

GIFT CITY IFSC- UNLIKE A GENERAL SEZ

REGULATORY BOUNDARIES, PERMISSIBLE BUSINESS ACTIVITIES AND PROCEDURE OF INCORPORATION OF COMPANY/WOS IN THE GIFT CITY

GIFT CITY stands for **Gujarat International Finance Tec- City**. It is a planned business district in the state of Gujarat, India, conceived by the Government of India and Government of Gujarat as a global financial and services hub and as the location for India's first **International Financial Services Centre (IFSC)**. GIFT CITY is an integrated development comprising of a **Multi-Services Special Economic Zone (SEZ)** and a separate **Domestic Tariff Area (DTA)**.

Within the SEZ, the Government of India has notified an **International Financial Services Centre (GIFT IFSC)**, which is a specialised jurisdiction for cross-border financial services in non-INR currencies.

GIFT City has a **dual character**: it is a notified Special Economic Zone (SEZ) and, within that SEZ, a designated **International Financial Services Centre (IFSC)** under section 18 of the SEZ Act, 2005 and the International Financial Services Centres Authority Act, 2019.

➤ Legal/ Regulatory Framework- Structure of GIFT City, GIFT SEZ and GIFT IFSC

What is an IFSC and how GIFT IFSC relates to the SEZ

IFSC in India is approved and regulated by the Government of India under the Special Economic Zones Act, 2005. An IFSC unit is treated as a non-resident under the Foreign Exchange Management framework, indicating that it is intended to handle offshore / cross-border financial transactions even though physically in India.

GIFT City SEZ IFSC deals with flow of finance, financial products and services across borders and caters to customers outside the domestic economy. IFSC Units are treated as non-resident for FEMA purposes and transact normally in freely convertible foreign currencies.

A broad set of sectors under the SEZ / IFSC business platform are Banking, Capital Markets, Fund Management, Insurance, IT & ITES, Engineering, Fintech, Automobiles, Pharmaceuticals, Bio-Tech, etc.

➤ Regulatory categories under IFSCA regulations and circulars

Within GIFT City, the **International Financial Services Centre (GIFT IFSC)** is a distinct regulatory jurisdiction carved out of the GIFT SEZ. In this IFSC area:

- **IFSCA** is the unified regulator for *financial products, financial services and financial institutions*. The powers of RBI, SEBI, IRDAI, PFRDA and related financial-sector statutes do not apply within IFSC for those activities; those powers are shifted to IFSCA.
- **SEZ Act/Rules** apply because the IFSC sits inside a notified SEZ, but with specific IFSC-focused carve-outs (e.g. exemption from net foreign exchange performance for IFSCA-regulated financial units).
- The **"Administrator (IFSCA)"** now exercises Development Commissioner powers for IFSC units under the SEZ Act, so IFSC entities deal largely with IFSCA/Administrator for both IFSC and SEZ approvals.

➤ **Key permissible business categories in GIFT IFSC**

Based on the current regulatory framework, key **permissible business categories in GIFT IFSC** include (illustratively and not exhaustively):

1. Banking and trade finance

- **IFSC Banking Units (IBUs)** under the IFSCA (Banking) Regulations, 2020
- **International Trade Finance Service Platforms (ITFS)** – the 2024 Guidelines (updated 2025) under the IFSCA (Finance Company) Regulations, 2021 **Finance companies / finance units** (non-bank financial business)
- Separate frameworks exist for **aircraft leasing** and **ship leasing** within these finance-company structures.

2. Capital markets and investment management

- **Fund Management Entities and Funds** are recognised under the IFSCA (Fund Management) Regulations.

Fund Management Entities may offer Portfolio Management Services to non- individual Resident Indian or Individual Resident Indian who are eligible under FEMA and SEBI guidelines to invest funds offshore to the extent permitted.

- **Alternative Investment Funds (AIFs) in GIFT** are recognised as “units in IFSC” under SEBI’s IFSC Guidelines and SEBI’s AIFs in IFSC circular.

They can raise capital in foreign currency and invest in securities listed in the IFSC, securities of IFSC-incorporated entities, and securities of Indian or foreign companies.

Minimum corpus and ticket sizes are specified in USD (e.g. corpus of at least USD 3 million, minimum investor commitment USD 150,000, etc.).

- **Market infrastructure institutions-** Entities which provide the core infrastructure/platform required for the functioning of capital markets (listing, trading, settlements, holdings, etc.) in IFSC

3. Remote Trading Participants- is a broker or trading member located outside the IFSC (either in India or overseas) who is permitted to access and trade on an IFSC exchange platform remotely.

4. Insurance and reinsurance business

5. Leasing (aircraft and ship)

- Separate IFSCA frameworks for **aircraft leasing** and **ship leasing** permit operating and financial leases, sale and lease back, novation, and related asset-management support, subject to capital and fit-and-proper criteria.
- For ship financial leasing, minimum owned funds of USD 3 million are required; for operating leases, USD 200,000, with additional capital possible as risk management.
- To avoid **round-tripping disguised as domestic leasing**, finance companies acting as lessors are prohibited from transactions that transfer ownership/lease rights in a ship from an Indian resident to an IFSC entity if services are provided “solely to a person resident in India in any single financial year”, subject to a carve-out for **new ships acquired from Indian shipyards**.

6. Payment systems and fintech

- IFSCA recognises Payment Service Providers (PSPs), classified as regular or significant based on operational scale, and Payment System Operators (PSOs) such as card networks, TReDS platforms, trade repositories, and LEI issuers, each subject to prescribed authorisation and fee structures.
- Fintech entities are recognised as a separate category with turnover-based recurring fees, enabling them to offer cross-border payments, remittances, account issuance, and e-money services from IFSC in foreign currency under the supervision of IFSCA.

7. Metals & bullion (commodities)

- **Bullion exchanges**, clearing corporations, clearing members, trading members and vault managers in IFSC are specifically regulated and fee-scheduled as part of “metals and commodities”, with turnover-based levies on bullion trades.

As noted above, SEZ Rule 19A deems certain bullion-storage units to be located in an IFSC, indicating a conscious policy to **house bullion trading and clearing infrastructure inside the IFSC “ring”** rather than under general SEZ provisions.

8. **Ancillary and professional services closely tied to financial activity**- including book-keeping, accounting, taxation and financial-crime compliance (BATF service providers), and “global in-house centres” – with recurring fees linked to headcount.

Complementing this IFSC-specific list, the broader GIFT SEZ continues to host typical SEZ service exports (IT/ITES, BPO/KPO, R&D, data processing, engineering design, warehousing, trading, etc.), but these are **SEZ activities, not IFSC financial activities**.

➤ Taxation benefits applicable to establishments in GIFT IFSC :

The creation of IFSCA was driven by the need to streamline regulatory efforts and promote effective coordination among the regulatory bodies.

1. 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.
2. 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. This shall not be applicable if opted under new tax regime)
3. Capital Gains Tax Exemptions: Transfers of specified securities listed on GIFT IFSC exchanges by non-residents are exempt from capital gains tax.
4. 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.
5. 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.
6. 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.
7. 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. Import of ship/ocean vessel by an Indian shipping company (operator) from an Indian lessor located in GIFT IFSC is not subject to Basic customs duty, provided the ship/ocean vessel is not imported for breaking up

8. Exemption from Indian Exchange Control Regulations: Units within GIFT IFSC are exempt from Indian exchange control regulations, thereby simplifying financial transactions.
9. Leasing of ship/ocean vessel by a unit in GIFT IFSC to an Indian shipping company is subject to IGST under forward charge at the rate of 5% on lease rental payments
10. Withholding tax (WHT) on interest payment: No WHT on interest paid to non-residents by units in GIFT IFSC i.e. interest income exempt from tax. No WHT on lease payments, in the nature of royalty, paid to non-residents by units in GIFT IFSC i.e., operating lease rentals exempt from tax WHT @ 2% on payments exceeding INR 240,000 on lease payments paid to residents

➤ **Nuances and recent developments**

• **Unification of regulation:**

Earlier regime had multiple regulators (RBI/SEBI/IRDAI) directly supervising IFSC activities; the 2019 Act and its Second Schedule amendments have now consolidated these powers into IFSCA, so that IFSC is no longer simply an “SEZ with special circulars” but a distinct financial regulatory jurisdiction within India.

Harmonizing SEZ provisions with IFSC’s by creating “necessary carve-outs and exemptions”, precisely because SEZ law was originally drafted for manufacturing/export units.

• **Expansion of permissible activities:**

New frameworks such as International Trade Finance Service Platforms

• **Differentiated tax and incentive regime:**

While not the focus here, multiple analyses note that tax holidays under section 80LA, concessional MAT/AMT, GST and stamp-duty exemptions and state-level subsidies have been crafted with IFSC financial units in mind and differ from standard SEZ incentives.

➤ **Brief procedure to incorporate a WOS in Gift City with the mentioned business activity:**

1. Incorporation under Companies Act, 2013 (with temporary RO address) :

- Reserve the company name through MCA portal
- Filing of integrated incorporation form on MCA portal
- Upon receipt of Certificate of incorporation from ROC, Company’s legal existence is confirmed

2. Execute Legal & SEZ Compliance Document:

A Lease Deed is the formal agreement covering location, area, tenure, rent, permitted use and other compliances between your company (the IFSC unit) and the SEZ Developer for occupying office space within the IFSC zone.

Upon LOA:

- **Lease Deed:** Sign the lease agreement with the SEZ developer and submit to the Development Commissioner.
- **Bond cum Legal Undertaking (BLUT):** Required to implement the LOA under SEZ rules.

3. Regulatory & Tax Registration:

After approvals:

- **GST Registration:** Mandatory even in SEZ units (zero-rated benefits available).
- **Import-Export Code (IEC):** Required if your shipping business deals with cross-border goods/services.
- **Registration-cum-Membership Certificate (RCMC):** From relevant export promotion council (for export-oriented services).
- **Bank Accounts:** Open necessary bank accounts (including IFSC banking units if operating in foreign currencies).

4. Submit SEZ & IFSC Applications via SWIT Portal

GIFT City uses a **Single Window IT System (SWIT)** that handles *both* SEZ unit approval and, where relevant, IFSC regulatory approval.

Key applications include:

- **SEZ Unit Approval:** Filed using *Form F* with supporting documents like PLOA, project report, financials, Memorandum of association, Articles of association, board resolutions.
- **IFSCA Authorization:** For activities requiring financial services regulation (like ship leasing), apply to the **International Financial Services Centres Authority (IFSCA)** through SWIT.

After filing, your application is reviewed by the **Unit Approval Committee (UAC)** and on approval you receive a **Letter of Approval (LOA)** from IFSCA/Administrator.

5. Start Operations & Ongoing Compliance

File **Commencement of Business** reports with the Development Commissioner

➤ **Conclusion:**

In conclusion, establishing operations in the GIFT City International Financial Services Centre (IFSC) provides access to a globally competitive financial ecosystem, supported by tax incentives, regulatory clarity, and proximity to international markets. Entities operating from IFSC may undertake a range of permissible activities, including cross-border payments and remittances, fintech and payment services, capital market and treasury operations, and other international financial services in foreign currency, subject to the applicable regulatory framework. Such entities are required to comply with the authorisation, reporting, governance, and prudential requirements prescribed by the International Financial Services Centres Authority. Overall, the IFSC framework enables businesses to conduct international financial activities efficiently within a well-regulated environment aligned with global standards.
