

ARTICLE ON GIFT CITY

This write up is first in series of awareness articles on

1.0. Introduction

International Financial Service Centre (IFSC) is a hub of financial services within a country, which has relatively relaxed laws and regulations on a different footing from the rest of the country. Usually these centres have beneficial tax rates and flexible regulations for securities and currency trading, banking and insurance, which makes them attractive business development center. It can be said that these centres focus on flow of money, financial product and services across borders.

International Financial Centres (IFC) exists worldwide, amongst which centres located in London, New York, Singapore and Dubai are the prominent ones. London has been a significant IFC for over three centuries now, whereas New York rose to eminence with the growing importance of the US economy between late 19th century and early 20th century and also due to the persistent American innovation in the field of finance. IFCs in Dubai and Singapore are relatively recent.

2.0. What is GIFT City

Gujarat International Finance Tec-City (GIFT City) is a globally benchmarked International Financial Service Centre (IFSC) developed by Government of Gujarat through a joint venture Company; GIFTCL. It is being developed as the country's first international financial services centre (IFSC) which is located between Ahmedabad and Gandhinagar. An IFSC will be set up under Section 18(1) of Special Economic Zones Act, 2005 (SEZ) which approves the setting up of an IFSC in SEZ and may prescribe the requirements for setting up and operation of such Center. Therefore all the rules and regulations prescribed for SEZ by SEZ Act would be applicable on such an IFSC and would also enjoy the benefits as by a SEZ. Thus, it facilitates Multi Services SEZ with IFSC status thereby dividing the SEZ into Processing Area & Non-Processing areas, where processing area is an IFSC.

2.1. Proposed activities in GIFT IFSC

Offshore Banking

- Foreign Currency Lending
- Taking of Deposits
- Issue of Securities
- Over the Counter (OTC) Trading in Derivatives for Risk Management and speculative purposes
- Venture Capital

Fund Custody, Administration and Custody

- Custody of Corporate Funds
- Trust Companies
- Asset Management companies
- Hedge funds
- Investment Counsellors and Portfolio Managers

Insurance, Assurance and Reinsurance

- Life and Non-Life Insurance business
- Assurance Companies
- Captive Insurance
- Reinsurance and related operations

Corporate Treasury Management

- Managing Foreign Exchange Transactions
- Hedging Operations
- Raising and Investing of Cost

Securities Trading

- Regional financial exchange
- Securities Trading
- Futures and Options Trading
- Commodities Trading

Others

- International Business Companies
- Back office operations
- Ship Management & Maritime Operations
- Export Finance Companies
- Companies involved in Lending activities, Trade finance activities, International Leasing, Foreign Exchange dealers, International factoring
- Representative offices
- Money Changers and brokers

2.2. Benefits in services provided at IFSC services than Non-IFSC

- Relaxation to various regulatory requirements, exemptions from various provisions of the respective acts, governing respective sector and also minimizing the criteria such as net worth, etc.
- External Commercial Borrowings (ECB) are permitted by the units in SEZ and units at IFSC can also participate in ECBs which otherwise have industry specific norms.
- Trading and Arbitrage at international exchange and market are now accessible only through an IFSC.
- Tax advantages are the USP of an IFSC which have been discussed below in brief.

3.0. Advantages of carrying out activities at GIFT –IFSC

There are many advantages to a unit set up at IFSC which ranges from tax benefits to various other benefits. Some of which have been laid below:

Tax Advantages:

Direct Tax Benefits

1. Specific deduction from taxable income, under section 80 LA of the Income tax Act, 1961 (hereinafter referred to as the Act), available for 10 years with

- 100% deduction of the profits derived from the unit located in the IFSC for the first 5 years of operations
- 50% for the next 5 years

2. Tax Holiday by way of deduction under section 10AA permitted only on export of services out of India, available for 15 years, subject to consideration brought in India in foreign currency in within the permitted time.
 - 100% deduction of the profits derived from export of services for first 5 years;
 - 50% for the next 5 years;
 - 50% for the next 5 years, subject to transfer of profit to Re-investment Allowance Reserve.
3. Minimum Alternate Tax (MAT) is 9%+ surcharge + cess.
4. Dividend Distribution tax –Not applicable
5. Tax on Dividend in hands of the shareholder upto 10 lakhs of dividend in a financial year in aggregate received from one or more companies irrespective of the location of the company is exempt from Income tax
6. Securities and Commodities transaction tax is not leviable
7. Exemption from Long term Capital Gains on shares and units of mutual funds under section 10(38) is available

Indirect Tax Benefits

8. Exemption granted from payment of stamp duty of 0.01% on share broking transactions for a SEBI registered share broker
9. Service tax exempted on both input and output services. This will enable to receive services at lower cost and output brokerage may be increased as a trade off with no service tax.
10. Exemption from the electricity duty for a period of ten years from the date of commencement of services.
11. Exemption from levy of Stamp duty and registration fees on loan agreements, credit deeds and mortgages executed by the Unit.
12. Exemption from State Vat and other taxes on procurement of goods and services.

Other Advantages

13. Permission to trade in world exchanges and local exchanges set up in the IFSC;
14. Substantial savings in infrastructure and administrative costs compared to Dubai / Singapore for example: lower infrastructure rentals, lower labour costs, lower electricity costs pursuant to exemption from electricity duty etc.
15. Permitted borrowing at Libor+ rate, which would be far more beneficial than the rate offered by banks outside the IFSC
16. Banks in IFSC are allowed to raise ECBs and other trade credits, which was earlier done through an overseas branch of Indian bank
17. Even for a bank who does not have any overseas branch, can set up an IBU in IFSC.

4.0. Conclusion

IFSC in Gujarat will aim to get back some of the financial businesses that has drifted to Dubai and Singapore due to the absence of any IFC in India and will also provide a level playing field to domestic entities to be competitive globally. To ensure the smooth functioning of the IFSC it is important that all regulators involved in the functioning of an IFSC, develop, monitor and review the regulatory framework on a regular basis.