

# Tax Incentives to International Financial Services Centre (IFSC)

## Budget Proposal

Section 10(4E) of the Income-tax Act, 1961 (**IT Act**) provides for tax exemption on income accruing or arising to or received by a non-resident as a result of transfer of non-deliverable forward contracts entered into with an Offshore Banking Unit (**OBU**) of an IFSC. This exemption is not extended to income accrued or arisen to or received by a non-resident as a result of transfer of 'offshore derivative instruments' or 'over-the-counter derivatives' entered into with an OBU of an IFSC.

Section 10(4F) of the IT Act provides tax exemption on royalty and interest income of a non-resident on lease of an aircraft if it is paid by a unit in IFSC. Such tax exemption is also extended to royalty and interest income of a non-resident on the lease of a 'ship' if it is paid by a unit of IFSC. Further, a 'ship' is defined to mean a ship or an ocean vessel, an engine of a ship or an ocean vessel, or any part thereof. Additionally, Section 80-LA of the IT Act provides for a deduction of certain income of an IFSC Unit for 10 years out of the 15 years. This deduction is proposed to be extended to income arising from transfer of asset being a 'ship' which was leased by a unit of IFSC to any person.

It is proposed to introduce Section 10(4G) to provide exemption on income of a non-resident from portfolio of securities or financial products or funds, managed or administered by any portfolio manager on behalf of such non-resident, in an account maintained with an OBU in an IFSC, to the extent that such income accrues or arises outside India and is not deemed to accrue or arise in India.

Deemed gift rules provided in Section 56(2)(viib) of the IT Act shall not apply to excess share premium received by an Indian Company from a Category I or Category II Alternate Investment Fund regulated under the International Financial Services Center Authority Act, 2019.

In addition to the above, the Finance Minister, in her Budget speech, also announced the opening of an International Arbitration Center in the GIFT City and providing state of art education facilities by allowing world-class foreign universities and institutions in the GIFT City to offer courses in Financial Management, FinTech, Science, Technology, Engineering and Mathematics free from domestic regulations.

## Impact

The tax incentives provided in IFSC would encourage foreign investments in the financial services sector in India. The above tax incentives proposed by the finance minister would incentivize transacting with OBUs set up in IFSC. The incentives provided to aircraft leasing activities in IFSC had seen a lot of traction with many aircraft leasing companies setting-up operations in IFSC. Providing similar incentives to ship leasing operations is likely to see the same result.

## ELP's Insights

The Government has been consistently providing income tax incentives to encourage setting-up units in IFSC, which, at the moment is located in the GIFT City. Carrying forward such a trend, the Union Budget 2022 also laid down a plethora of proposals to provide incentives to units setting-up in and doing business in IFSC. The creation of state of the art infrastructure would further augment this initiative. Providing tax exemptions on various instruments issued by OBUs would attract non-resident investing in India, thus strengthening the Indian financial services sector. Incentivizing 'ship' leasing activity would boost shipping companies to carry out ship leasing through IFSC as against any other overseas jurisdiction with which India has a favourable tax treaty.