

Budget 2022: Tax Incentives to Promote IFSCs

8 February 2022

The proposals announced in the Finance Bill, 2022 (Bill) underscore consistent efforts by the Government to incentivise participation in GIFT City, India's first International Financial Services Centre (IFSC). The Finance Minister has announced that world-class universities and an international arbitration centre would be set up in GIFT City. On the tax front, several key proposals have been announced, including incentives aimed at encouraging portfolio management and ship leasing in IFSCs. Some of the key announcements are outlined below.

The proposals in the Finance Bill, 2022 are reflective of the Government's intent to promote investment and participation in International Financial Services Centres.

1 Exemption for income arising from offshore derivative instruments or over-the-counter derivatives

Presently, subject to fulfilment of certain conditions, the income tax law exempts income arising to a non-resident from the transfer of non-deliverable forward contracts entered with an offshore banking unit of an IFSC.

The Bill proposes to extend a similar exemption to income arising from the transfer of offshore derivative instruments or over-the-counter derivatives entered with an offshore banking unit of an IFSC.

2 Incentives to promote ship leasing

Last year, the Government had introduced a provision exempting royalty or interest income arising to a non-resident on account of lease of an aircraft to an IFSC unit that commences operations by 31 March 2024. The Bill proposes to extend a similar exemption to royalty or interest income arising to a non-resident on account of lease of a ship to an IFSC unit that commences operations by 31 March 2024.

Relatedly, a tax holiday is currently available for income arising to an IFSC unit that commences operations by 31 March 2024 on the transfer of an aircraft leased by it to any person. The Bill proposes to extend this tax holiday to income arising from the transfer of a ship leased by an IFSC unit as well, provided the unit commences operations by 31 March 2024.

3 Incentives aimed at promoting portfolio management in IFSCs

The Bill proposes to exempt income arising to a non-resident outside India from a 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 offshore banking unit located in an IFSC. This is expected to provide an impetus to portfolio management activities in IFSCs.

4 Relief from angel tax where shares are issued to Category I /Category II AIFs located in an IFSC

The 'angel tax' provision in the Income Tax Act, 1961 imposes a tax liability in the hands of a closely-held company that issues shares to a resident and receives consideration exceeding the fair market value of such shares. However, the provision is not applicable to shares issuances to Category I or Category II Alternative Investments Funds (AIFs) regulated under the Securities and Exchange Board of India (AIF) Regulations, 2012.

The Bill proposes to extend this exemption to Category I or Category II AIFs regulated under the IFSC Authority Act, 2019.

These amendments will apply from assessment year 2023-24.

The Government has been incentivising participation in IFSCs to attract global investment and convert GIFT City into a premier financial hub of the country. Apart from the tax proposals, other budget announcements on green bonds, cryptocurrency exchange traded funds, digital assets, etc., should further accelerate investments in GIFT City.

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