GUJARAT INTERNATIONAL
FINANCE TEC-CITY

FUND REGIME IN GIFT CITY


INDIAINX
Hiranandani SIGNATURE

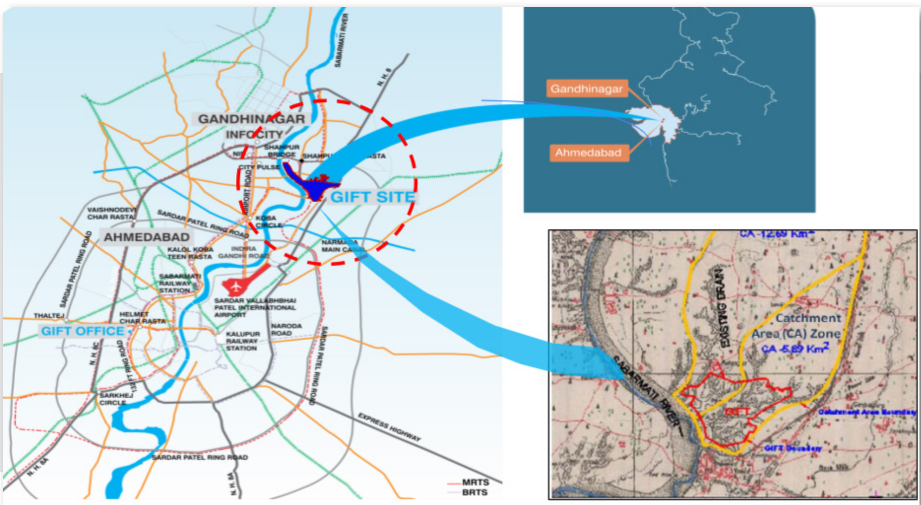
INTRODUCTION TO GUJARAT INTERNATIONAL FINANCE TEC-CITY (GIFT CITY)

Gujarat International Finance Tec-City (GIFT City) is a visionary project that encompasses both a multi-service Special Economic Zone (SEZ) and a dedicated Domestic Tariff Area (DTA). Spanning across vast expanse, GIFT City occupies a total area of 261 acres for the SEZ and 625 acres for DTA. What sets GIFT City apart is its unique vertical city concept, meticulously designed to maximize land usage while ensuring holistic and sustainable development. To realize this ambitious endeavour, the Government of Gujarat, through the Gujarat Urban Development Company Limited (GUDCL), established the Gujarat International Finance Tec-City Company Limited (GIFTCL) to spearhead its development.

Strategically located along the banks of the Sabarmati River, GIFT City is poised to realize the benefits inherent in the business hub of Ahmedabad and the political capital of Gandhinagar, in the state of Gujarat. Its well-planned infrastructure offers seamless internal transportation, and its proximity to the Ahmedabad International Airport, located just 20 kilometres away, ensures global connectivity. Recently, the city expanded its boundaries, encompassing additional land parcel sprawling across 3300 acres.

GIFT City is also India's premier operational greenfield smart city and houses India’s maiden International Financial Services Centre (IFSC). Conceived as a greenfield project and promoted by the Government of Gujarat, it has earned numerous awards and accolades for its forward-thinking and futuristic infrastructure development, further cementing its status as a beacon of innovation and progress in the region. GIFT City stands as a testament to India's commitment to fostering a cutting-edge business environment and economic growth.

GIFT City is an integrated development with a plan to **develop 62 million sq. ft.** of built-up area comprising **commercial, residential** and **social facilities.**



BUSINESS HUB FOR INTERNATIONAL AND DOMESTIC OPERATIONS

GIFT Business Platforms

- Domestic Tariff Area for business related to India operations
- Multiservice Special Economic Zone (SEZ)
  - Notified International Financial Services Centre (IFSC)
  - IT and ITeS, and Export of other services

India's 1st Operational Smart City & IFSC

INTERNATIONAL FINANCIAL SERVICES CENTRE (IFSC) AT GIFT CITY

The International Financial Services Centre within the GIFT City (GIFT IFSC) serves as a crucial hub catering to the evolving needs of customers beyond the confines of a domestic economy. The GIFT IFSC is a regulated region duly supervised by a unified regulator, being the International Financial Services Authority (IFSCA). In the Indian context, the GIFT IFSC can be defined as a jurisdiction offering robust market for financial products and financial services to both non-residents and residents, permit transactions in currencies other than the Indian Rupee (INR).

The GIFT IFSC plays a pivotal role in advancing India's objectives of self-reliance in international financial services by facilitating the issuance of overseas bonds, attracting international capital, and fostering trading activities in INR-USD derivatives.

This multifaceted approach positions the GIFT IFSC as India's gateway to global financial markets, facilitating outbound and inbound investments, and hosting a myriad of other financial activities. Through its strategic location and forward-looking policies, the GIFT IFSC reinforces India's presence and influence on the international financial stage, offering a conduit for businesses and investors to connect with the global economy.

INTRODUCTION TO IFSCA

The International Financial Services Centres Authority (IFSCA) assumes the pivotal role of overseeing financial products and services within India's GIFT IFSC. Prior to its establishment, regulatory responsibilities for the GIFT IFSC were spread across domestic regulators, including the Reserve Bank of India (RBI), the Securities and Exchange Board of India (SEBI), the Pension Fund Regulatory and Development Authority (PFRDA), and the Insurance Regulatory and Development Authority of India (IRDAI). The creation of IFSCA was driven by the need to streamline regulatory efforts and promote effective coordination among these regulatory bodies. IFSCA's primary mission is to cultivate a conducive and business-friendly environment within GIFT IFSC. It aspires to establish a world-class regulatory framework that not only supports global connections but also positions GIFT IFSC as a preeminent global financial hub, not only for the region but also on the global stage.

In essence, IFSCA represents India's commitment to fostering a robust and efficient financial ecosystem within GIFT IFSC, thereby attracting international businesses and investors. Through its efforts, IFSCA seeks to unlock the full potential of GIFT IFSC, making it a significant player in the global financial landscape.

TAXATION AND REGULATORY FRAMEWORK

GIFT IFSC stands out as a beacon of tax-friendly policies among global International Financial Services Centres. Its commitment to providing an advantageous taxation framework demonstrates its dedication to facilitating success for both individuals and organizations.

Income Tax Exemption: GIFT IFSC offers 100% income tax exemption for a period of 10 out of 15 years. The flexibility is granted to GIFT IFSC units to select any 10 consecutive years from within this 15-year block.

Transaction-related Exemptions: Transactions executed on GIFT IFSC exchanges are exempt from Securities Transaction Tax (STT), Commodities Transaction Tax (CTT), and stamp duty, further enhancing the attractiveness of the centre.

Minimum Alternate Tax (MAT): Companies established as units in GIFT IFSC are subject to MAT at a rate of 9% of book profits, with exceptions for certain companies.

Interest Income Exemption: Interest income paid to non-residents on money lent to GIFT IFSC units is not subject to taxation, making it a highly appealing prospect for investors.

Capital Gains Tax Exemptions: Transfers of specified securities listed on GIFT IFSC exchanges by non-residents are exempt from capital gains tax.

Goods and Services Tax (GST) & Customs Exemption: Units within GIFT IFSC, as well as services provided to GIFT IFSC/SEZ units and offshore clients, are given exemptions / relaxations under the GST & Customs.

State Subsidies: GIFT IFSC extends state subsidies for prescribed eligible activities under the IT/ ITeS policy, including incentives for capital expenditure, operational expenditure, contributions to Provident Funds, and employee upskilling.

Exemption from Indian Exchange Control Regulations: Units within GIFT IFSC are exempt from Indian exchange control regulations, thereby simplifying financial transactions.

Open Market Investment: Indian residents are permitted to contribute to investment vehicles in GIFT IFSC as Other Persons resident in India, thereby allowing them to establish and sponsor contributions towards funds in GIFT IFSC.

FUNDS IN GIFT IFSC

Overview

Based on the comprehensive report submitted in January 2022 by the Expert Committee on Investment Funds, draft regulations were issued by IFSCA for public comments. On April 2022, the IFSCA issued IFSCA (Fund Management) Regulations, 2022.

KEY ATTRIBUTES OF FUNDS MANAGEMENT ENTITES (FME)

Particulars	Categories of FME: Authorised FME	Registered FME (Non-Retail)	Registered FME (Retail)
Types of schemes managed	Venture Capital Schemes offered on a private placement basis	Venture Capital Schemes and Restricted Schemes offered on a private placement basis	All schemes including Retail Schemes offered to all investors including retail investors
Legal structure of FME	Company, limited liability partnership (LLP) or branch thereof		Company
Minimum no. of employees (based out of GIFT IFSC)	1 (1 Principal Officer for overall activities)	2 (1 Principal Officer for overall activities + 1 Compliance and Risk Manager)	3 (1 Principal Officer for overall activities + 1 Compliance and Risk Manager + 1 Additional Key Managerial Personnel for fund management)
FME Experience	FME to employ such employees who shall have relevant experience		FME/ holding company to have > 5 years of experience in managing AUM of at least USD 200mn with more than 25,000 investors; or At least 1 person in control holding more than 25% shareholding in the FME to have at least 5 years of experience in financial services FME to employ such employees who shall have relevant experience
Experience and professional qualification of Key Managerial Personnel	Professional Qualification: A professional qualification or postgraduate degree or post-graduate diploma (minimum 2 years) in finance, law, accountancy, business management, commerce, economics, capital market, banking, insurance or actuarial science from a recognised university/ institution or a certification from any organisation/ institution/ association/ stock exchange which is recognised/ accredited by Authority or a regulator in India or Foreign Jurisdiction Experience: At least 5 years in related activities in the securities market or financial products including in a portfolio manager, broker-dealer, investment advisor, wealth manager, research analyst, or fund management		
Minimum number of Directors / Partners in the FME			4 (At least 50% to be independent and not associated with FME)

CATEGORIES OF FME

Authorised FME

- Pooling of money from accredited investors or investors investing above USD 250,000
- Invest in start-up or early-stage ventures through Venture Capital Scheme
- Family Investment Funds
- Minimum net worth: USD 75,000

Registered FME (Non-Retail)

- Pooling of money from accredited investors or investors making capital commitment above USD 150,000
- Portfolio Management services, Multi Family Offices, Investment Manager for private placement of REITs and InvITs
- Minimum net worth: USD 500,000
- Allowed to undertake all activities of Authorised FMEs

Registered FME (Retail)

- Pooling of money from all investors or including retail investors
- Public offer of Investment Trusts (REITs and InvITs), Launch of ETFs
- Minimum net worth: USD 1,000,000
- Allowed to undertake all activities of Authorised FMEs and Registered FME (Non-retail)

CATEGORIES OF SCHEMES

Venture Capital Scheme

- Launched by FMEs – schemes that invest primarily in start-ups, early-stage VC undertakings involved in new products, services, technology etc. Also includes an Angel Fund
- Offered only on a private placement basis (including accredited investors) and shall have less than 50 investors
- 'Green channel' for subscription by investors

Restricted Scheme

- Offered only to relevant persons on a private placement basis (including accredited investors) and shall have less than 1,000 investors
- 'Green channel' if subscription is to be raised only from accredited investors
- Launched by Registered FME

Retail Scheme

- A minimum of 20 investors, ensuring that no single investor contributes more than 25% of the total capital. There are no restrictions on the maximum capital limit.
- Schemes offered to all investors including retail investors
- Schemes can be:
  - Filed with regulator only after approval from fiduciaries;
  - Launched only after incorporating all comments from regulator in the offer document
  - Launched by Registered FME (Retail)

TAXATION FRAMEWORK

Under the new Fund Management regulations: Venture Capital Scheme shall be construed as Category I AIF under Income tax Act, 1961 and Restricted Scheme (Retail and Non-Retail) shall be construed either as Category I/ II / III AIF (as the case may be)

TAXATION FRAMEWORK

Category I and II AIFS

- Tax pass through status for AIFs (except for business income)
- Investors taxed as if investments directly made by them
- Investors can claim losses (subject to condition - holding units for 12 months)
- To the extent beneficial, NR investors can avail benefit under the Tax Treaty
- Income from offshore investments earned by offshore investors through AIF, not taxable in India
- PAN and Income-tax return filing exemption for NR investors, subject to conditions

Category III AIFS*

- Tax paid at Fund level – FPI tax principles to apply
- Exemption# from tax on income from
- transfer of securities (excl. shares of Indian company) including debt, derivatives, offshore securities, etc.
- securities issued by non-resident (not being a PE) with no accrual of income in India
- securitization trust chargeable under the head ‘PGBP’
- Income on transfer of shares in an Indian company is taxable# at:
- STCG - 15% if STT paid, else 30%;
- LTCG - 10%
- Income in respect of securities (such as interest, dividend) is taxable# at 10%
- Investors exempt from tax on any income received from the Category III AIF or on transfer of its units
- PAN and Income-tax return filing exemption, subject to conditions

* All units of Cat III AIF to be held by non-residents other than units held by sponsor or manager

Income taxed at lower rate/ exempted to the extent of income attributable to units held by non-resident investors

Manager (FME) in GIFT IFSC

- 100% corporate tax exemption for 10 consecutive years out of block of 15 years
- MAT/ AMT rate reduced to 9%
- However, companies choosing concessional tax regime to be exempt from MAT
- Dividend income, concessional rate of 10% in case of non-resident shareholders
- No GST on Management fees

FEE STRUCTURE

Sr. No.	Entities	Application Fees	License/ Registration/ Authorization Fees		Recurring Fees				Activity based fee	Processing Fees	
					Flat		Conditional				
			Type of Fee	Amount	Type of Fee	Amount	Basis of Fee	Amount		Modification of terms & conditions of grant of License/ Registration/ Authorization/ Recognition, etc. (of substantive nature (2))	Relaxation/ waiver of provisions of applicable Regulations, Guidelines, Circulars, etc., and/or Removing difficulties
i	Authorised FME (except Family Investment Fund)	$2,500	Registration	$5,000	Annual	$2,000	N.A	Nil	Nil	20% of Registration Fee	$2,500
ii	Family Investment Fund	$2,500		$15,000							
iii	Registered FME (Non -retail)	$2,500		$7,500							
iv	Registered FME (Retail)	$2,500		$10,000							
Fee for filing placement memorandum / offer document with the Authority											
v	Venture Capital Scheme	N.A	N.A	N.A	N.A	N.A	N.A	N.A	$7,500	20% of filing fees	$2,500
vi	Angel Fund	N.A	N.A	N.A	N.A	N.A	Filing of intimation regarding investment	$500	$3,000		
vii	Restricted Scheme										
	a. Category – I AIF	N.A.							$7,500	20% of filing fees 20% of filing fees	$2,500 $2,500
	b. Category – II AIF							$15,000			
	c. Category – III AIF							$22,500			
viii	Retail Scheme							$22,500			
ix	Exchange-Traded Fund (ETF)							$22,500			
x	Investment Trust							0.05% of offer size			
xi	Provision of Portfolio Management Services							$5,000			
xii	Applications for Regulatory / Innovation Sand box, Fund lab, etc.							$2,500			

Note:

a) Registered FMEs filing ESG schemes with the Authority in terms of Chapter V of the IFSCA (Fund Management) Regulations, 2022, will be waived the scheme filing fee as specified above if the disclosures in the scheme are in line with the disclosures provided by the Authority for such schemes. The waiver of fee shall be applicable to only the first 10 ESG schemes registered with the Authority and each FME shall be permitted to avail the waiver only once.

b) Registered FMEs filing ETFs with the Authority in terms of Chapter IV of the IFSCA (Fund Management) Regulations, 2022, will be waived the filing fee as specified above for the first 3 ETFs filed by such FME with the Authority. The waiver of fee shall be applicable only to the first 30 ETFs registered with the Authority.

RELOCATION OF OFFSHORE FUNDS TO GIFT IFSC

The income tax laws have been amended from time to time to incentivise existing funds located in overseas jurisdictions to consider relocating to GIFT IFSC.

01

Amendments vide Finance Act

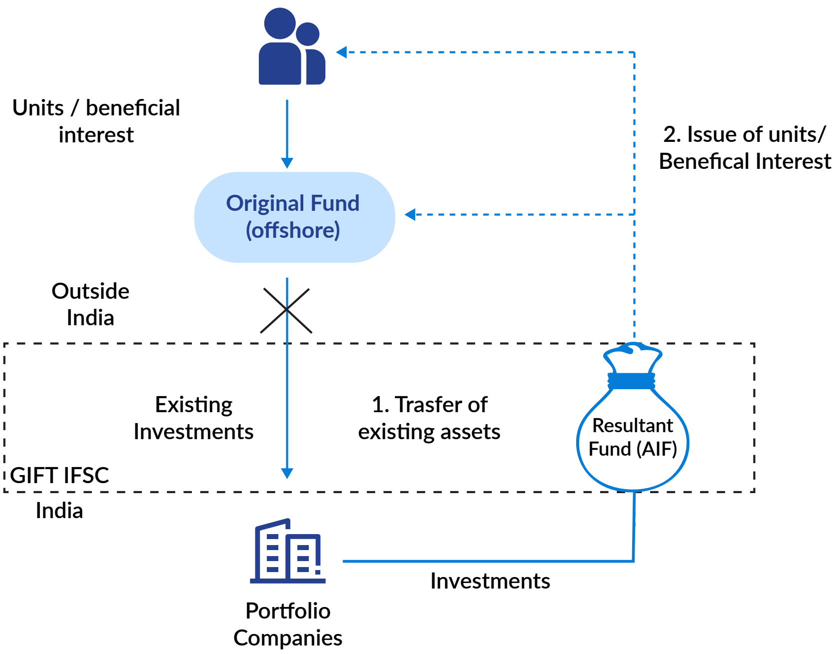
- Tax neutrality to offshore funds and grandfathering of past investments
- Transfer of assets of Offshore Fund or its WOS to Resultant Fund, upon relocation to GIFT IFSC on or before 31 March 2025 – not regarded as transfer
- Consideration for transfer can be discharged to non-resident shareholders of Offshore Fund or to Offshore fund itself, in the form of units/ beneficial interest of Resultant fund
- Exemption provided to non-resident shareholders of Offshore Fund / Offshore Fund on such transfer
- Capital gains exemption on future sale by Resultant Fund – For exempted "grandfathered" investments
- Period of holding and cost to previous owner available to Resultant Fund
- Deemed income provisions not applicable
- Carry forward losses of portfolio company not impacted

02

Regulatory relaxations

- Off-market transfer of securities permitted to facilitate relocation
- Continuing interest requirement for Manager / sponsor has been made voluntary for Resultant Fund

Relocation of GIFT IFSC Structure



Contact Us:
Gujarat International Finance Tec-City Company Limited
GIFT House, Zonal Facility Centre, Block-12, Road 1-D, Zone - I,
GIFT SEZ, GIFT City, Gandhinagar - 382355, Gujarat, India.

Visit us: www.giftgujarat.in

Mail us: query@giftgujarat.in

Contact us: +91-79-61708300