

# GIFT CITY : An Emerging NRI Investment Opportunity



# The Gift City & IFSC Basics



Gift City, Gujarat has been notified as India's 1st International Financial Service Center (IFSC)





## The Gift City & IFSC – Legal Position

- ✓ Under Foreign Exchange Management Act, (International Financial Services Center), Regulations, 2015 :
  1. a unit setup in the IFSC is a person resident outside of India.
  2. shall conduct business in foreign currency.
  3. is not subject to Indian FEMA regulations.
  
- ✓ All other laws of India are applicable :
  1. Indian Income Tax Act – all units are person resident in India, exemption available under specific provisions for instance Section 10 (4D) , Section 80LA, etc.
  2. Companies Act, Indian Trust Act, Indian Contracts Act, LLP Act, etc. are all applicable.



## The Gift City & IFSC – Legal Position

### Gift City Business Platform

IFSC Multi Service SEZ – Asset Management, Banking, Capital Markets, Insurance, Aircraft Leasing and Ancillary Services

Domestic Tariff Area

Only for Financial Services not for Manufacturing, Trading, etc. activities.

## The Gift City & IFSC – Regulator

**International Financial Services Center Authority (IFSCA)**

**SEBI**

SEBI Act, 1992  
Securities  
Contracts  
(Regulation) Act,  
1956  
Depositories Act,

**RBI**

RBI Act, 1934  
FEMA, 1999  
Banking  
Regulation Act,  
1949

**PFRDA**

**PFRDA Act,  
2013**

**IRDA**

IRDA Act, 1999  
General Insurance  
Business  
(Nationalisation) Act,  
1972  
Insurance Act, 1938



## Residence Rule

Under this rule, the country can tax persons if they are residents or domiciled in the country, regardless of the source of income. The principle of residence – based taxation of income envisages the taxation of global income.

## Source Rule

Under this rule, the taxation is at the source country where the income is generated. The principle behind source based taxation is to pay taxes in the country which provides opportunity for generation of that income.



## What is a Double Taxation Avoidance Agreement (DTAA)?

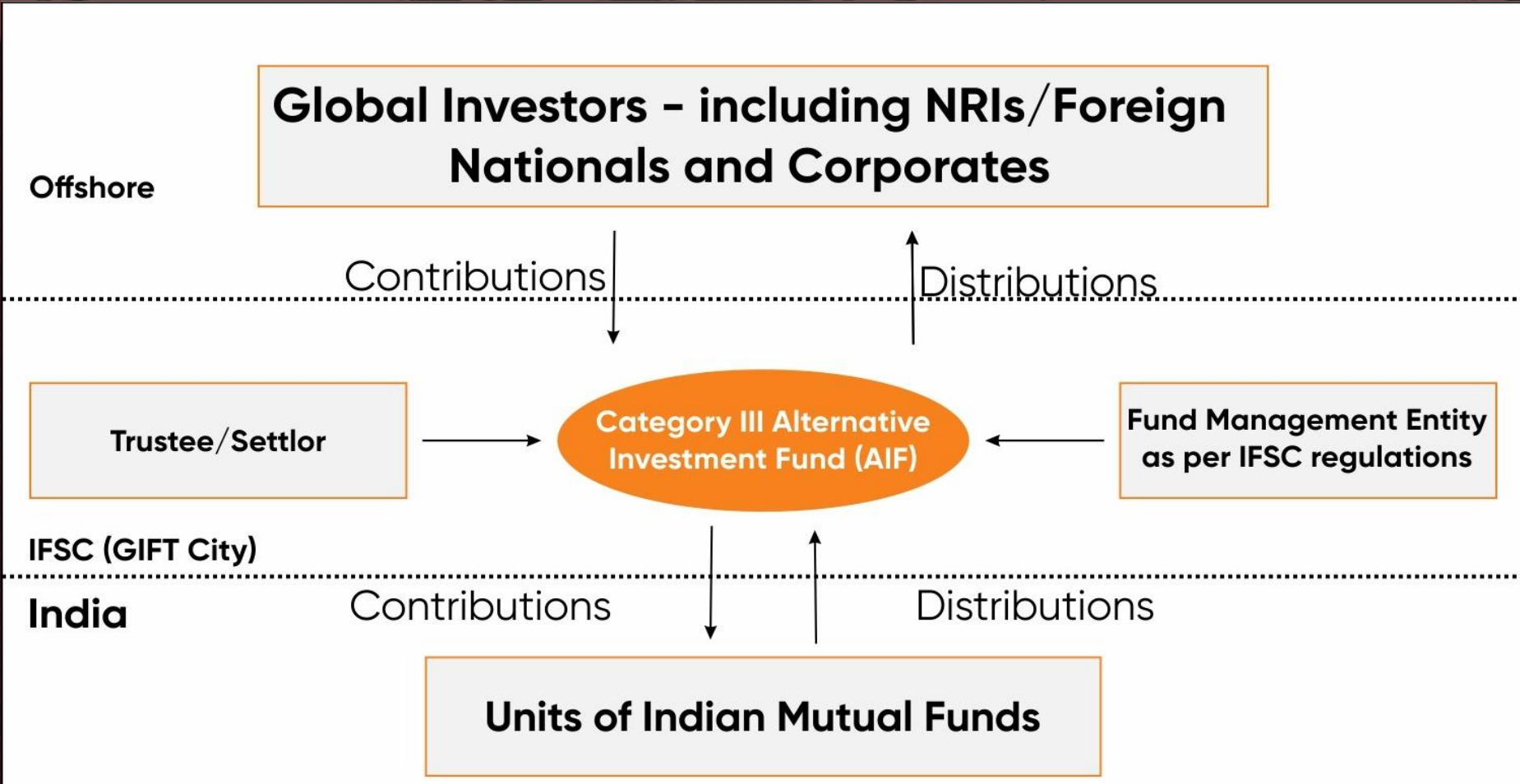
- ✓ Double Taxation Avoidance Agreement (DTAA) is an agreement entered into between countries, with the basic objective to avoid, taxation of income in both the countries (i.e. Double taxation of same income) and to promote and foster economic trade and investment between the two countries.
- ✓ India has DTAA with over 94 countries such as the US, the United Kingdom, the UAE, Canada, Australia, Saudi Arabia, Singapore and New Zealand, Kenya, Tanzania, South Africa, Sudan etc.



# Gift City Investment Route 1 – Underlying Investment in Mutual Fund Units



## Process





## Features

<b>Fund Legal Structure</b>	Category III Alternative Investment Fund (AIF) incorporated in GIFT IFSC (International Financial Services Centre).
<b>Underlying investment</b>	USD denominated investments in Direct plan of one or multiple schemes of a particular Mutual Fund.
<b>Taxation</b>	No tax in India at the fund level or investor level since the fund invests in units of Mutual Funds in India [Exempt under section 10(4) of the Income Tax Act.].
<b>Minimum investment amount</b>	USD 150,000.



## Features

<b>Permissible investors</b>	All Non-Resident Indians, individuals not of Indian origin and business entities who are Non-Resident under the Indian Income Tax Law.
<b>Restricted countries</b>	Persons residing in countries mentioned in the black list and grey list as per FATF (Financial Action Task Force) E.g. Kenya, Tanzania, Congo, Nigeria, Mozambique, etc.
<b>Exit load (penalty on withdrawals)</b>	For the first three years (1-3% on corpus value)
<b>Costs</b>	Fund management fee of 1-1.5% p.a. + Expense ratio as per Direct plan (0.5-1.5%) of underlying Mutual Fund units.



## Advantages

- ✓ **No tax implications on the investment incomes in India.**
  - No Indian taxation.
  - No taxation compliances (ITR filing, PAN, etc.)
- ✓ **No requirement of any demat account or bank account in India.**
  - No hassle of opening a broking/demat account for holding securities in India.
  - Direct fund flow into the fund from foreign bank account.
- ✓ **USD denominated investments**
  - Competitive conversion exchange rate for underlying investment into MF units.
- ✓ **Simplified onboarding process**
  - Very convenient documentation for onboarding



## Suitability

- A. Investors residing in countries not taxing foreign investment incomes as per domestic law or countries not compliant with taxation.
  - Singapore, Middle East countries, African countries, etc.
- B. Investors not intending to start and operate bank account and a demat account in India.
- C. Investors not keen to manage Indian tax compliances – Filing ITRs, handling tax assessments, etc.



# Gift City Investment Route 2 – Underlying Investment in Equity Shares or Derivative Strategies

# Underlying Investment in Equity Shares or Derivative Strategies



## Process

**Global Investors - including NRIs/Foreign Nationals and Corporates**

Offshore

Contributions

Distributions

Trustee/Settlor

**Category III Alternative Investment Fund (AIF)**

**Fund Management Entity as per IFSC regulations**

IFSC (GIFT City)

India

Contributions

Distributions

**Equity shares or derivatives listed on Stock Exchange**

# Underlying Investment in Equity Shares or Derivative Strategies



## Features

<b>Fund Legal Structure</b>	Category III Alternative Investment Fund (AIF) incorporated in GIFT IFSC (International Financial Services Centre)
<b>Underlying investment</b>	USD denominated investments in Equity shares listed in Indian stock exchanges or derivative strategies or combination of both.
<b>Taxation</b>	No tax in India at the fund level or investor level on incomes from derivatives [Exempt under section 10(4) of the Income Tax Act.] Capital Gains taxation on gains from Equity Shares Long Term at 10% (Holding period > 1 year) Short Term at 15% (Holding period < 1 year).
<b>Minimum investment amount</b>	USD 150,000



## Features

<b>Permissible investors</b>	All Non-Resident Indians, individuals not of Indian origin and business entities who are Non-Resident under the Indian Income Tax Law.
<b>Exit load (penalty on withdrawals)</b>	For the first three years (1-3% on corpus value).
<b>Costs</b>	Fund management fee of 1.5-2.5% p.a. or performance fees based on profit sharing.

# Underlying Investment in Equity Shares or Derivative Strategies



## Advantages

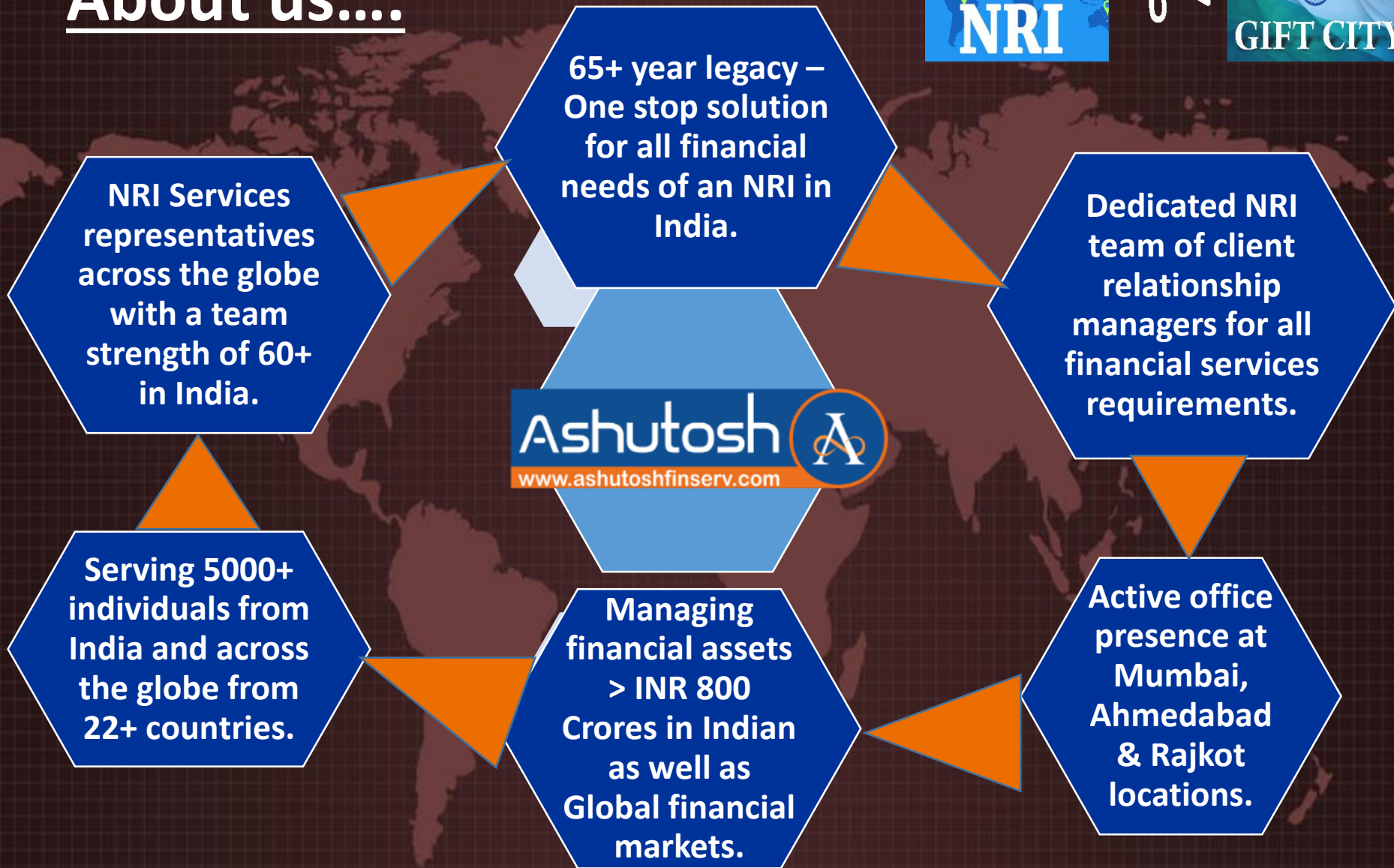
- ✓ **No tax implications on the derivative incomes in India.**
  - No Indian taxation and compliances (ITR filing, PAN, etc.).
  - U.S. tax residents eligible for tax credits on taxation on gains from equity shares through Form K1 under the DTAA (Double Taxation Avoidance Agreement).
- ✓ **No requirement of any demat account or bank account in India.**
  - No hassle of opening a broking/demat account for securities in India.
  - Direct fund flow into the fund from foreign bank account.
- ✓ **USD denominated investments**
  - Competitive conversion exchange rate for investment into MF units.
- ✓ **Simplified onboarding process**
  - Very convenient documentation for onboarding



## Suitability

- A. Investors residing in countries which are in the FATF grey and black list countries
  - Kenya, Tanzania, Congo, Nigeria, Mozambique, etc.
- B. Investors not intending to start and operate bank account and a demat account in India.
- C. Investors not keen to manage Indian tax compliances – Filing ITRs, handling tax assessments, etc.
- D. Investors looking for exposure into derivative investment strategies.

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## Panelist - Mr. Manas Kumar

Head Products and Business Development –  
International Business  
*HDFC Asset Management Co. Ltd.*

- Mr. Manas has over 20 years of glorious experience in areas like business development, strategy, products, institutional client servicing and investment advisory.
- Prior to HDFC AMC, he has previously worked with SBI Funds Management, Kotak Mahindra AMC and associated companies.
- He has a Bachelor in Technology from IIT Bombay and a Post Graduate Diploma in Management from IIM Lucknow.



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## Panelist - Mr. Ashish Mohnot

Principal Officer

*HDFC AMC International (IFSC) Limited*

- Mr. Ashish has over 10 years of work experience in Financial services, including Asset Management Company, Banking, and fund tax accounting services.
- He has worked with Aditya Birla Sun Life AMC- IFSC-GIFT City as well as ICICI Bank Limited, Deutsche Investor Service Pvt. Ltd. and Kalpataru Power Transmission Limited.
- He is a member of Institute of Chartered Accountants of India (ICAI) and a Company Secretary (CS) from Institute of Companies Secretary of India (ICSI).



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## Panelist - Mr. Vaibhav Shah

Head Business Development, Strategy & International Sales

*Mirae Asset Investment Managers (India)*

- Mr. Vaibhav has close to 20 year's experience in the field of financial services and stock markets
- He has served as Head for Product, Marketing and Corporate Communication function of the AMC for Mutual Funds and Alternate Investment Products and also worked with various leading National and International Banks.
- He is a Chartered Accountant, Certified Financial Planner as well as MBA Finance by qualification.



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## Panelist - Mr. Ritesh Pathak

Executive Group Vice President, National Head  
*Motilal Oswal Asset Management Co. Ltd.*

- Mr. Ritesh, with over 19 years of experience has a proven track record of success in sales, distribution, business development as a dynamic leader.
- Prior to Motilal Oswal AMC, he has previously worked with Axis AMC, ICICI Prudential AMC, Kotak Mahindra Bank and ING Vysya AMC.
- He is a MBA in Marketing and has pursued Management Development Programs from several renowned business schools of India.

