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Gujarat International Finance Tec-City (Gift City): Charting Cross-Border Investment in India's New Financial Hub

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This research paper provides a comprehensive exploration of Gujarat International Finance Tec-City (GIFT City), positioned to be a pivotal International Financial Services Centre (IFSC) and a transformative hub for cross-border investments. The study delves into GIFT City's strategic significance, tracing its evolution from the Special Economic Zones Act of 2005 to its current status as a dynamic financial enclave. The paper highlights the visionary measures unveiled in the Union Budget 2023, reinforcing GIFT City's commitment to organic growth. It examines the city's robust regulatory framework orchestrated by the International Financial Services Centres Authority (IFSCA), consolidating oversight powers and ensuring a seamless business environment. GIFT City's fiscal incentives, tax benefits, and operational advantages are meticulously analysed, showcasing its appeal as a magnet for international capital. The establishment of data embassies and an EXIM bank subsidiary further accentuates its commitment to legal, regulatory, and digital infrastructure. The study explores GIFT City's strategic initiatives like GIFT-NIFTY, aircraft leasing, and Family Investment Funds (FIFs), providing insights into the dynamic landscape of international derivatives trading, global capital raising, and diverse investment opportunities. Additionally, the paper investigates the trend of Indian startups incorporating in foreign hubs like Singapore, drawing parallels with GIFT City's offerings, and examines recent developments in GIFT IFSC's financial sector, including the transition of banks to subsidiaries and the entry of global banking giants. In conclusion, the research paper positions GIFT City as a global financial hub, offering a conducive environment for cross-border investments and serving as a valuable resource for investors, policymakers, and legal professionals navigating the intricacies of international finance.

Keywords: *gift city, cross-border investment, tax, FEMA.*

INTRODUCTION

Nestled in the fertile plains of Gujarat, where the Sabarmati River gently meanders between the bustling metropolises of Ahmedabad and Gandhinagar, is a financial powerhouse that has established itself: the renowned *Gujarat International Finance Tec-City* (GIFT City). The story of this innovative *International Financial Services Centre* (IFSC) is captivating me as a legal practitioner navigating the complex waters of Indian jurisprudence.

Within the modern environment, GIFT City has become the centre of discussion, hailed as a leading hub for alternative investment funds (AIFs), cutting-edge fintech companies, and a wide range of global financial services. Proactive steps revealed in the Union Budget 2023 by none other than the formidable Finance Minister Nirmala Sitharaman accentuated its significance and showed an unrelenting dedication to supporting the natural development of this flourishing environment.[1] The energy that has been infused into GIFT City is real and audible, not just an abstraction. Sitharaman adds a layer of intrigue by disclosing that foreign banks and IFSC banking units facilitate acquisition finance for smart mergers and acquisitions. This makes an enticing offer for the developing Indian startup and corporate scene. Another significant step in GIFT City's strategic development has been reached with the creation of an EXIM bank subsidiary for trade finance.[2]

The ambition to construct data embassies in GIFT IFSC is one of the highlights of the Finance Minister's budget speech that caught my attention. This innovative project not only meets the needs of countries looking for solutions for digital continuity, but it also shows how committed GIFT IFSC is to creating a strong, supportive legal, regulatory, and digital infrastructure. With

[1] 'Realizing the potential of a US$26 trillion economy' (*EY*) <https://www.ey.com/en_in/india-at-100> accessed 20 January 2024

[2] 'The Global Financial Centres Index 32' (*Finance Centre Futures*, September 2022) <https://www.longfinance.net/media/documents/GFCI_32_Report_2022.09.22_v1.0_.pdf> accessed 20 January 2024

its ideal location and careful planning, GIFT City is poised for greatness.[3] Tucked away between the vibrant metropolises of Ahmedabad and Gandhinagar, this 3.6 sq km integrated development area is just the beginning of its vast future. A vast 5.76 sq km built-up area is the subject of ongoing plans that will integrate a variety of commercial, residential, and social spaces into one cohesive whole. This 3.6 sq km integrated development region, positioned between the thriving metropolises of Ahmedabad and Gandhinagar, is only the start of its vibrant future. A massive 5.76 square kilometre built-up area is at the centre of ongoing initiatives to merge a variety of commercial, residential, and social spaces into a seamless whole.[4] When one looks back into GIFT City's history, one finds that the Special Economic Zones Act of 2005 is where it all began. This legislative action made it possible for India to house the primitive IFSC in 2019. The commercial activities of the city are strategically divided between the GIFT SEZ and the functioning GIFT IFSC. This division became fully realised in 2020, turning GIFT City into a hub for AIFs and fintech companies. GIFT City is unique because of the comprehensive regulatory framework that the 2019 Act lays out. The International Financial Services Centres Authority (IFSCA) is in charge of this framework, which serves as a unifying factor by combining the efforts of regulatory heavyweights like the RBI, SEBI, IRDAI, and PFRDAI in a seamless manner. This guarantees a business climate free from obstacles caused by competing regulations.[5]

The financial advantages offered by GIFT City are what makes it so alluring in the first place. Its dedication to promoting growth is demonstrated by the zero percent GST for registered businesses and the 100% tax vacation on profits for ten out of fifteen years. GIFT City's regulatory environment is designed to be flexible and accommodating, with the goal of promoting the relocation of greenfield funds and tax-neutral funds while also attracting international capital. One particularly noteworthy aspect is the clause that permits international investors to do transactions in US dollars, thus avoiding the customary complications related to

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[3] 'Tax Incentives for IFSC Unit - GIFT IFSC How Budget 2023 has increased the attractiveness for IFSC, GIFT IFSC' (*EY*, 06 March 2023) <https://www.ey.com/en_in/tax/india-tax-insights/how-budget-2023-has-increased-the-attractiveness-for-ifsc-gift-ifsc> accessed 20 January 2024

[4] *Ibid*

[5] International Financial Services Centres Authority (IFSCA), SEZ authorities, Goods and Services Tax Network (GSTN), Reserve Bank of India (RBI), Securities and Exchange Board of India (SEBI) and Insurance Regulatory and Development Authority of India (IRDAI)

currency conversion. The remarkable outcomes of this investor-friendly strategy have propelled GIFT IFSC to the top of the Global Financial Centres Index (GFCI), a list of centres expected to become more significant in the years to come.[6]

'Why look elsewhere when GIFT City IFSC offers benefits on par with the world's leading financial hubs?' The large presence of AIFs and fintech companies—which include prestigious names like Blume Ventures, Fireside Ventures, and Venture Catalysts—provides concrete reinforcement for this sentiment. According to the brilliant head of Merisis Opportunities Fund, Sumir Verma, the GIFT IFSC initiative is a strong effort that acknowledges the critical role that startups and AIFs play in the movement of capital and the creation of jobs. It represents a deliberate attempt to present India as a favourable business hub on the international scene in order to attract globally focused capital to the country.

As a law practitioner fortunate enough to observe the revolutionary journey of GIFT City, I see that this financial haven represents more than just a transactional value. It is a clear indication of India's steadfast dedication to achieving global financial excellence and extends a warm welcome to both businesses and investors. The remaining chapters in GIFT City's development promise to write a history that will not only enhance its prominence but also greatly advance India's bold economic endeavours in the international arena.[7]

PIONEERING CROSS-BORDER INVESTMENT WITH STRATEGIC DETERMINANTS

Establishing an International Financial Services Centre (IFSC) in the fast-paced world of international banking requires a careful assessment of critical factors.

In the dynamic realm of global banking, the creation of an International Financial Services Centre (IFSC) demands a meticulous evaluation of certain critical factors. The China Development Institute and Z/Yen Partners' widely acclaimed Global Financial Centres Index (GFCI) Report acts as a compass for assessing more than 100 financial centres based on critical

[6] 'THE GIFT VISION' (*GIFT*) <https://www.giftgujarat.in/about> accessed 15 January 2024

[7] Suprita Anupam, 'Can GIFT City Replace Singapore, Mauritius As Preferred Financial Hub For Startups & Investors?' (*INC42*, 05 June 2023) <https://inc42.com/features/can-gift-city-replace-singapore-mauritius-as-preferred-financial-hub-for-startups-investors/> accessed 15 January 2024

competitiveness criteria. In light of the GFCI model's instrumental features, GIFT City is a strategic hub the fact that should be taken into consideration for the development of an IFSC in India.[8]

Institutional and Regulatory Environment: With a carefully designed institutional and regulatory framework, GIFT City, Gujarat, is becoming a leading destination for international investment. The key to this appeal is a set of regulations crafted with the best practises of global financial hubs in mind, with the goal of attracting international investors. This paper explores the core institutional and regulatory framework of GIFT City and how it attracts cross-border investments while adhering to international norms. The *International Financial Services Centres Authority* (IFSCA) was established under the IFSCA Act of 2019 and is a key component of GIFT City's appeal to foreign investors. With this ambitious step, Indian policymakers depart from traditional regulatory frameworks and put GIFT City on par with other globally recognised financial centres. Like the regulatory authorities in Hong Kong, Singapore, Dubai, and Qatar, the IFSCA promotes efficiency and coherence by combining the supervisory authority of many financial regulators into one organisation.

It is impossible to overestimate the importance of a single regulatory agency for international investors. It reduces the difficulties involved in moving through several regulatory agencies and translates into a more efficient and transparent regulatory framework. The IFSCA offers a thorough supervisory system involving banking, capital markets, fund management, insurance, and more, acting as the nodal point of contact for regulatory problems. By ensuring that GIFT City's regulatory framework complies with international norms, this consolidation gives foreign investors comfort and assurance. The structural consolidation is only one aspect of the strategic alignment with international norms. GIFT City is unique because of the IFSCA's proactive engagement in establishing a globally coordinated regulatory framework. The regulatory structure of GIFT City, in contrast to conventional rules that are centred on India, is made to be

[8] 'The Global Finance Centre Index' (*ZEN*) <https://www.longfinance.net/programmes/financial-centre-futures/global-financial-centres-index/> accessed 15 January 2024

globally competitive and incorporate best practises that increase its appeal to a wide variety of financial operations.[9]

GIFT City's dedication to ease of doing business is a key component of its attraction. The IFSCA works towards this objective in a number of ways. First of all, it minimises bureaucratic obstacles by ensuring that regulatory procedures are effective and business-friendly. The financial institutions' authorization process is also decreased making it easier to onboard companies engaged in capital markets, banking, fund management, and insurance. Furthermore, financial services that were formerly acquired from offshore countries are aggressively encouraged to be moved onshore by the IFSCA. This calculated action presents GIFT City as a complete financial services destination while also strengthening the city's economic ecosystem. There's no longer a need for offshore transactions because services like fintech, international bullion exchange, aircraft leasing and financing are all conveniently provided within GIFT City. The IFSCA's dedication to onshoring demonstrates GIFT City's goal of becoming an independent and significant financial hub on a global scale. By bringing additional financial services onshore, GIFT City enhances its standing as a flexible and progressive location for cross-border investments while meeting the changing demands of the global financial community.

Tax and Operational Benefits:[10] India's dedication to promoting global financial excellence is evidenced by the establishment of GIFT City, the esteemed IFSC. Its alluring features are centred around an extensive array of financial advantages that are carefully crafted to entice and expedite international investment. These financial incentives, which include advantages related to income tax, Goods and Services Tax (GST), and other operational perks, put GIFT City in a leading position for international financial activity.

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[9] Dipesh Shah and Pawan K. Chugan, 'Key requirements for setting up a successful International Financial Services Centre (IFSC) in India' in Pawan K. Chugan et al. (eds), *New Age Ecosystem for Empowering Trade, Industry and Society* (Excel India Publishers) 397-406

[10] 'A Complete Overview of IFSC Gift City and Tax Benefits in Gift City' (*InCorp Advisory*, 16 June 2022) <https://incorpadvisory.in/blog/a-complete-overview-of-ifsc-gift-city-and-tax-benefits-in-gift-city/#What-Are-The-Benefits-In-GIFT-City?> accessed 15 January 2024

BENEFITS OF INCOME TAX

IFSC Units: The income tax advantages provided by GIFT City to properties under its authority are exceptional. Offering a complete tax exemption for ten of the fifteen years in a row offers a significant financial benefit. This flexibility offers IFSC units a customised approach to tax planning by enabling them to deliberately select the years that correspond with their growth trajectory. For businesses and entities in the IFSC, the application of the *Minimum Alternate Tax* (MAT) or *Alternate Minimum Tax* (AMT) at a rate of 9% guarantees a balanced fiscal framework.[11]

Moreover, an additional degree of choice is provided by the exemption from MAT for corporations that choose the new tax structure. The change in dividend income taxation, which will make it taxable in shareholders' hands as of April 1, 2020, is a thoughtful move that complies with global standards.

Investors: The advantages for investors who are part of GIFT City's financial ecosystem include several revenue streams. The non-taxable nature of income generated through interest, paid to non-residents on funds borrowed through IFSC units makes the offer appealing to foreign lenders.

One prominent feature is the fact that earnings from the trade of specific stocks listed on IFSC exchanges by non-residents are not taxable in India. This makes things easier for investors who are trading assets in GIFT City, which is in line with the centres' goal of becoming a major international financial hub.

BENEFITS OF THE GOODS AND SERVICES TAX (GST)

IFSC Units: The advantages of GST in GIFT City increase its appeal even more. A smooth environment for financial transactions is created by the absence of GST on services rendered to IFSC/SEZ units, offshore clients, and units in the IFSC. To ensure an independent distinction

[11] 'Tax Framework' (*GIFT*) <https://www.giftgujarat.in/business/ifsc?tab=Tax%20Incentives> accessed 18 January 2024

between local and overseas transactions, this exemption, however, is limited to transactions involving offshore clients and those taking place within IFSC or SEZ units.

Investors: Investors that engage in trade on IFSC exchanges benefit from a GST-free environment. The aforementioned tax structure simplification enhances GIFT City's operating efficiency and appeals to investors doing cross-border operations.

HUMAN CAPITAL

The importance of human capital is a critical success factor in the ever-changing world of international finance. The significance of proficient individuals in determining the competitiveness of financial centres is acknowledged by the Global Financial Centres Index (GFCI) Report. With its advantageous location between Ahmedabad and Gandhinagar, GIFT City has grown to become a major player that attracts foreign investment by utilising India's large talent pool. According to the GFCI Report, one of the most important elements in a financial centres' success is its human capital. The strategic position of GIFT City is important in this regard. GIFT City is ideally situated to benefit from India's demographic dividend, sandwiched between Gandhinagar, the political capital of the state, and Ahmedabad, the centre of the state's industrial activity. Because of its favourable demographics, GIFT City is well-positioned to attract and retain highly qualified workers, particularly in the fields of banking and IT.

India has gained international prominence for generating some of the most brilliant minds in technology and finance. By creating an atmosphere that attracts and retains elite talent, GIFT City makes use of this natural advantage. The attractiveness of the city is further increased by its close proximity to prestigious educational institutions. Organisations like National Law Schools, *Indian Institutes of Technology* (IITs), and *Indian Institutes of Management* (IIMs) help to create a highly qualified workforce that is equipped to handle the challenges of the world's financial system. The strategic position of GIFT IFSC guarantees easy access to various educational centres and promotes smooth academic-industry collaboration. By combining theoretical knowledge with practical applications, this synergy produces a dynamic environment that equips professionals to thrive in the complexities of international finance. The mutually beneficial association between academic establishments and the financial sector facilitates an uninterrupted supply of proficient graduates into GIFT City, guaranteeing a constant stream of new personnel.[12]

Furthermore, GIFT IFSC's aggressive efforts to draw experts from important metropolises like Bangalore, Delhi, and Mumbai enhance its reputation as a centre for elite talent. Professionals are drawn to GIFT City by the appeal of favourable and new career prospects as well as the cutting-edge infrastructure of the city, which expands the talent pool. When determining where to make investments, cross-border investors pay close attention to the availability of competent human resources. The expectations of international investors are met by GIFT City's dedication to developing a strong talent ecosystem. The workforce in the city is not only technically proficient but also demonstrates a global perspective, which is essential for negotiating the intricacies of international financial services and cross-border transactions.

EXCELLENCE IN INFRASTRUCTURE

The importance of having a strong infrastructure in the world of international finance cannot be emphasised, and GIFT City is a leader in this crucial area. Situated as the first fully functional greenfield Smart City in India, GIFT City has deliberately improved its infrastructure to encourage international investment and establish new standards for International Financial Centres (IFCs) globally. With an amazing 62 million sq. ft. of built-up area that perfectly incorporates numerous facilities, GIFT City boasts a vast landscape spanning 886 acres. This extensive infrastructure is not only evidence of scale but also a calculated investment in establishing a climate that encourages financial development, creativity, and international cooperation.[13]

[12] Dipesh Shah and Dr. Pawan K. Chugan, 'Key Detriments Behind An International Financial Services Centre: An Exploratory Study of India's Maiden IFSC At Gandhinagar' (2023) 9 Gujarat PDEU Journal of Energy and Management 12-19

[13] *Ibid*

The infrastructure of GIFT City places a strong emphasis on efficiency and sustainability. The city is proud to have an Automated Waste Collection System (AWS), a cutting-edge method of efficient waste disposal. With the use of a chute system, the AWS guarantees fully automated waste disposal from beginning to end without the need for human involvement. This not only complies with international environmental regulations but also shows GIFT City's commitment to building a clean and sustainable ecology, which appeals to cross-border investors who are concerned about the environment.

The District Cooling System is another noteworthy component that demonstrates GIFT City's dedication to energy conservation. When compared to more conventional models, this cutting-edge air conditioning system is intended to save up to 30% more energy. In contrast to traditional models, this cutting-edge air conditioning system aims to conserve up to 30% more energy. The incorporation of sustainable solutions is in line with the worldwide movement towards eco-friendly practises and presents GIFT City as a desirable location for investors who prioritise sustainable growth.

In order to fulfil its ambition of becoming a 'Digging Free City'[14] GIFT City has constructed a Utility Tunnel, an innovative piece of infrastructure that exhibits forward-thinking urban planning. Since this tunnel crosses the entire city, there won't be any more excavations required for utility maintenance, upgrades, renovations, or repairs. The Utility Tunnel, which has features for easy access, utility separation, adequate drainage, lighting, and long-term issues like security and maintenance, is a testament to GIFT City's dedication to building a seamless infrastructure that is ready for the future.

One of GIFT City's main advantages as an investor is its top-notch social and physical infrastructure. The success of cross-border investments frequently depends on the guarantee of a modern, supportive environment that can accommodate the complexities of financial activities. With its state-of-the-art amenities, GIFT City offers investors looking for a smart and effective environment a comforting backdrop. The city's dedication to establishing a 'Digging

[14] 'Infrastructure' (*GIFT*) <https://giftsez.com/unique-infrastructure.aspx> accessed 18 January 2024

Free City' is not just a practical decision; rather, it is a calculated risk management tactic that minimises possible disruptions and guarantees the continuous flow of financial activities—an important factor for international investors who place a premium on efficiency and dependability.

CAN GIFT IFSC GET THE STARTUP MARKET BACK TO INDIA FROM SINGAPORE?

A number of c-suite Indian firms, such as Flipkart, InMobi, and Medialink, have opted to establish their operations in Singapore through incorporation. An increasing number of new Indian software companies are following this pattern, which is gaining traction. The case study of Flipkart's relocation to Singapore serves as an example of the trend of different strategic considerations driving the decision to establish businesses in Singapore.

Analysing the Flipkart Situation:[15] Flipkart's need for foreign investment to fund its expansion may be traced back to the reason behind its relocation to Singapore. The founders of Flipkart came up with a plan shortly after they realised that FDI in multi-brand retail in India was restricted. They chose to keep their Indian businesses—Flipkart India, Ekart, and WS retail—as subsidiaries of the Singaporean company and move their backend operations to a recently established organisation called Flipkart Singapore. Flipkart Singapore was able to attract foreign investment as a result, and its Indian operations were also entitled to receive it. These restrictions on foreign direct investment are only one example of the many obstacles preventing Indian companies from expanding. These obstacles, which collectively hinder the effectiveness and resource utilisation of Indian businesses, include limitations on exporting specific goods, regulations controlling the entry of machinery, and restrictions on foreign exchange.

Many other Indian startups, particularly those in the IT, gaming, social media, and mobile technology sectors, have followed this strategy in an attempt to attract foreign investment. With many seasoned venture capital firms and private equity groups insisting on investments in Indian startups through a Singapore-based framework, the Singapore FDI route has developed

[15] Uday Kotak and David Craig, 'Developing GIFT City into a Global Services Hub' (*The City UK*) <https://www.thecityuk.com/media/04od4n2k/iukfp-developing-gift-city-into-a-global-services-hub.pdf> accessed 20 January 2024

into a well-established practise. Due to this legal framework, these corporations can avoid paying capital gains taxes in India upon their departure and can reduce their profit-related taxes if they choose to pay dividends.

Considerations for Capital Gains: The success of this strategy is demonstrated by the US-based venture capital firm Sequoia's work with Druva. Druva reorganised into a new Singaporean business that replicated the ownership structure of the original Indian company when Sequoia decided to invest in it. By allocating its stock part to Mauritius companies rather than its Indian investment vehicle, Sequoia was able to avoid paying capital gains tax in India.

Strategies for Dividend Taxation: Indian subsidiaries frequently use a loan dividend arrangement to manage dividend taxes. If the subsidiary declared a direct dividend in India, a 15% withholding tax would be imposed. As a result, subsidiaries choose to enter into a loan agreement with overseas shareholders or the parent business, in order to avoid paying taxes on the loan amount right away. This loan might eventually be cancelled and never repaid by the parent business, or it could be amended through additional tax-neutral transactions between the parent and the subsidiary.

The trend of Indian entrepreneurs incorporating in Singapore is a calculated reaction to obstacles and hurdles posed by regulations in the Indian business environment. Flipkart serves as an example of how this kind of action encourages foreign investments by enabling companies to better structure their business models for capital gains and dividend taxation, which in turn creates an environment that is more favourable for growth and development.

The Brilliance of Singapore and Other International Financial Hubs: A distinct paradigm shift has emerged in the ever-changing global cross-border investment market, highlighting the tendency of Indian entrepreneurs to move their headquarters overseas. Travel hubs such as Dubai, Singapore, and Mauritius, known for their accommodative legal and tax environments, have drawn over 40 of the 108 Indian unicorns. These unicorns are motivated by the desire for lower taxes, higher prices, easier access to capital, and advantageous listing or exit strategies.

As a legal practitioner who is extensively involved in the complex web of cross-border business dynamics in India, this tendency makes me stop and think.

Known as 'flipping' the movement of startups out of India involves the complete transfer of data, intellectual property (IP), and ownership to a foreign company.

The process of startups transferring from India, known as 'Flipping' involves the complete transfer of data, intellectual property (IP), and ownership to a foreign entity. The original Indian company becomes a 100% subsidiary of its newly established foreign counterpart as a result of this transformation. This strategic move may have been influenced by the need for global market penetration and proximity to target markets, but industry observers mostly attribute it to the attraction of more accommodative regulatory frameworks and business environments. One important feature is the aggressive support—from certain foreign funders, including Y Combinator—for their portfolio businesses to move to the United States. By facilitating investments in USD and reducing additional administrative and legal costs, this strategic move highlights the significant impact of regulatory environments on strategic decision-making.

An insightful viewpoint is provided by Info Edge's visionary founder and executive vice-chairman, Sanjeev Bikhchandani, who describes the migration of Indian entrepreneurs to the US as an 'institutionalised transfer of wealth'. The Economic Survey, 2022–2023 recognises the importance of this trend and recommends legislative actions and solution-focused approaches to encourage entrepreneurs to return to India. One significant example of this initiative was the 2023 relocation of PhonePe's parent firm from Singapore, which was owned by Walmart and paved the way for further transfers by Meesho and Razorpay.[16]

With GIFT IFSC, reverse flipping is available: Presenting the Global Financial Hub — GIFT IFSC, India's answer to the international startup diaspora. Introducing GIFT IFSC: India's response to the global startup community, a premier Global Financial Hub. Even though 'Reverse flipping' is still a rather uncommon occurrence, GIFT IFSC is well-positioned to spur this trend with a variety of incentives. Notably, it allows investors and startups to carry out their

[16] *Ibid*

financial activities in US dollars, caters to a range of tax advantages and fintech programmes, and encourages partnerships with other financial hubs to strengthen the Offshore Financial Centers (OFC) worldwide market base. Established Private Equity (PE) and Venture Capital (VC) funds find GIFT IFSC appealing, especially in light of the recent modifications to treaty privileges in Singapore and Mauritius. The declaration of a single-window clearance procedure by the Finance Minister strengthens the case for GIFT IFSC.[17]

Fund managers benefit greatly from the deliberate 18% GST exemption on all expenses, which reduces financial strain and creates a more positive operating climate. Moreover, the GIFT IFSC's zero percent capital gains tax policy for investments made through IFSC stock exchanges is comparable to policies in Singapore and New York, where non-resident investors are excluded from capital gains taxes. The story of GIFT IFSC's development in the field of international cross-border investments demonstrates that the Global Financial Hub is a proactive effort to reposition India's standing in the global financial arena rather than just a reactive response to the changing startup landscape.[18] The creative incentives and dedication to international standards are indicative of a strategy intended to draw funding, hold onto money, and establish GIFT IFSC as a trailblazing centre for international financial activities. This demonstrates India's resolve to maintain its startup culture while simultaneously becoming a major force in the global financial scene. The remaining narrative chapters of GIFT IFSC's story have the potential to not only stop the drain from startups but also to usher in a period of unheard-of expansion and financial prominence for India on the international scene.

PRESENT-DAY DEVELOPMENTS AND INVESTMENT TRENDS IN GIFT IFSC

Gift-Nifty: The GIFT NIFTY strategic effort, known as 'Onshoring the offshore' represents a paradigm shift in the global derivatives trading landscape that goes well beyond the boundaries

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[17] Dinesh Gupta and Yash Jain, 'Reverse Flipping of Start-Ups To The Gift City: Key Recommendations of The IFSCA Committee' (*Legal500*, 11 September 2023) <https://www.legal500.com/developments/thought-leadership/reverse-flipping-of-start-ups-to-the-gift-city-key-recommendations-of-the-ifsca-committee/> accessed 20 January 2024

[18] Prakash Rao, 'Reverse Flipping of Indian Companies - Keeping India's Economic Assets at Home' (*LinkedIn*, 29 October 2023) <https://www.linkedin.com/pulse/reverse-flipping-indian-companies-keeping-indias-economic-rao-z916c/?utm_source=rss&utm_campaign=articles_sitemaps> accessed 20 January 2024

of GIFT IFSC. A new chapter in the dynamics of cross-border investment has emerged with the transfer of SGX Nifty trading from the Singapore Exchange to the NSE IX within GIFT IFSC. More global securities can now be listed on the GIFT-NIFTY platform by virtue of the transfer of the SGX Nifty to the GIFT IFSC's NSE IX. Due to this shift, investors will have access to a wider variety of international assets and investment options. The platform's importance in the global financial arena will probably increase as it develops and more global securities are added. This development indicates improved access to a broader and more varied portfolio of assets for investors operating across borders, which in turn promotes the cross-pollination of global financial instruments.

The GIFT-NIFTY platform's $10 billion daily turnover attests to its instant influence on the financial markets. This high trading volume indicates that both domestic and foreign investors are actively participating and showing interest. Regarding international investments, the significant turnover indicates the platform's liquidity and appeal to a worldwide investor community. With GIFT-NIFTY's increasing momentum, it will have a greater impact on local and global markets, influencing market dynamics and investment plans in India as well as in a wider international environment. The tax exemptions granted on capital gains from derivatives listed on NSE IX are a primary incentive for foreign investors utilising GIFT-NIFTY. The platform is more tax-efficient than other jurisdictions since foreign investors are strongly encouraged to invest there by the exemption from Indian income tax on such gains. This tax benefit aligns GIFT-NIFTY with international standards of tax efficiency and investor-friendly regulations, making it a desirable location for cross-border investment.[19]

One important factor that cross-border investors need to take into account is the increasing impact of GIFT-NIFTY on both local and worldwide markets. The platform's influence on global indices and financial instruments intensifies as it grows and draws a wider variety of assets. International investors can take advantage of the special opportunities provided by GIFT-NIFTY's dynamic ecosystem by carefully positioning their portfolios using this influence. The

[19] 'Onshoring the Indian Innovation to GIFT IFSC' (*IFSCA*, August 2023) <https://ifsca.gov.in/Document/ReportandPublication/onshore-the-indian-innovation-to-gift-ifsc-a4-1327082023112304.pdf> accessed 20 January 2024

platform's importance in the changing cross-border investment landscape is highlighted by its capacity to influence financial activities both inside and outside of India.

Development of the Financial Sector: Recent changes to the IFSC banking framework—from allowing only branches to allowing subsidiaries—represent a significant shift in the GIFT IFSC financial environment. With this development, banks can function within the IFSC as separate companies, offering a wider range of financial services that tend to be more flexible and all-inclusive. Notably, GIFT IFSC is becoming a more popular destination for both local and international banking activities, as evidenced by the admission of five of the top ten global banks and all of the top ten Indian banks. The banking industry is quite large and active, with total banking assets reaching US $ 41.20 billion as of July 2023 and cumulative banking transaction value of US $ 508 billion. These numbers offer appealing opportunities for international investors looking for stable and vibrant financial markets.[20]

One important element that increases the appeal of GIFT IFSC is the tax scheme of 5% on interest for extrinsic commercial borrowing by Indian borrowers under Indian income-tax law. Lower borrowing costs result from banks in the GIFT IFSC having a reduced tax break of ten years. This offers a strategic advantage to foreign investors because lower borrowing costs can serve as a potent inducement, drawing in more business for banks operating within the GIFT IFSC. The enduring desire of borrowers to reduce borrowing expenses is consistent with GIFT IFSC's appeal as a financial centre. There are now more options for cross-border investments thanks to the significant change that permits foreign banks to issue P-notes based on underlying Indian securities and conduct acquisition financing. This development establishes a mutually beneficial connection by giving international banks the opportunity to investigate strategic financing arrangements and giving Indian enterprises access to capital for domestic acquisitions. The combination of foreign banks and the possibility of local acquisitions offers a sophisticated

[20] 'India Tax Insights' (2023) 6 EY <https://assets.ey.com/content/dam/ey-sites/ey-com/en_in/topics/tax/india-tax-insights/2023/08/ey-india-tax-insights-september-2023.pdf> accessed 20 January 2024

approach to cross-border investment, encouraging capital flow and cooperation between international financial institutions and the Indian economic environment.[21]

The development of GIFT IFSC's lending platforms is evidence of the organization's rising prominence in the financial sector. Major international and Indian banks' involvement, the GIFT IFSC's enlarged banking framework, tax breaks, and the ease with which foreign banks can finance acquisitions all work together to make the region a desirable location for international business. For investors looking for possibilities that cut across national boundaries, GIFT IFSC's active and varied financial ecosystem, along with its strategic advantages, make it an appealing option. As GIFT IFSC continues to evolve and gain more prominence in the world of international finance, cross-border investors would be well to assess it carefully and include it in their investment tactics. The combination of foreign banks and the possibility of local acquisitions, offers a sophisticated approach to cross-border investment, encouraging capital flow and cooperation between international financial institutions and the Indian economic environment.[22]

Family Investment Funds (FIFs): Within the thriving financial ecosystem of GIFT IFSC, there are more than fifty AIFs with a combined capital of US $17.8 billion. This highlights the dynamic and progressive character of the financial services provided inside GIFT IFSC and lays a solid platform for the creation of Family Investment Funds (FIFs). An important development under GIFT IFSC is the establishment of a specific structure for FIFs under the fund regime. Subject to certain requirements, this framework permits Indian citizens, including family offices, to create foreign investment vehicles. The creation of this kind of framework represents a calculated move to help Indian families invest abroad by providing them with a controlled and organised way to look into international investment prospects.[23]

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[21] *Ibid*

[22] *Ibid*

[23] 'Potential Investment Opportunity for Indian Families in GIFT City Through Setting up of Family Investment Funds (FIFs)' (*SCV*) <https://scvindia.com/Developer/UsefulReading/FIF%20in%20GIFT%20City%2009.08.2023.pdf> accessed 20 January 2024

CRUCIAL PARAMETERS FOR FIFS

In order to participate in FIFs within GIFT IFSC, a few requirements need to be fulfilled:

Obtaining an IFSCA Licence: Getting a licence from the is the first and most important step. Investor interests are protected and international standards are adhered to due to this regulatory oversight.

Minimum Corpus: For a three-year period, FIFs must maintain a minimum corpus of US$10 million. By setting a bar for the financial stability of FIFs, this criterion enhances viability and sustainability.

Principal Officer Requirement: To provide responsible and accountable leadership within the fund structure, FIFs must have a minimum of one Principal Officer. This requirement is consistent with the principles of governance and serves to bolster the legitimacy of FIF operations.

Even though FIFs in GIFT IFSC are still in their early stages, it is important to remember that IFSCA and the RBI are being consulted for clarification on a few points. This constant conversation demonstrates the dedication to improving and fine-tuning the FIFs regulatory framework. In the coming years, the field of FIFs is expected to become a very interesting topic of interest in the GIFT IFSC's financial landscape. The dynamic regulatory landscape, in combination with the tactical benefits provided by GIFT IFSC, presents FIFs as a feasible and alluring choice for Indian family offices attempting to manage the intricacies of international investment transactions.[24]

Cross-Border Investment Perspective:[25] The formation of FIFs under GIFT IFSC offers Indian citizens a methodical way to diversify their investment holdings throughout the world. Investor confidence is fostered by regulatory control, which guarantees openness and respect for international standards. Family offices are searching outside of their home markets for

[24] 'IFSC at GIFT City: unpacking key factors driving investor attraction' (*EY*, 05 September 2023) <https://www.ey.com/en_in/tax/india-tax-insights/ifsc-at-gift-city-unpacking-key-factors-driving-investor-attraction> accessed 20 January 2024

[25] *Ibid*

investment opportunities more and more, and the GIFT IFSC's FIF structure provides a safe haven for exploring the world of international investing.

Aircraft Leasing: The rising demand for air travel is driving a strong growth trajectory in India's aviation industry. The industry of aircraft leasing benefits from this spike in demand, which in turn creates a greater need for aircraft. In the past, Indian companies used to lease airplanes from countries with advantageous tax laws; but, new initiatives inside the GIFT IFSC are changing the game. Due to its advantageous location and business-friendly policies, GIFT IFSC has emerged as a prominent aircraft leasing centre that presents a compelling prospect for international investment. More than fifteen aircraft leasing companies have registered in the financial enclave, indicating a rising interest in making use of GIFT IFSC's benefits.[26]

According to publicly accessible data, GIFT IFSC presently maintains a varied portfolio of more than 25 assets, including fixed-wing aircraft, helicopters, engines, and ground support machinery. The variety of assets highlights the adaptability and all-inclusive character of the aircraft leasing operations conducted by GIFT IFSC. The legitimacy and potential of GIFT IFSC as a preferable location for aircraft leasing are further reinforced by the presence of Air India, a well-known participant in the aviation sector. For aircraft leasing companies, the current market conditions, in conjunction with the advantageous tax and regulatory environment in GIFT IFSC, create a strategic window of opportunity. The expansion of the aviation industry coincides with the favourable conditions offered by GIFT IFSC; thus it is the right time for organisations to take advantage of this changing environment. The well-established organisations and resources housed within GIFT IFSC represent the beginnings of what may grow into a viable centre for aircraft leasing operations.

GIFT IFSC’s entry into aircraft leasing represents a strategic connection with the global aviation industry from the standpoint of cross-border investment. The financial enclave's dedication to fostering a business-friendly environment and its transparent regulatory framework provides investors confidence when they want to get involved in the exciting aviation market. In the

[26] ‘Aircraft Leasing in IFSC at GIFT City’ (*GIFT*) <https://giftsez.com/documents/Aircraft_Leasing_Financing.pdf> accessed 20 January 2024

rapidly growing Indian aviation industry, GIFT IFSC offers foreign investors a singular chance to participate in aircraft leasing while taking advantage of the financial enclave's simplified regulations and tax breaks.

International Listing Centre: The GIFT IFSC has the potential to develop into a revolutionary centre for international listings and capital raising on a global scale. A paradigm shift has been signalled by recent statements from the Finance Ministry, enabling Indian firms, including start-ups, to list on foreign markets, such as those under the GIFT IFSC. This calculated decision establishes GIFT IFSC as a vibrant hub for financial markets, international investments, and strategic growth, in line with the government's acknowledgment of the critical role that global capital plays in promoting economic progress. Although the official announcement is still a long way off, the fact that Indian companies will soon be able to list on IFSC markets is a revolutionary step. After GIFT IFSC is put into place, unlisted businesses—especially Indian start-ups—will be able to access foreign exchanges, greatly expanding their options for obtaining financing and gaining international exposure. The GIFT IFSC's changing regulatory environment will enable businesses to consider overseas listings as a growth strategy.[27]

As of right now, IFSC exchanges are seeing a lot of activity as Indian corporations are secondary listing bonds worth more than US$52 billion. This example highlights GIFT IFSC's appeal as a top platform for financial transactions. A taste of the potential size and diversity that will be possible once regulations permit further participation, including equity listings, is given by the listing of bonds on IFSC markets. IFSC exchanges, which provide a platform for businesses to access international capital flows, are positioned to develop into vibrant centres for capital raising as the legislative framework improves. The move to permit overseas listing for Indian firms is indicative of a strategic recognition of the role that a strong finance sector plays in propelling economic expansion. With its progressive regulatory framework, GIFT IFSC is well-positioned to meet the various needs of businesses intending to list internationally.[28]

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[27] *Ibid*

[28] 'Direct listing of Indian companies on foreign exchanges at GIFT City to be approved soon: Report' (*Live Mint*, 31 Oct 2023) <https://www.livemint.com/market/stock-market-news/direct-listing-of-indian-companies-on-foreign-exchanges-at-gift-city-to-be-approved-soon-report-11698666516638.html> accessed 20 January 2024

The acknowledgement by the government of the globalisation of financial flows highlights the anticipated contribution of GIFT IFSC to India's economic success. GIFT IFSC seeks to provide a globally competitive financial platform to satisfy India's development needs while leveraging global capital flows. This offers investors a special chance to join the Indian economy's growth trajectory by making calculated investments in globally listed companies via GIFT IFSC. The tremendous potential and opportunity that GIFT IFSC provides for investors are reaffirmed by recent developments. The potential for a wider range of businesses, particularly start-ups, to be able to list internationally increases the variety of investment prospects. For global investors seeking to broaden their investment portfolios and take advantage of the thriving Indian market, GIFT IFSC presents a strong option.

CONCLUSION

Recommendations and Future Prospects:

Accelerated Inbound Merger: Foreign investors and start-ups would require a tax-neutral and expeditious framework or process to enable them to relocate their operations back to India. Two methods exist for executing a reverse flip: inbound merger and equity transfer. Despite the expediency of the equity transfer, there may be tax and regulatory consequences to consider.

An inward merger between a domicile firm and an international business can provide a tax-neutral framework; however, the process is protracted and requires approval from the National Company Law Tribunal (NCLT) and additional regulatory entities. In addition, prior approval from the Reserve Bank of India (RBI) is required if the inward merger proposal violates the Cross Border Merger Regulation.

Given the aforementioned challenges, the following recommendations can be undertaken:

- In regard to the IFSC centre, in particular, the Ministry of Corporate Affairs (MCA) should declare an expedited merger procedure.

- Incoming mergers should be exempt from the jurisdiction of the NCLT and/or administrative authorization. Rather, they should be granted permission through voluntary declarations or, at most, with the assent of the IFSCA.

Efficient Incorporation Process: At present, entities formed within the GIFT IFSC are obligated to obtain authorization from the GIFT SEZ Development Commissioner and a certificate of incorporation from the IFSCA. It is recommended that the following be incorporated in order to optimise the overall process:

- It is suggested that MCA develop and implement a standardised application form that combines IFSCA clearance and business registration into a single document. This will expedite the evaluation process, and the IFSCA will have exclusive jurisdiction.
- Furthermore, it is imperative to relax certain provisions outlined in the Companies Act of 2013 (CA, 2013). Simplify the application process, designate IFSCA organisations as special companies, and relieve them of the strain of submitting numerous applications.

Regulatory Relaxations: Resident individuals and businesses engaging in investments in Gift IFSC are obligated to adhere to the overseas investment (OI) framework. The following foreign exchange regulations should be loosened to encourage Indian entrepreneurs to establish a presence in Gift IFSC:

- Under the current regulations of the OI framework, persons who are residents of an IFSC and the entity does not possess any subsidiaries or step-down subsidiaries outside the IFSC are eligible to make foreign direct investments (with controlling rights) in said entity. As a result, direct investments by residents in start-ups that have reverted to India and established HoldCos in the Indian Financial System are prohibited. The residents should be allowed to hold a dominant stake in IFSC companies with Indian subsidiaries. Indian business proprietors will be encouraged to establish HoldCo structures in IFSC.
- Residents who invest in Gift IFSC firms are required to adhere to the liberalised remittance scheme (LRS) limit of USD 250,000. The committee has suggested that the LRS limit for investment purposes in the Gift IFSC not be aggregated with other limits applied

to activities or investments and that an additional limit of USD 250,000 be granted to Indian innovators forming HoldCo structures within the Gift IFSC.

- SEBI-regulated mutual funds and alternative investment funds (AIFs) are authorised to make investments in foreign firms, provided they do not exceed the aggregate limits of $7.5 billion for AIFs and $1.5 billion for MFs. Subsequent to their depletion in 2022, these restrictions have remained unchanged. The consequent effect of AIFs and MFs being unable to invest in Gift IFSC firms is a hindrance to the ability of startups to obtain funding.

Tax Regime: Several tax-related proposals have been put forth by the committee in an effort to prevent startups from facing any tax-related obstacles when converting to the Gift IFSC via reverse shifting. Tax neutrality should be proposed, to promote the relocation of offshore holding companies in GIFT IFSC and guarantee that the offshore holding companies and their stakeholders do not face any adverse tax consequences. Furthermore, it has been proposed that capital gains tax should not apply to share transfers, on the condition that particular criteria regarding investment percentage and ownership tenure are met.

Moreover, there has been a recommendation for the Indian government to explicitly state that the location of the HoldCo within the Gift IFSC does not trigger the application of regulations concerning the place of effective management. This measure will ensure tax stability and encourage foreign companies to operate within the Gift IFSC framework. A further significant recommendation is to bring the exemption of dividend income received by HoldCos from their subsidiaries from taxation.

Personal Reflections: In India's bustling startup landscape, characterized by the emergence of over a hundred unicorn companies, a notable trend has emerged – a considerable number of these unicorns are opting to relocate their headquarters to jurisdictions with more favourable tax and regulatory conditions and flexible access to foreign capital. This strategic cross-border movement aligns with global patterns, as startups seek environments conducive to robust growth and international investment. Despite the regulatory and legal considerations associated with such transitions, the potential implementation of expert committee recommendations could influence startups to consider relocating to the Gift International Financial Services Centre (IFSC) in the immediate future, presenting a dynamic interplay between innovation, regulation, and cross-border investment.

The Reserve Bank of India's (RBI) adaptations to policies, particularly in acknowledgment of the pivotal role of fintech startups in fostering financial inclusion, indicate a symbiotic relationship between regulatory advancements and technological innovation. The International Financial Services Centres Authority (IFSCA) has further played a crucial role in providing a robust framework within the Gift IFSC, actively encouraging fintech innovation and positioning itself as a global hub. As startups navigate the intricate web of regulations and operational intricacies, the evolving response of the Indian administration and the potential for IFSCs to become preferred destinations for internationalized startups will shape the narrative of India's entrepreneurial landscape.