

A DEEP DIVE INTO GIFT CITY THE CHALLENGES AND OPPORTUNITIES AROUND DEVELOPING A NEW FINANCIAL CENTRE IN INDIA



SUMMARY

- *In the dynamic landscape of global finance and business, certain locales emerge as pivotal hubs for international trade and investment. GIFT City, or Gujarat International Financial Tec-City, represents India's strategic endeavor to establish such a hub. As an ambitious project, GIFT City is designed to be at the forefront of India's rapidly expanding financial and tech sectors, equipped with a host of incentives and infrastructural benefits. This comprehensive overview will delve into the genesis, growth, and distinct attributes of GIFT City. It features insights from esteemed stakeholders, including the much-appreciated participation of Nishith Desai of Nishith Desai Associates, who has been an active participant in the GIFT City project since its inception, as well as the perspectives of seasoned market experts. Discover why GIFT City is poised to carve out a significant global niche and why it is gaining traction with businesses and investors as a premier destination for the region's and possibly the world's high-net-worth individuals.*

GET IN TOUCH

[Find out more about Eton Solutions](#)



SETTING THE SCENE – AN INTRODUCTION TO GIFT CITY AND ITS APPEAL

India's first International Financial Services Center (IFSC), the Gujarat International Financial Tec-City (GIFT City) was set up in 2015 near Gandhinagar, Gujarat's capital. In recent years, the GIFT City IFSC has presented more competitive benefits for offshore investors. New tax rules exempt entities in the IFSC from various taxes including GST, dividend distribution tax, and capital gains tax.

Location, Location

GIFT City, birthed from a strategic tri-city approach, is situated on the Sabarmati River and positioned equidistantly between Ahmedabad and Gandhinagar, each just 30 minutes away. Ahmedabad serves as the state's industrial and historical hub, while Gandhinagar functions as the state capital and the nexus of policymaking. Each of these three locations - GIFT City, Ahmedabad, and Gandhinagar - offers a unique ecosystem tailored to support business, financial services provider, exports, international finance, and foreign investment. Additionally, GIFT City boasts impressive connectivity: it's a mere 20 minutes from Ahmedabad International Airport, lies along the National Highway 48 within the Delhi-Mumbai Industrial Corridor, is connected via metro to Ahmedabad, and is just 15 minutes away from both the nearest railway station and the under-construction high-speed rail approved by the central government.

Casting a wide net

GIFT City boasts a multifaceted special economic zone, being India's first IFSC designated as such under the Special Economic Zone (SEZ) Act, 2005, serving an array of financial

services and related sectors, such as banking, capital markets, fund management, insurance, bullion, finance companies, and leasing activities for aircraft and ships. It also accommodates global in-house centres (GICs), FinTech enterprises, foreign universities, and supplementary services.

In turn, GIFT City's Domestic Tariff Area (DTA) offers advantages to a broad spectrum of industries. These include banking, maritime clusters, finance, insurance, IT and IT-enabled services, engineering, FinTech,

automobiles, capital markets, pharmaceuticals, and biotech.

So who should move in?

GIFT City has established itself as a hub for a wide variety of financial and ancillary services, making it an ideal location for numerous types of operations. Businesses and institutions involved in offshore banking can explore activities like borrowing, lending, deposits, and external commercial borrowing along with trade finance. Those interested in trading can consider



becoming trading and clearing members, particularly for derivative products. Insurance entities, be it offshore or IFSC specific, can engage in direct insurance, reinsurance, and intermediary operations.

The region also presents significant opportunities for alternate investment funds, portfolio management services, and investment advising. Entities that cater to wealth management, fund accounting, trustee services, and custodial functions will find a conducive environment in GIFT City. It's also apt for capital market operations, including derivatives trading in equities, indexes, currencies, and commodities, along with debt listing and other trading and investment activities.

Furthermore, GIFT City can serve as a base for global in-house centres (GICs) and a range of support services such as accounting, auditing, legal, taxation, trusteeship, management consulting, and compliance. Lastly, the city is

nurturing emerging businesses in areas like aircraft leasing, FinTech, the International Bullion Exchange, and finance companies, making it a comprehensive destination for diverse financial and business operations.

The GIFT City Template

When compared to global financial centres, GIFT City should hypothetically stand its ground with features like a unified regulatory authority, a competitive tax framework similar to jurisdictions like Singapore and Mauritius, lenient company law, a strategic time zone, and an international arbitration center.

Choosing GIFT City as a business destination offers companies, investors, and service providers distinct advantages. The region's planned infrastructure, streamlined administrative processes, and digital framework translate to benefits like single-window clearance encompassing everything from allotment to

occupancy, duty relaxations like exemption from Gujarat's stamp duty and registration fees, and developmental incentives by the state.

Existing Benefits

Units operating in the GIFT City are said to be privy to a range of fiscal benefits, according to the reports which are currently available.

Income Tax Benefits:

- » Units can enjoy a 100% tax exemption for any 10 years within a 15-year span. They can choose which 10 years within that timeframe.
- » In the IFSC, the Minimum Alternate Tax (MAT) and Alternate Minimum Tax (AMT) rate is 9% on book profits.
- » Companies opting for the new tax regime in the IFSC are not subject to MAT.
- » Since April 1, 2020, dividends distributed by companies in the IFSC are taxed at the shareholder level, after



MR. NISHITH DESAI
Founder and Head – International Taxation Practice
 Nishith Desai Associates



SATYEN PATEL
Executive Chairman
 Eton Solutions



India abolished the dividend distribution tax.

Investor Incentives:

- » Interest income on loans to IFSC units is non-taxable.
- » Interest from specific bonds listed on IFSC exchanges is taxed at 4%.
- » Gains from the transfer of certain securities by a non-resident on IFSC exchanges are not taxed in India.

GST Implications:

- » Services exchanged between IFSC units or given to IFSC/SEZ units



and offshore clients are GST-exempt.

- » Services provided to the Domestic Tariff Area (DTA) do incur GST.
- » Transactions on IFSC exchanges are GST-free for investors.

Other Tax Benefits:

- » Units in the IFSC receive state subsidies on lease rentals, provident fund contributions, and electricity charges.
- » Investors are exempt from specific transaction taxes and stamp duty on IFSC exchanges.

Operational Benefits in GIFT City:

- » IFSC units have exemptions from currency control regulations.
- » Under the SEZ Act, an IFSC unit is essentially treated as a non-resident, giving them benefits similar to the Foreign Exchange Management Act of 2002 (FEMA).
- » Although there are general restrictions on Indian investments in foreign firms in the finance sector, the Reserve Bank of India (RBI) introduced a circular in May 2021. It allows



Indian entities to invest in certain funds, including those in the GIFT IFSC.

Strategies for the future

Under the Finance Act of 2023, several initiatives have been introduced to boost growth in the GIFT City IFSC. The definition of 'original fund' has been revised to ease the tax-neutral transfer of offshore funds that are entirely owned and overseen by the Abu Dhabi Investment Authority and the Government of Dubai to the IFSC. Alternative Investment Funds (AIFs) set up in the IFSC will now enjoy an exemption from the angel tax imposed on shares from non-listed Indian companies.

In addition to these measures, the tax holiday for Offshore Banking Units (OBUs) in the IFSC has been expanded to 100% for the assessment year that starts on April 1, 2023. To further attract non-resident investments in the IFSC, the dividend distribution tax for IFSC units has been reduced to 10%, in contrast to the 20% applied to dividends for non-IFSC Indian companies. Non-residents earning interest income from long-term



or rupee-denominated bonds listed on IFSC stock exchanges will also benefit from a concessional withholding tax rate. Lastly, the tax advantage duration for AIFs relocating to a fresh spot in the GIFT City- IFSC has been prolonged to March 31, 2025, from the earlier deadline of March 31, 2023.

What is the proposition that GIFT City represents?

When considering what stakeholders perceive as the primary opportunity presented by GIFT City, a slew of optimistic responses emerge. Senior Managing Director Nakul Beri and Director of Business Advisory

Vishal Yeole from Waterfield Advisors, a pure-play advisory firm, offer a compelling perspective. According to Beri and Yeole, GIFT City stands as a potent proposition for their advisory-based organizational model. Before GIFT, conventional investment routes for non-residents directed towards India typically spanned Singapore, Dubai, and Mauritius. However, GIFT City's trajectory, characterized by improving regulations and ease of doing business, aligns it with the likes of Dubai and Singapore. The duo emphasize how GIFT allows them to "leverage the overseas market" and cater to investors more acquainted with the advisory model, thus expanding their global outreach.

Rewinding the clock, Axis Bank pioneered its foray into GIFT City by establishing its IFSC Banking Unit (IBU) in November 2017. The primary motivation, as elucidated by Apurva Sahijwani, EVP & Head - Burgundy Private at Axis Bank, was to augment options for the bank's international business. The Axis IBU offers a plethora of specialized services, including Corporate Banking, Trade, Treasury Dealing Room, and Capital Markets. Notably, Retail Banking services tailored for Non-Resident Indian



INSIGHTS FROM WITHIN: HOW OPERATORS WITHIN GIFT CITY VIEW THE PROPOSITION

Framing the Section

As GIFT City steadily ascends on the global financial stage, it beckons us to listen to the resonant voices of industry luminaries. Their insights, garnered primarily from a discreet gathering convened by Hubbis in the heart of Mumbai in August 2023, bolstered by comments sought by Hubbis in the wider India private banking and wealth management industry, reverberate with the promise that GIFT City holds for businesses. Particular thanks is to be attributed to Nishith Desai, the founder of research & strategy driven international law firm, Nishith Desai Associates, and a key figure in the emergence and development of the GIFT City proposition, who kindly joined the discussion to contribute eminent insights into the evolution of GIFT City, and marked input for this article.

With a keen ear attuned to the views of industry stalwarts, our mission was to decipher the unique proposition that GIFT City unfurls before us. The chorus of positivity that ensued was marked.

(NRI) customers are also on offer. With evolving regulatory dynamics, Axis Bank reaffirms its commitment to enhancing its product and service spectrum via the IBU, catering to both global and domestic clientele.

IndusInd Bank echoes similar enthusiasm. Head - Affluent Banking & International Business, Samir Dewan, articulates the bank's proactive utilization of GIFT City. Dewan underscores GIFT City as pivotal for "On-shoring the Offshore Services" as India marches towards its ambition of a USD 5 trillion GDP. IndusInd Bank's GIFT City IBU is robust, offering an array of banking solutions for a diverse clientele. Dewan mentions groundbreaking initiatives such as participation in the Block-Chain based Real Time USD Settlement System and International Trade Finance System platform, among others. The bank's

expansive investments in terms of staffing, infrastructure, and capabilities at GIFT City substantiate its long-term growth strategy.

Participants in our discussions mirrored the buoyant optimism articulated by these industry titans. The overarching sentiment is unequivocal — GIFT City, when optimally realized, represents a golden opportunity for transformative growth within

India's financial ecosystem. Its momentum, powered by a dynamic regulatory landscape and strategic global alignment, presents financial entities with a lucrative proposition. India's entrepreneurial and financial trajectory shines brighter with the promise of GIFT City, awaiting the dawning of a transformative epoch it promises to usher.

Moreover, this burgeoning dawn signifies immense





potential for India's High Net Worth Individuals (HNWIs) as well, further underscoring the significance and optimism surrounding GIFT City's future.

Do you think that GIFT City offers great potential for India's HNWIs? Why might that be?

A prominent sentiment among the attendees at the Hubbis discussion when faced with this question was optimism. One senior guest noted that although India might not yet boast the same international brand recognition in finance as some global heavyweights, GIFT City is "rapidly evolving" to position itself as a significant player in the world financial stage. With India's undying momentum and the project's unwavering vision, this sentiment is not surprising.

Echoing this optimism was another guest, who highlighted that the GIFT City aspires to stand alongside financial giants like London, New York, or Singapore. This is no modest goal, they noted,

however, requiring vast changes in regulations and significant brand building on an international scale.

In its early stages, GIFT City seems keen on winning over local Indian investment. This initiative has been described as a "laboratory" by one representative for GIFT City at our discussion for experimenting with financial regulations and incentives, setting the stage for a formula that promises robust, sustainable growth, with longevity for the project clearly on the mind.

Turning to insights from the industry at large, who kindly offered their insights on the topic, Apurva Sahijwani, EVP & Head - Burgundy Private, Axis Bank, underscored the rapid globalization pace of India, envisioning the GIFT City as a unique destination for international financial services. For India's HNWIs, GIFT City represents a golden opportunity to invest in offshore products in foreign currency while staying within India's borders. Sahijwani believes that an attractive tax regime, combined with an enabling regulatory environment, will address HNWIs' critical needs, leading to operational convenience and superior post-tax returns. He further added that Axis Bank is

geared to support this journey by offering a suite of products and services at GIFT City.

Mr. Samir Dewan, Head - Affluent Banking & International Business from IndusInd Bank commented independently of the Hubbis discussion on the tax benefits and exemptions GIFT City brings to the table. Both international UHNWIs and resident Indian UHNWIs can set up Family Investment Funds in GIFT City, enjoying several perks. He emphasized that steps like these are indeed heading in the right direction.

Nakul Beri, Senior Managing Director, and Vishal Yeole, Director of Business Advisory from Waterfield Advisors also offered their expert insights when reached out to for comment, pointing out an emerging trend. Typically, Indian UHNWIs have looked to Singapore and Dubai when considering overseas jurisdictions. However, more and more are now turning their gaze towards GIFT City, attracted by stable regulations, proximity, and competitive setup costs. The comforting factor for many is the ability to have an offshore presence while staying connected to their home country.



Turning back to the Hubbis discussion, a sentiment that encapsulated the ongoing discussion came from a guest who cleverly coined, "It's not offshore, it's midshore." This remark raises an intriguing point: does GIFT City need a clearer, more defined structure to genuinely rise to prominence?

Is there any particular developments you would like to see occur with GIFT City as it develops beyond its fledgling stages?

GIFT City, India's ambitious project to create an international financial hub, is an evolving jurisdiction attracting significant attention from financial experts and stakeholders. The city, though brimming with potential, faces hurdles related to regulations, brand recognition, and infrastructure.

A key aspect highlighted in the recent Hubbis discussion was

the need for a clear and concise vision for GIFT City's future. As one participant in the Hubbis discussion pointed out, "GIFT City offers unique advantages." These advantages, such as amalgamating various ministries to ease clearances for newer entities, have been instrumental in attracting global giants like Bank of America. Furthermore, the city's taxation exemptions for operational entities act as a magnet. However, there's a growing demand for clarity regarding these offerings' depth and their potential evolution. In essence, stakeholders are seeking certainty.

Apurva Sahijwani, EVP & Head - Burgundy Private at Axis Bank, elaborated on the collaboration between the bank and the regulatory authority, IFSCA. He noted, "Through our IBU in GIFT City, we've been liaising closely with the IFSCA for the development of the banking ecosystem." Sahijwani stressed the need



for harmonization between the onshore regulations in India and GIFT City. Enhancements, such as local infrastructure development and a social ecosystem for executives, would further solidify GIFT City's position as a leading financial hub.

However, challenges remain. An expert contributor at our Hubbis discussion mentioned the need for better living conditions for expatriates, emphasizing that having a genuine presence in the city is pivotal for global recognition. Another participant highlighted the disparity between inbound and outbound activities, stating, "Inbound is a fantastic mechanism they've created. Outbound is a challenge."

The recent Hubbis discussion also shed light on the potential risks of GIFT City attracting a particular business type. There's a concern about smaller businesses or startup entrepreneurs posing systemic risks, reminiscent of scenarios observed in Singapore. However, the consensus is that established families with a robust track record don't pose such risks. Creating a conducive regulatory environment becomes paramount to ensure their longevity and success.





Do you feel confident in engaging with GIFT City?

When experts were questioned about their confidence in engaging with GIFT City, the responses were overwhelmingly positive. Nakul Beri, Senior Managing Director, and Vishal Yeole, Director of Business Advisory at Waterfield Advisors, shared their optimism. The pair commented that, “The IFSC authorities are extremely approachable, with a listening attitude and a vision to progress in the best interest of the stakeholders.” They continued, adding to this sentiment by highlighting the IFSCA’s openness to suggestions and their resonance with the investor community.

This perspective on the cooperative nature of GIFT City was further echoed by a participant in a recent Hubbis discussion. They remarked, “You can influence the system or GIFT City when it comes to inbound. They are very cooperative, always willing to lend an ear, hear you patiently, and make the changes.” Such feedback underscores GIFT City’s commitment to being a partner to investors, particularly for firms managing inbound activities.



However, as with all burgeoning ecosystems, there was an acknowledgement that are challenges, and areas for improvement. Over the past 18 months, GIFT City’s regulations have been evolving at a commendable pace. Yet, there are teething issues and technical aspects that stakeholders must navigate. One of the major points raised is the need for efficient communication and a streamlined vision, especially given that onshore regulators, including the RBI and SEBI, have authority over the movement of capital out of the country. Addressing these concerns would mitigate ambiguities and bolster

investor confidence. As the experts concluded, refining these elements could amplify GIFT City’s proposition, paving the way for India to firmly establish itself as a global financial hub.

Concluding Thoughts

Reflecting on our investigation into GIFT City, it emerges as a profound symbol of India’s unwavering dedication to its financial aspirations, representing a microcosm of India’s intrinsic potential and promise. GIFT City aspires to be a focal point of innovation, infrastructure, and opportunity, aiming to strategically position India within the ever-



GIFT CITY: WHAT IS THE OPPORTUNITY THAT IT REPRESENTS TO YOU AND YOUR CLIENTS?

evolving financial topography of the global arena.

The progression towards the conceptualization and realization of GIFT City has been characterized by episodic instances of inspiration and tenacity. Simultaneously, it confronts a labyrinth of intricacies and challenges. As an expert articulated during our recent discourse, “the establishment of an offshore financial center necessitates an intricate balancing act between safeguarding integrity and ensuring autonomy.” This statement aptly encapsulates the formidable challenges accompanying the initiative.

Nevertheless, GIFT City, through an astute amalgamation of strategy, regulatory oversight, and innovative praxis, has the potential to sculpt a robust financial trajectory for India. This metropolis is poised not merely as a prospective epicentre for financial operations but also as a



reflection of India's visionary ethos, resilience, and overarching ambition.

The deliberations from our behind-closed-doors discussion, supplemented by insights from industry insiders, emphasize the requisite of perpetual adaptation, innovation, and evolution in the dynamic realms of finance and jurisprudence. The GIFT City

narrative transcends its identity as a mere financial nexus. It symbolizes a continually unfolding chronicle dedicated to the unyielding quest for academic and operational excellence. As GIFT City forges ahead, it extends an invitation to stakeholders across various spectra to engage in this transformative journey. ■

HUBBIS AND INDIA IN 2024

Interested in taking part in similar groundbreaking thought leadership discussions in 2024? Be sure to join us for our [Hubbis India Wealth Management Forum 2024](#).

Taking place on **Wednesday 28th August**, the forum will explore the unfolding trends within India's flourishing private wealth sector, highlighting the modernisation of wealth and legacy planning, the trajectory of insurance solutions, and the role of digital innovation in augmenting advisory services.

Register for the forum [HERE](#).

