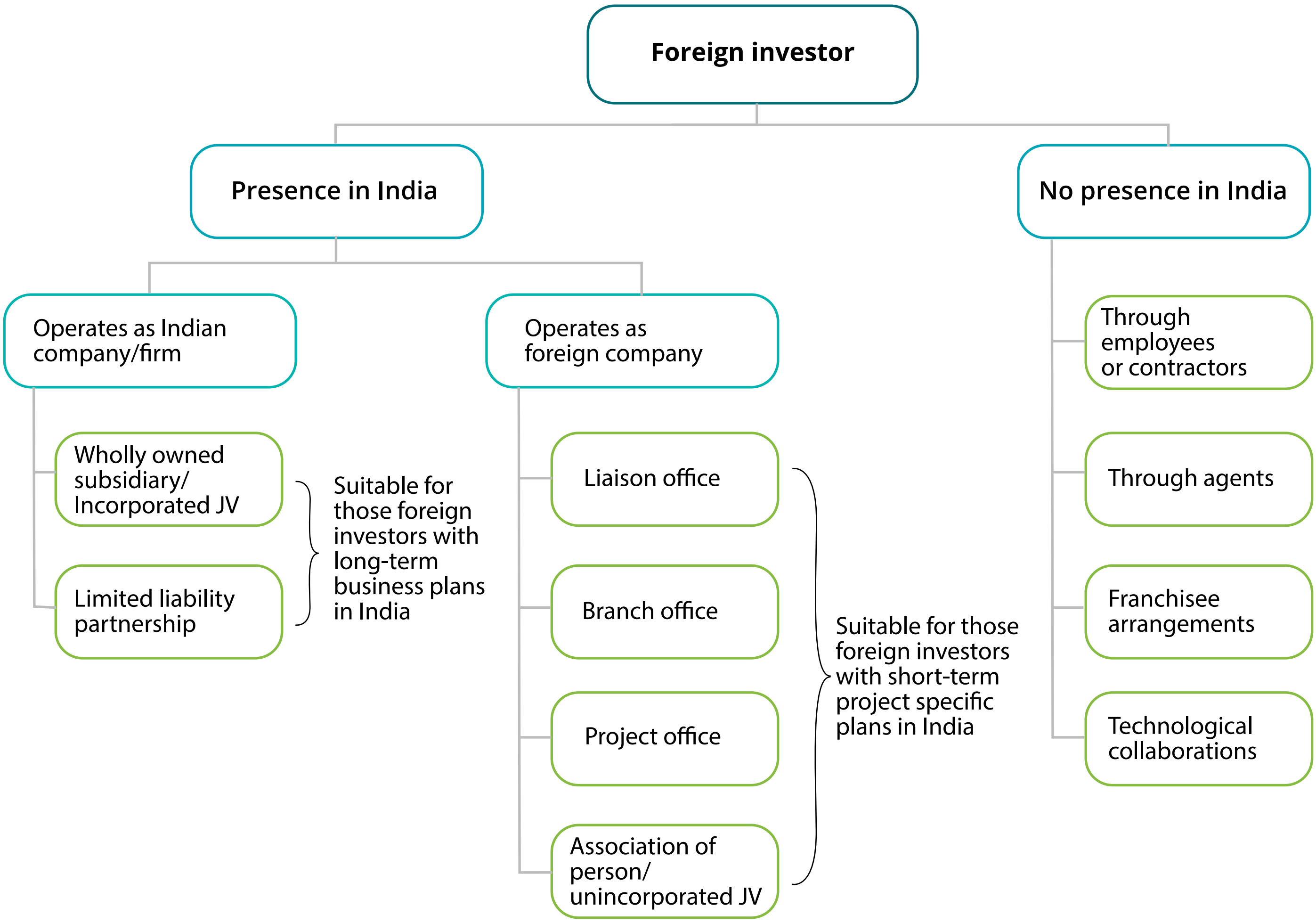
	2024	2047
Employment in highly skilled jobs	32%	100%
Rank in gender equality index	122th	Top 10
Literacy rate	77%	100%
Human Development Index (Value)	0.64	0.9
Women labour force participation (%)	35.4%	74-82%

Sources: Niti Aayog approach paper, PHDCCI, PIB, Economic Times, CXOtoday

How to start your investment journey in India

Choosing the right business entity structure

Choosing the right business entity structure is essential for success in India. Each type of entity has its own advantages, legal requirements and tax implications. Multinational Corporations (MNCs) can operate through various forms, even without establishing a physical presence in India.



MNCs can choose from several business forms in India:

Wholly owned subsidiary/ incorporated joint venture

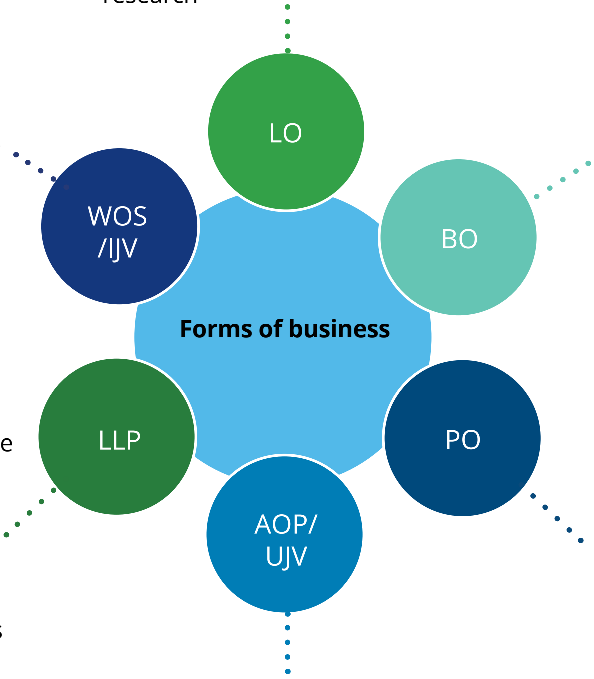
- Any activity subject to the FDI regulations requires compliance with valuation, sectoral caps, reporting compliances, etc.
- Income taxable @ 15/22/25/30 percent* depending on prescribed criteria
- Income from buyback of shares taxable in the hands of shareholders as dividend.
- Suitable for long-term business operation

Liaison office

- Acts as communication channel/information collection
- Generally permitted under automatic route for set up and closure
- No commercial activities/income-earning activity
- Not considered a taxable entity
- Incase activities go beyond what is permitted, taxable presence exposure exists
- Suitable for business development/market research

Branch office

- Automatic route for eight prescribed set of activities
- Income taxable @35 percent*
- No tax on profit repatriation
- Easy to set up and wind up



Limited liability partnership

- Any activity subject to the FDI regulations requires compliance with valuation, sectoral caps, reporting, etc.
- Income taxable @30 percent*
- No tax on profit repatriation
- Suitable for long-term business operations

Project office

- Project/contract based
- Automatic route for set up and closure subject to specified conditions
- Income taxable @35 percent*
- No tax on profit repatriation
- Suitable for entities undertaking EPC project(s) in India

Association of persons/unincorporated joint venture

- Opening of bank account–Automatic route–for execution of contract in India
- Income taxable @35 percent,* if there is a foreign partner/venture
- Suitable for short-term business operations in consortium

Moreover, foreign investors can fund Indian entities through equity funding (no direct obligation to repay funds) and debt funding (direct repayment of funds upon maturity in India).

*plus applicable surcharge and cess

Spotting the ideal business location

One vast nation with 28 states and 8 union territories – where should you place your bet?

Choosing the right business location and entity structure involves considering the nature of activities, investment period, business model, and tax implications to ensure alignment with business objectives and goals.

A few central and state government policies that can affect investment decisions

State government

- State industrial policies (benefits depend on chosen district, investment proposed, employment generation possibilities, etc.)
- Sector-specific policies, viz. aerospace and defence, MRO, biotechnology, electronic systems, IT and IT-enabled services; tourism, renewable energy, automotive, electric vehicles, logistics, textile, MSME, start-ups, telecom, etc.
- Customised package of incentives possible for large investment projects

Central government

- PLI schemes for specific sectors, incentives for some sectors are under review
- Capital subsidies for SPECS (electronic components and semiconductors)
- Export-linked incentives, such as rebates, exemptions and credit scrips of duties and taxes
- Location specific (Northeast, special zones)
- Special customs programmes for duty concessions and deferrals (in bond manufacturing and project import scheme.)

What you need to know before taking the plunge

The answer is simple: you must be well-versed with the country's tax landscape, regulatory scenario and returns on investments/repatriation of funds.

Navigate the tax landscape in India

Understanding the tax landscape is like having a reliable GPS for investors, guiding them through complex terrain, helping them avoid costly detours and ensuring a smooth journey to success. This knowledge will help provide an overview of taxation laws and ensure compliance with local regulations, ultimately safeguarding returns and minimising risks.
A new simplified Income tax Bill was introduced in February 2025 to increase tax certainty, reduce litigation and achieve overall good governance. The new income tax law is expected to be effective from 1 April 2026.

Income tax:
The tax year runs from 1 April to 31 March. Each person is required to file a separate income tax return, and no consolidation is possible. Residents are taxed on worldwide income; non-residents are taxed on India-sourced income/deemed accrual in India or receipts in India. An individual's residential status is determined by the number of days they stay in India. A company is a resident in India if it is incorporated in India or its place of effective management (PoEM) is in India. A partnership firm/LLP/other non-individual entity is resident in India if any part of the control and management of its affairs is in India.

Unpacking India's tax landscape

As an investor, you need to be on top of the following elements in the country's extensive tax landscape:

Type of company/income	≤ INR 10 million		≤ INR 100 million		> INR 100 million	
	Normal	MAT	Normal	MAT	Normal	MAT
Domestic company: Normal rates	31.2	15.6	33.4	16.7	34.9	17.5
Domestic company: Turnover ≤ INR 4 billion in the FY two years prior	26	15.6	27.8	16.7	29.1	17.5
Domestic company: Foregoing specified incentives/deductions	25.2	Not applicable	25.2	Not applicable	25.2	Not applicable
Domestic manufacturing company set-up after 29 February 2016; foregoing specified incentives/deductions	26	15.6	27.8	16.7	29.1	17.5
Foreign company	36.4	15.6	37.1	15.9	38.2	16.4

Transfer pricing:
Indian transfer pricing regulations specify that two or more enterprises become Associated Enterprises (AEs) when one of them participates, directly or indirectly, or through one or more intermediaries, in the management, control or capital of the other enterprise(s). These regulations also cover certain circumstances under which two enterprises shall be deemed to be AEs.

India has rolled out safe harbour regulations and introduced the APA (Advance Pricing Agreement) as a key dispute prevention tool. This has become a popular choice among taxpayers because it tends to yield better outcomes.

Taxpayers also have the option to use the MAP (Mutual Agreement Procedure) under relevant tax treaties or go through domestic litigation at appellate levels. Moreover, the Budget 2025 has brought in block transfer pricing assessments, which streamline audits by assessing taxpayers over a block of three years. This change aims to reduce the frequency and administrative burden of audits, ensuring more consistency and predictability in tax assessments.

Employee taxation
In India, employment income earned for services rendered within the country is subject to taxation, regardless of the individual's residential status, the location of the employment contract, or where the income is paid. The Budget 2025 has reduced the tax burden on individuals to encourage consumption.

For non-Indian citizens present in India for a short duration, employment income can be exempt from income tax if short stay conditions are met, according to the Act or DTAA. To claim DTAA benefits, a Tax Residency Certificate (TRC) is required.

Employers must withhold tax on salaries earned by employees in India and provide a tax withholding certificate. They need to obtain tax registrations and file withholding tax returns. Employees must file an annual income tax return if their income exceeds a certain threshold.

Foreign or resident Indian citizens employed by foreign companies and deputed to Indian group companies can maintain foreign currency bank accounts outside India to receive salaries for services rendered in India.

Employee services to employers are not considered a supply of goods or services, hence not subject to GST.

Social security:
Employers and employees must comply with social security regulations, including contributions to provident funds and other statutory benefits.

Immigration:
Foreigners, except OCI cardholders, need an employment visa to work in India. This visa can be extended in India for up to 10 years. Dependent visas are available for accompanying family members.

Here’re recent trends and updates.

- Labour code: The government has introduced four new labour codes, subsuming 29 existing laws, to simplify labour regulations. The effective date is yet to be notified.
- Global work-from-anywhere policies: Hybrid and remote working models are now common. Tax implications for foreign employers and employees working from India need careful consideration.
- Gig economy: The gig economy is growing rapidly, with an expected increase in gig workers from 7.7 million in 2021 to 23 million by 2029-30. The government plans to introduce welfare measures for gig workers.

Understanding these aspects is crucial for effective tax compliance for both employers and employees in India.

Business restructuring

Business restructuring requires careful navigation of key factors, such as deal taxation, related tax implications, and due diligence challenges. For investors and businesses venturing into India, grasping these elements is essential for efficiently structuring transactions and mitigating potential risks. With India's dynamic tax landscape and ongoing regulatory reforms, strategic planning in restructuring can unlock substantial value.

Income tax compliance and dispute resolution

The Indian tax authorities have set forth several income tax compliance requirements under the income tax regulations. These requirements mainly include:

Maintenance of books:
Taxpayers are required to maintain accurate and detailed records of their financial transactions. This ensures transparency and helps in the accurate calculation of taxable income.

Audits:
Certain taxpayers must undergo audits conducted by certified professionals. These audits verify the correctness of the financial statements and ensure compliance with tax laws.

Dispute resolution:
Mechanisms are in place to resolve disputes between taxpayers and tax authorities. This includes processes for appeals and settlements to address any disagreements regarding tax assessments or penalties.

Indirect taxes

Despite the implementation of GST, some indirect taxes remain in effect. Customs duty continues to apply to international trade, while central excise duty is levied on specific petroleum products (such as petrol and diesel) and certain tobacco products. State excise duty applies to alcoholic beverages and narcotics, and states impose VAT on alcohol sales.

Customs duties:
Customs duties are levied on goods imported into or exported from India, with rates specified in the Customs Tariff Act, 1975. Duties can be specific, ad-valorem or a combination of both. The CBIC has implemented measures to streamline customs clearance and reduce transaction costs, promoting the ease of doing business.

Various schemes, such as bonded manufacturing facilities and export promotion schemes, support exports.

Foreign Trade Policy (FTP):
The FTP, established by the DGFT, provides guidelines for imports and exports. The FTP 2023 aims to position India as a competitive player in global trade by embracing technological advancements and fostering collaboration. It is built on principles of trust and partnership with exporters.

Free Trade Agreements (FTAs):
FTAs are agreements among countries to reduce or eliminate tariffs and non-tariff barriers on substantial trade. India has FTAs with about 54 countries, covering trade in goods, services and other areas, such as IPRs and investments. Rules of Origin (ROO) determine the country of origin for products, affecting duties and trade policies.

Indirect tax compliances: Compliance obligations under key indirect tax laws include maintaining books, undergoing audits and resolving disputes.

Production-Linked Incentive (PLI) schemes:
Introduced in March 2020, the PLI scheme promotes domestic manufacturing under the Atmanirbhar Bharat initiative. It offers incentives such as tax rebates and reduced import/export duties to boost production, create jobs and ensure social welfare.

Regulatory landscape and returns on investment/repatriation of funds
Navigating the regulatory landscape in India is essential for foreign investors. It provides a clear framework for external commercial borrowings and foreign direct investments. Grasping the nuances of ROI and fund repatriation is key, as it directly affects profitability and ensures compliance.

What futuristic trends should you keep an eye on

Here are some key trends shaping the future business landscape in India:

ESG integration:
Much in line with global trends, Indian businesses now give greater importance to ESG considerations. They are integrating environmental consciousness, ethical practices and labour protection into their strategies. Government initiatives, such as renewable energy goals and the National Green Hydrogen Mission are supporting this shift towards sustainability.

Technological advancements:
Advanced technologies, such as AI, blockchain and Generative AI, are transforming tax reporting and administration, enhancing efficiency and accuracy. Technology also plays a key role in tax compliance, with many processes now managed through digital solutions.

Booming start-up culture:
India's start-up culture is booming, driven by a young, tech-savvy population, government initiatives, and a growing entrepreneurial spirit, with sectors such as fintech, edtech and e-commerce leading the charge. Start-ups in India can claim a 100 percent tax holiday on profits for any 3 consecutive years within 10 years of incorporation if they meet prescribed conditions and are incorporated before 1 April 2030.

Evolution of GCCs:
Global In-House Centres (GICs or GCCs) in India have gone through the value chain in India and are evolving from back-office processes to becoming centres of operational excellence, product development and innovation hubs.

In conclusion, India presents a dynamic and promising landscape for investment, driven by robust economic growth, a favourable regulatory environment and a wealth of opportunities across various sectors. By understanding the strategic advantages and navigating the regulatory framework, investors can unlock significant potential and contribute to India's ongoing development.

Now is the time to seize the opportunity and invest in India's bright future.

Click here to read the complete report

Financial services

India's financial services sector is a cornerstone of its growing economy. With rapid digital transformation, expanding customer bases and regulatory reforms, this sector offers significant opportunities for growth and innovation. Understanding the dynamics of these industries is crucial for investors and businesses looking to tap into India's robust financial ecosystem. Let's look at the main segments of the FS industry – banking, investment and asset management, and insurance.

Main segments of the FS industry

Banking

01. The key regulations governing the Indian banking industry

- The Banking Regulation Act, 1949
- The Reserve Bank of India Act, 1934
- The Companies Act, 2013

02. Subject to adherence to stringent guidelines shared by the Reserve Bank of India (RBI) for the licencing of new banks, investment in banks is permitted as follows:

Automatic route
Investments up to 49 percent of the total equity in private banks is permitted.

Government approval
Up to 74 percent of additional investment is permitted. However, this is subject to at least 26 percent of the paid-up capital held by residents at any given point of time, except in case of a wholly-owned subsidiary of a foreign bank.

03. Recent key government initiatives taken to promote the banking industry include the following:
- Constitution of a national financial information registry
- Streamlining the KYC process using a "risk-based" strategy rather than a "one-size fits all" approach

04. The time limit for foreign banks looking to set up an investment division in an offshore banking unit in IFSC-GIFT City[1] has been extended until 31 March 2030 (as per Union Budget 2025). Under the Finance Act, 2024, the basic corporate tax rate applicable to foreign banks operating in India through branch offices is reduced from 40 percent to 35 percent.

05. Introduction of the Master Directions on classification, valuation and operation of the investment portfolio of commercial banks (Directions), 2023, which have the following objectives and is expected to have a significant impact on the banking sector:
- Enhance the quality of the bank's financial reporting
- Improve disclosures of fair value of investments in the HTM category, fair value hierarchy, sales out of HTM, etc.
- Provide a fillip to the corporate bond market
- Facilitate the use of derivatives for hedging
- Strengthen the overall risk management framework of banks.

06. The growth of new technologies and the confluence of multiple trends are influencing how banks operate and serve customer needs. The impact of generative AI, industry convergence, embedded finance, open data, digitisation of money, decarbonisation, digital identity and fraud will expand over time. This, in turn, will pose new tax and regulatory challenges.

[1]Kindly refer IFSC chapter for details

07. TP trends

Prominent TP issues during audits for the banking industry

- Intra-group transactions, such as business support/ back-office services by captive banking GCCs/ central service providers, HO cost allocations, purchase/sale of guarantee, debt instruments, derivative products, foreign exchange transactions, central treasury and brand royalty
- Field-level authorities resort to profit/revenue splits over traditional profit-based methods for intra-group transactions, such as origination/marketing/ referral of banking products/services albeit relief is attained at the appellate level in many cases
- High-value complex banking transactions

Measures for alleviating TP risk/exposure

- Ensure adequate documentation and alternate dispute resolution mechanisms, such as APA/MAP
- Corporate governance for related party transaction under the SEBI LODR/Companies Act

Investment/asset management

01. The Indian capital markets are mature and evolved. They are well regulated by SEBI, the primary governing body and regulator for Indian capital markets. SEBI issues guidelines and policies to ensure appropriate governance, transparency, disclosures, etc., for investment and asset managers, and related intermediaries.

02. The Indian asset management industry is witnessing brisk growth in AUM. This is driven by the financialisation of savings, and the funds directed by retail investors into the capital market rather than traditional saving instruments (such as property and bank deposits). At present, 49 registered mutual funds in India offer different schemes tailored to meet investors' growth, safety and income requirements, with several applications in the pipeline.[2,3,4]

Indian MF/VC/private equity and AIF growth trajectory

The emergence of the VC/private equity industry in India has paved the way for entrepreneurs/family offices to raise capital. Earlier, they primarily depended on private placements, public offerings and financial institutions.

Under the SEBI (AIF Regulations), 2012, the Indian AIF industry has also been active, with funds raised to the tune of US$60.51 billion and investments made of US$57.41 billion) as on December 2024. Moreover, about 23 new AIF applications are in the pipeline, as on 28 February 2025.

As on 31 January 2025, the Indian mutual fund industry has grown from US$0.14 trillion to US$0.77 trillion – more than a five-fold expansion in just 10 years. The AUM to-GDP ratio in India is about 15 percent lower than the global norm of 75–80 percent.

[2] https://www.sebi.gov.in
[3] https://www.ibef.org/economy/investments
[4] https://www.amfiindia.com/indian-mutual

India's PE/VC investment environment is also scaling new heights, with an increase in deal size, deal activity and fundraising. About 1,352 deals were recorded, more than US$56 billion of PE–VC investments in 2024 and 125 mega transactions (rounds of US$100 million or more) were completed in 2024.

03. India's remarkable ascent as a global powerhouse is also bolstered by the invaluable contributions of sovereign wealth funds and pension capital. The government of India's commendable efforts to facilitate seamless access to lucrative opportunities for foreign investors have been a significant catalyst behind the success and growth of the Indian asset management industry.

04. India has introduced a specific regime to encourage offshore fund managers to move their fund management activities to India. This initiative is aimed at promoting the Indian fund management industry by providing a clear set of rules under which offshore fund managers will not constitute a business connection (akin to PE) in India. These conditions are further relaxed to undertake fund management activity in the International Financial Services Centre (IFSC) at GIFT City.[5] This, along with tax and regulatory relaxations/exemptions, has paved the way for an unprecedented growth of investment managers/funds in the IFSC-GIFT City.

05. In Union Budget 2025, the government has extended the tax exemption window for notified SWFs and FPFs to make qualifying infrastructure investments for long-term capital gains and income from such investments to be exempt from tax has been extended from 31 March 2025 to 31 March 2030.

06. India's capital gains tax regime has always been perceived as complex with:

- Multiple tax rates for different types of financial securities
- Differentiated outcomes linked to holding periods for different financial securities (i.e., short term vs. long term)
- Complicated surcharge regime that has become a permanent tax levy
- Different taxing outcomes for different types of investors on investments in the same financial assets (e.g., FPI investors, FDI investors, domestic AIFs, etc.)

However, the capital gains regime has been rationalised and simplified, with only two holding periods of 12 months and 24 months, based on the nature of assets and one uniform rate of 12.5 percent for LTCG and two rates for STCGs of 20 percent (for certain financial assets) or applicable slab rates.

07. The Union Budget 2025 provides certainty whereby securities held by Category I and Category II AIFs shall be classified as capital assets and hence, taxable as capital gains.

08. The government has also introduced a VCC regime to enable the pooling of private equity funds and provide a flexible and efficient mode to finance the leasing of aircraft and ships.

09. GST cost magnifies foreign investment pooled in a domestic AIF set-up, which ultimately weighs on the rate of return from Indian investments. Therefore, a tax parity for foreign investors is a key concern to reduce the cost of investment for foreign investors. GST laws are proposed to be amended to contain a

[5] Kindly refer IFSC chapter for details

deemed value for such guarantees i.e., 1 percent of the guarantee amount (in cases where there is no consideration or the actual consideration is lower than such deemed value derived).

TP trends

Prominent TP issues

- During audits, TP authorities determined cost plus mark-up (as high as cost plus 60 percent or AUM-based revenue splits) based on functional and risk analysis. Cost-base computation has also been under scrutiny during audits
- Considerations/valuation aspects for M&A deals, capital investments/divestments and portfolio debt funding

Measures to alleviate TP risk/exposure

- Ensure a robust TP policy for Indian GCCs of investment funds with detailed functional and economic analysis.
- Follow the APA/MAP route to attain tax certainty and mitigate TP risk/exposure.

Insurance

01. The Indian insurance sector stands out as a prominent future industry witnessing remarkable growth. This upward trajectory can be primarily attributed to the increasing disposable income and a heightened level of awareness among consumers. India is the world's 10th-largest[6] market and the second-largest[7] among emerging markets for insurance services.

02. The IRDAI is the regulatory authority supervising the Indian insurance industry and operates under the IRDA Act and the Insurance Act, 1938. IRDAI has issued various rules/regulations to regulate insurance companies and intermediaries.

03. At present, there are 26 life insurance companies, 34 non-life insurance companies, 14 reinsurance companies in India, with several applications in the pipeline.The IRDAI has been vigilant and steadfast in achieving its mission of “insurance for all by 2047”, with aggressive plans to address the industry’s challenges. The Indian insurance market is expected to reach US$222 billion[8] by 2026.

04. The basic corporate tax rate applicable to foreign reinsurance companies operating in India through branch offices has been reduced from 40 percent to 35 percent vide the Finance Act, 2024.

05. Per the IRDAI report, the market penetration for insurance in the country increased from 2.71 percent in 2001 to 4 percent in 2023. In FY2022-23,

    – **Life insurance**
    Reported a premium income of INR 83,00,000 million (about US$95,402 million) representing a substantial growth rate of 6.06 percent compared with the preceding financial year.

    – **Non-life insurance**
    Reported a significant increase in premium income of INR 29,00,000 million (about US$33,333 million) representing a substantial growth rate of 12.76 percent compared with the preceding financial year.

[6] https://www.investindia.gov.in/sector/bfsi-insurance
[7] https://policyholder.gov.in/indian-insurance-market#:~:text=1 percent20In percent20life percent20insurance percent20business,increased percent20by percent201.18 percent20per percent20cent.
[8] Redseer Strategy Consultants report

06. This impressive growth rate is primarily driven by overall growth in the financial industry, greater private-sector participation, strong competition among players and improved capabilities in distribution, operation, innovation and efficiency.

07. Recently, India has opened its insurance sector to private companies, enhancing the initial capping of 26 percent to 74 percent on FDI. The Union Budget 2025 has raised this limit to 100 percent. In addition, FDI of up to 100 percent is allowed in insurance intermediaries through the automatic route.

08. In Union Budget 2025, there is a retrospective amendment to exempt services provided or agreed to be provided by insurance companies by way of reinsurance services under the Weather Based Crop Insurance Scheme and the Modified National Agricultural Insurance Scheme from the levy of service tax. Further, the amendment allows insurance companies to file claims for refund of service tax paid on such services, provided the claim is filed within a period of six months from the date on which the Finance Bill, 2025 receives the assent of the President.

09. The IRDAI initiated a pilot in July 2023 to transition from a factor-based solvency regime to a risk-based capital regime, which aligns with the new IND-AS standards, separating insurance outcomes from financial transactions. This should also augment the government's plan to implement IndAS 117, replacing Ind AS 104 and insurance contracts based on recommendations from the NFRA and ICAI. IRDAI is also re-examining old policies and issuing new policies around expense management, investment regulations, etc., to make them more business-friendly and forward-looking.

10. Cyber insurance is becoming one of the fastest-growing insurance products in India, and IPR insurance products are also gaining attention.

11. The IFSCA is continuously introducing new liberal regulatory regimes to facilitate the formation of insurance businesses in IFSC-GIFT City[9] to augment the government's target to make it a global insurance hub. The idea is to compete with offshore financial centres, such as Singapore, Malaysia, Dubai and Hong Kong, which currently dominate the insurance business in Asia. This has attracted several insurance companies to set up operations in IFSC-GIFT City.

12. The Indian domestic tax law provides for a special tax regime for the taxation of profits of any insurance business in India. Life insurance companies are taxed on the surplus/deficit disclosed by the actuarial valuation, and non-life insurance companies are taxed on the profits derived by making specific adjustments to profits disclosed in the profit and loss account. The legislation also offers a reduced tax rate of 12.5 percent on income generated from life insurance. While there is a specific code for taxing insurance, several complex tax considerations and litigious issues still need to be managed.

13. TP trends

Prominent TP issues during audits in the insurance Industry

- Liberalised inbound cross-border investments, stringent corporate governance norms and attribution of profits to PE, profit split method for the integrated transaction, the role of intangibles, etc., per the guidelines prescribed by the OECD and UN TP manual on complex issues.
- Remuneration for services provided by GCCs of insurance players, payments by JVs towards management charges, cost allocations, royalty, sharing of reinsurance premium, claim settlements, ceding commission, etc.

Measures to alleviate TP risk/exposure

- Adapted TP considerations/analysis based on the best global practices to keep pace with the emerging trends and complexities in the reinsurance business, InsureTech, captive insurance, etc.
- Robust corporate governance for related party transactions per the SEBI LODR/Companies Act

[9] Kindly refer IFSC chapter for details

Other segments of the FS industry

The establishment of a world-class financial services centre in Gujarat offers many opportunities for the financial sector.

IFSC GIFT City

01. As India seeks to expand its economic activities globally, IFSC-GIFT City has been set up in Gandhinagar, Gujarat as a dedicated IFSC to provide a platform to undertake financial sector services efficiently and compete with other international markets. IFSC-GIFT City provides a strategic location to develop an efficient platform for inbound and outbound foreign currency transactions. It is already ranked third by the Global Financial Centres Index and is one of the 15 centres expected to become more significant soon.

02. The IFSCA is the unified financial regulator established under the IFSCA Act, 2019, to act as a single window. It has a statutory mandate to develop and regulate financial institutions/services/products in India.

03. The IFSCA has issued several regulations and guidelines providing the framework for services such as banking, capital markets, fund management, insurance, bullion, finance companies, aircraft leasing, ship leasing, GICs, FinTech, foreign universities and ancillary services. Banks have already been established and the following businesses are now picking up the pace in IFSC-GIFT City:

Fund management activity

In line with global trends, the FME Regulations streamline the regulatory framework around the registration of pooling vehicles (as financial products), such as mutual funds, venture capital schemes, and AIFs in the IFSC-GIFT City. The fund manager operating such products obtain registration with IFSCA rather than registering the funds/products each time with IFSCA.

Insurance

Insurance is another sector that requires attention in the IFSC-GIFT City. IFSCA has been issuing requisite guidelines/framework to make it an insurance/reinsurance hub to compete with other global centres in the future.

GIC

Considering India's GCC capabilities, setting up financial services focued GICs at the IFSC-GIFT City (to provide support services to entities within its financial services group) is also picking up speed; a few large players have already set-up operations.

Aircraft & Ship leasing

There has been unprecedented growth in the Indian aviation sector over the past decade, with exponential acceleration in the past five years. This acceleration is leading to a significant growth in aircraft financing and leasing activity in the IFSC GIFT City. In addition to tax exemption provided to specified incomes, the time limit for aircraft leasing operations has been extended from 31 March 2025 to 31 March 2030 as per Union Budget 2025. Likewise, the IFSC has introduced a framework to facilitate ship finance and operating leases. The tax exemptions as well as extension of the aforesaid sunset clause provided to aircraft leasing has been provided even to ship leasing activities.

04. The supplies to SEZ units are now treated as zero-rated only if used for authorised operations.

05. Several fiscal incentives have been announced by the government to draw investment into IFSC-GIFT City. Some of the key incentives include the following:

The Finance Act 2024 has paved the way for mutual funds to set up retail schemes and ETFs in IFSC-GIFT City, including them as part of "specified funds" (which included Category III AIFs set up in the IFSC-GIFT City) and extending similar tax benefits to such schemes. Moreover, IFSC-regulated venture capital funds will be granted tax parity with SEBI-registered VCCs.

06. The Union Budget 2025 has provided the following key incentives:

(i) Exemption from the proceeds received from life insurance policies issued by the IFSC insurance office without the condition related to the maximum premium payable on such policy.

(ii) Tax-neutral relocation for retail schemes and ETFs regulated by the IFSCA.

(iii) The sunset date for fund managers to set up operations in IFSC, to be eligible for any relaxations of the conditions, is extended to 31 March 2030. Further, the existing condition of the aggregate participation or investment in the fund by persons resident in India should not exceed 5 percent, to be tested as on 1 April and 1 October of the financial year with a grace of four months.

07. Indian TP regulations could apply for intra-group transactions amongst entities located in IFSC-GIFT City and HO/other entities, depending on the case. Therefore, making robust functional and economic analysis is necessary to determine the arm's length nature of such transactions.

Operate with special offshore status within India
Provide income tax holiday for 10 continuous years (of 15 years) and lower base MAT rate of 9 percent (wherever applicable)

No STT and CTT on transactions in securities/commodities are undertaken on the IFSC stock exchange; no GST on services:
(i) received by the unit in IFSC
(ii) provided to IFSC/SEZ units, offshore clients

Exempt from capital gains tax and dividend income to aircraft leasing businesses, subject to conditions. A lower tax rate of 10 percent on dividends is received by non-residents from the IFSC unit

Permit financing for equity investments in domestic acquisitions, a capability not previously available due to Indian ECB regulations

Recognised ODI or over-the-counter derivative instruments as valid legal contracts

Single-window IT system to be set-up for registration and approval from the IFSCA, SEZ authorities, GSTN, RBI, SEBI and IRDAI

Deloitte.