



GIFT CITY

Some basics

October 2016

INDIA'S FIRST INTERNATIONAL FINANCIAL CENTRE

An International Financial Service Centre ("IFSC") essentially caters to customers outside the jurisdiction of the host domestic economy, dealing with flows of financial products and services to and from the host economy with foreign entities¹. It is considered preferable to set up IFSCs in SEZs in India since the compliance requirements in SEZs are comparatively lower than outside SEZs. The Ministries of Commerce and Industry and Finance have issued various notifications on the procedure for setting up of IFSCs and regulation of the same.

The Gujarat International Finance Tec-City ("Gift City") was the first IFSC set up in India by the Central Government pursuant to the powers granted to it under Section 18 of the Special Economic Zones ("SEZ")

¹ An IFSC is a jurisdiction that provides financial services to non-residents and residents, to the extent permissible under the current regulations, in any currency except Indian Rupee.

Act, 2005. Presently, Gift City is the only IFSC permitted to function in India. All its transactions are required to be carried out in foreign currency, however IFSC units may denominate administrative and statutory expenses in Indian Rupees.

The regulators overseeing the financial transactions which may be undertaken in Gift City are RBI, SEBI and / or IRDA, depending on the nature of activity undertaken. Further, RBI, SEBI and IRDA have issued guidelines in relation to IFSCs and foreign exchange management regulations² have also been issued.

² The following guidelines are some which have been notified in relation to IFSCs -

- 1) Insurance Regulatory and Development Authority of India (International Financial Service Centre) Guidelines, 2015 (Dated 6th April, 2015).
- 2) Foreign Exchange Management (International Financial Services Centre) Regulations, 2015 (G.S.R 218(E) dated 2nd March, 2015)
- 3) Scheme for setting up of IFSC Banking Units (IBU) by Indian Banks (Dated 1st April, 2015)

GUJARAT INTERNATIONAL FINANCE TEC-CITY

Entities that may be set up are units in the Banking, Insurance and Capital Market sectors. Indian banks and foreign banks which have Indian presence may set up International Banking Units ("IBU") in IFSCs. Such IBUs are exempt from CRR and SLR requirements. However, the minimum capital of the IBU must be USD 20 Million. The activities which may be undertaken by the IBU is to be as per Section 6(1) of the Banking Regulation Act, 1948 and also its license conditions, if any.

Gift City in particular is being promoted by various entities. Gift City has 2 zones – 1) Domestic zone where rupee denominated transactions can be undertaken, and 2) Specific Economic Zone. The reporting requirements for units in Gift City are to be as per the requirements mentioned in the

- 4) Securities and Exchange Board of India (International Financial Services Centres) Guidelines, 2015 (Dated 27th March, 2015)

respective regulations notified by individual regulators. There are specific tax and stamp duty benefits for an entity in the Gift City.

Stamp duty exemption: Stamp duty exemption to Developers and Units in SEZs has been provided.

Tax incentives: The Government has also provided exemption to capital market participants from MAT, STT, DDT, LTCG³. As per the FAQ on Gift City published on its official website, as on 30th June 2016, IBUs in Gift City have so far undertaken transactions involving buyer's credit, loan syndication, JV/WOS funding and ECBs. These transactions have been valued at USD 500 Million.

AUTHORS



³ The tax structure for Gift is as follows –

- 1) Minimum Alternate Tax (MAT) - 9% for IFSC units
- 2) Security Transaction Tax (STT) - NIL
- 3) Commodity Transaction Tax (STT) - NIL
- 4) Dividend Distribution Tax (DDT) - NIL
- 5) Long Term Capital Gain (LTCG) - NIL
- 6) Tax Holiday - (10 years)

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