



GIFT CITY-IFSC
Union Budget 2023-24



INDEX

01. Policy Announcements

03

02. Rationalization Of Policies

05

03. Tax Announcements

07

Union Budget 2023-24, presented by the Honourable Finance Minister, Ms Nirmala Sitharaman, hopes to build on the foundation laid in the previous Budgets. GIFT IFSC (Gujarat International Finance Tec-City – International Financial Services Centre) continues to be a focus area for the Government with key policy announcements being made in this Budget as well.

Budget aims to provide the necessary support and infrastructure to help GIFT IFSC attract more international financial services and companies, thereby contributing to the country's economic growth and development. Budget amendments and policies emphasise the government's commitment to creating a favourable business environment for companies operating in the IFSC, with a focus on simplicity, transparency, and stability.

Announcements will play a critical role in furthering the government's goal of making India a hub for international finance and a global financial market leader. We have covered the announcements in the following 3 parts:

A Policy Announcements

1) Acquisition financing proposed to be permitted by banking units of foreign banks in IFSC

Background

- Acquisition financing is a type of financing used by businesses to purchase other businesses or assets.
- As per present regulations, foreign banks having its unit/ operations in IFSCs are permitted to finance the acquisition of assets/businesses outside India by Indian Corporates
- Currently, overseas branches of Foreign Bank were funding such acquisitions and not those units are located in IFSC

Proposal

- IFSC regulations to be amended to allow foreign banks through their IFSC banking units for finance merger & acquisition.

Impact

- This is an appropriate measure to facilitate Corporates for achieving a reduction in the cost of financing outbound mergers & acquisitions.

2) Setting up data embassies in IFSC (Countries looking for digital continuity solutions)

Background

- A 'data embassy' is a concept for ensuring digital continuity for a country, where a nation's critical data and digital infrastructure are stored in a secure location outside of its physical borders.
- 'Digital continuity solutions' means solutions for ensuring the continuous and secure operation of digital systems, even in the event of a disaster or other disruption.
- Any country would prefer to establish these data embassies in areas with a supportive legal and regulatory climate, as well as robust physical security measures.

Proposal

- IFSC regulations to be amended to allow the setting up of Data Embassies.

Impact

- Setting up a data embassy in the IFSC would improve economic development between the contracting country whereby inviting more foreign participation
- Participating countries will be able to take advantage of IFSC in form of favourable legal & tax regulations, lower operating costs, and supportive infrastructure facilities resulting in cost-effectiveness

3) Proposed to set up a subsidiary of EXIM bank for trade refinancing in IFSC

Background

- Export-Import (EXIM) bank's subsidiary may provide trade financing solutions, such as working capital loans, export credit insurance, and supply chain financing, to businesses operating in the IFSC and beyond.
- The subsidiary would aim to support businesses in accessing the financing they need to grow their international trade activities and to promote economic growth and competitiveness.

Proposal

- A subsidiary of the EXIM Bank of a country is proposed to be set up in IFSC for trade refinancing, would offer trade financing services to support international trade and commerce

Impact

- By setting up in the IFSC, the subsidiary of the EXIM Bank can take advantage of the favourable legal and regulatory environment, as well as enjoy secured and efficient trade financing solutions
- It will encourage participation in emerging sectors such as Aircraft leasing, ship leasing etc

B

Rationalization Of Policies

1) IFSCA is set to be empowered with the powers of a Special Economic Zone (SEZ) authority to avoid dual regulation

Background

- According to the current GIFT city regulations, the applicant must submit the Gift City-IFSC registration application to both the IFSC and the SEZ authority
- Applicant is required to represent its business activity and project viability report to both the authority parallelly
- The process would take a relatively long time due to duplication of work and resources as both regulators were involved

Proposal

- IFSCA has empowered SEZ authority to enhance its scope as a single-point regulator.

Impact

- Single point regulator will be streamlining the registration process and avoid duplication of time, efforts & resources
- The amendment also includes assigning powers to IFSC about a specific power of SEZ such as arbitration, ancillary services etc

2) Single window registration and approval system for IFSCA, SEZ authorities, IRDAI, GSTN, RBI, and SEBI:

Background

- Currently, to obtain registration under various Acts, the applicant must file an application with the respective tax authorities on different timelines, which is time-consuming and difficult for the applicant
- Some of the approvals are inter-dependent and pre-requisite for other registration

Proposal

- Setting up an ecosystem wherein single window registration and approval system for all approvals under IFSCA, SEZ authorities, IRDAI, GSTN, RBI, and SEBI

Impact

- This system will streamline and reduce the time involved in the process of obtaining approvals and registrations by bringing together multiple regulatory agencies

3) Offshore derivative instrument (ODI) proposed to be considered as a valid contract

Background

- Currently, International Banking Unit (IBU) and other entities were unable to issue the ODI as they were not recognised under the law due to which branches of foreign banks were unable to issue ODI from IFSC and were therefore unable to move their trading desks to IFSC.
- These instruments are covered under Securities Contract (Regulation) Act (SCRA)

Proposal

- It is proposed that an Offshore derivative instrument would be considered a valid contract to clarify the position of ODI in IFSC banking units

Impact

- Overall, clarifying offshore derivative instruments as valid contracts would avoid ambiguity.
- Amendments in IFSC regulations have paved way for participatory notes instruments

C

Tax Announcements

1) Extension of tax benefit period for relocation of AIFs to new find location in GIFT City - IFSC to 31st March 2025:

Background

- AIFs, which are financial vehicles that pool funds from multiple investors to invest in alternative assets such as private equity, real estate, hedge funds etc
- IFSC has already notified the framework for setting up and its permitted activities for Alternative Investment Funds (AIF)

Proposal

- The extension of the tax benefit period for relocation of AIFs to a new location in the GIFT City- IFSC which has now been extended until 31st March 2025 (earlier 31st March 2023).

Impact

- AIFs can enjoy an extended period to continue receiving all tax benefits while they are in the process of relocating within IFSC.

2) Any income of non-resident Offshore Derivative Instruments (ODI) holder distributed by an offshore banking unit located in IFSC shall be exempt.

Background

- Currently, as per existing regulations, there was no clarity on ODI transaction was a valid contract or not
- Taxation on ODI held in IFSC was unclear.

Proposal

- Income of non-resident ODI holders distributed by offshore banking units located in IFSC shall be exempt *if the income is chargeable to tax in the hands of the IFSC Banking Unit.*

Impact

- Since, ODI is treated as a valid contract, in line with the Budget amendment, there was a consequential amendment required regarding clarity on the taxation of ODI

InCorp's View

- *GIFT IFSC is quickly becoming a preferred jurisdiction for international financial services. Recognizing the growing importance of IFSC, the Global Financial Centres Index, London Report (March 2022) ranked GIFT City's IFSC first among 15 global centres.*
- Government has set its sights on transforming GIFT City into a thriving financial hub with an international character and innovative solutions for financial issues.
- Ongoing changes, amendments, clarifications, and regulations are expected to be introduced in pursuit of this long-term objective.

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