



Reiterating its commitment to the promotion and development of the International Financial Services Centre (**IFSC**) located in the GIFT City, Gujarat, the Honorable Finance Minister has announced a number of measures for expanding the ambit of activities that can be undertaken under IFSC. The announcements also ease applicable procedures. Such cumulative action will bring IFSC a step closer to similarly placed competing international jurisdictions, in attracting foreign investments.

A brief analysis of some of these measures announced during her budget speech today are set out hereunder:

Simplification of procedures

- The IFSC being constituted under the SEZ Act and located in the GIFT SEZ, setting up of units required dual approvals, (i) from the IFSC Authority (**IFSCA**) and (ii) the concerned Development Commissioner of the GIFT SEZ. This duality is now being overcome by delegating the powers under the SEZ Act to the IFSCA as a unitary approving authority.
- A unit set up in the IFSC is required to obtain multiple approvals and registrations including those from GST Authorities, relevant regulatory authorities (such as RBI, SEBI, IRDI, etc). This prolonged the process for setting up of such units. A single window IT system is now intended to be set-up for registration and grant of approval by IFSCA, SEZ authorities, GSTN and relevant regulatory authority.

Measures to enhance business activities

- Following measures are expected to be introduced to facilitate enhancement of business activities within the IFSC:
 - Permitting IFSC Banking units of foreign banks to permit acquisition financing;

- Subsidiary of EXIM bank to be established for trade re-financing;
- Recognition of offshore derivative instruments as valid contracts;
- Incorporating provisions in the IFSCA Act for arbitration and ancillary services
- In a dynamic move, the IFSC, replicating the environment provided by other jurisdictions such as Estonia, Luxembourg, Monaco, etc. will also be opened up for setting-up Data Embassies to facilitate countries looking for digital continuity solutions.

Tax incentives

- With a view to attract various funds including India focused funds set up and operating in other jurisdiction, exemption from capital gains tax for relocation of funds currently established and operated in a jurisdiction outside India, to the IFSC was introduced in the Budget of 2021. Such exemption was available only if the relocation was carried out prior to 31st March, 2023. This date is now proposed to be extended to 31st March, 2025.
- Last year the Honourable Finance Minister had introduced section 10 (4E) to exempt the income of non-residents on transfer of off-shore derivative instruments (**ODI**). However, such ODIs also generate income in the form of interest, dividend, etc., in the hands of the ODI holders, earned by the IFSC Banking Unit (being issuers of such ODI to non-resident investors) from downstream investments. Such incomes in the nature of interest, dividend, etc. even though being taxed when received in the hands of IFSC Banking Unit were not exempt in the hands of the ODI holders. Section 10 (4E) is now being amended to exempt such income distributed to

the holders of ODI. This amendment is effective from April 1, 2024 and shall accordingly apply to assessment year 2024-25.

ELP's Insights

The IFSC is intended to bring those economic activities to India which are connected to an underlying asset base situated in India. The current economic growth pattern demonstrated by India, makes it one of the most attractive investment destinations. However, the tax and regulatory environment offered by certain international jurisdictions has resulted in establishment of India focused Investment Funds in these countries. By offering a tax and regulatory environment similar to that available in these jurisdictions, the Government is working hard to attract these investments back to India. This year's budget announcements are a step further in this direction and are expected to make IFSC a more attractive and effective destination for foreign investors looking to invest in India.

