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Tax concessions extended till 2030; sops for relocation of MFs, ETFs, boost ODI issuance

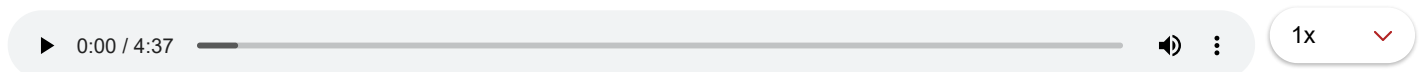


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The Centre has announced a series of tax incentives to boost fund activity at the GIFT City International Financial Services Centre (IFSC) in Gujarat.

The measures include a five-year extension of the sunset clause, incentives for mutual fund relocations, and relaxations for foreign portfolio investors (FPIs) trading in offshore derivative instruments (ODIs).

Several tax concessions related to the IFSC, such as those for investment banking units and fund relocations, have been extended to March 31, 2030.

Finance Minister **Nirmala Sitharaman** highlighted that the changes are “proposed to provide a simplified safe harbour regime for investment funds managed by fund managers based in the IFSC. Additionally, the relaxation of conditions for IFSC units will be extended until March 31, 2030.”

The FM also announced the inclusion of retail schemes and exchange-traded funds (ETFs) in the existing relocation regime for funds in the IFSC.

Experts believe this change will attract a significant number of India-centric mutual funds and ETFs to relocate to the IFSC.

Another key announcement was the tax exemption on ODIs or participatory notes (p-notes).

Sitharaman stated, "It is proposed to provide exemption to any income accruing or arising to or received by a non-resident as a result of the transfer of non-deliverable forward contracts entered into with any FPI, being a unit in an International Financial Services Centre, which fulfills prescribed conditions."

Rajesh Gandhi, partner at Deloitte, noted that non-banks in GIFT City issuing ODIs will benefit from the extended tax exemption for p-note holders, which now includes p-notes issued by non-banks or FPIs based in GIFT City.

An official from the IFSC Authority said this exemption, previously limited to banking units in the IFSC, will now be expanded to entities that obtain the FPI licence, thereby broadening the scope of eligible products.

To further boost fund management activity, most conditions under Section 9A will be removed for entities set up in GIFT City before March 31, 2030. Industry experts believe this will attract global fund managers to establish a base in IFSC, creating numerous jobs.

Tapan Ray, managing director (MD) & group chief executive officer (CEO), GIFT City, said, "The proposed tax incentives and regulatory simplifications will attract global investors, fund managers, and businesses, thereby strengthening India's financial ecosystem."

Siddharth Shah, partner at Khaitan & Co, said the five-year extension of the sunset clause will ease concerns related to short-term extensions and the challenges of completing the migration within the threshold.

"Until now, extensions were always granted for a two-year period. The five-year period will encourage more investors," he added.

However, Radhika Parikh, lead of the GIFT City office and Investment Funds Practice at Nishith Desai Associates, believes the extension falls short of addressing long-term concerns.

"One of the key challenges preventing greater participation in GIFT City by non-residents is ongoing tax uncertainty, and these incremental extensions do little to resolve this critical issue," she said.

The government also announced benefits for ship-leasing units, insurance offices, and treasury centres of global companies setting up base at the IFSC.

As of December 2024, over 740 entities were registered with the IFSC Authority. A total of 138 fund management entities were registered at the financial hub, with the total banking asset size reaching \$78 billion by December.

Derivative transactions booked by banks in December 2024 amounted to \$40 billion in GIFT City.

Incentive list

- > Move to encourage relocation of global funds
- > Encourage foreign banks to set up shop
- > Simplified regime for fund managers to foster job creation
- > Measures to boost issuance of p-notes from GIFT City over other jurisdictions

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