



GIFT City - Framework on Ship Leasing

Background

- Gujarat International Fin-Tech City (GIFT City) is an International Financial Services Centre (IFSC) which was declared a multi-service Special Economic Zone (SEZ) in 2015 and set up for entities engaged in financial service activity.
- The maritime industry is a strategically important sector for India given the country's vast coastline with massive global and domestic trade via sea routes. However, many leading shipping operators were choosing countries like Singapore, Hong Kong and Dubai as their base and hence, there was a need to align India's shipping regime with such centres.
- Therefore, it was proposed that the benefit of GIFT City be extended to ship leasing, along the lines of the extension provided to aircraft leasing. Accordingly, the Framework for Ship Leasing dated 16th August 2022 was published by IFSC Authority (IFSCA).
- Various tax and regulatory benefits have been offered to entities set up in GIFT City and the same are elaborated in the ensuing slides.



IFSCA implications

An entity can be set up in the IFSC GIFT City either as a company or LLP or a Trust or a Branch.

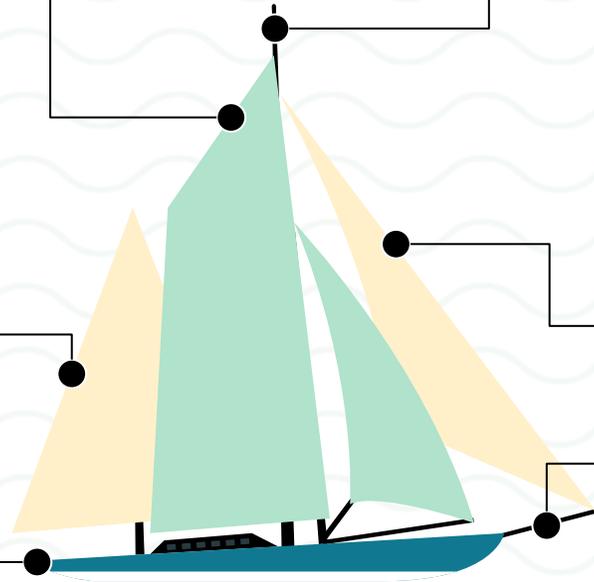
The entity shall also be required to comply with the provisions of Merchant Shipping Act, 1958.

Such entity shall be engaged in activities such as operating lease, finance lease or hybrid of operating and finance lease of ships or vessels, etc.

Minimum owned funds of USD 200,000 shall be maintained at all times by the entity, if it is engaged in operating lease. In case of financial lease or hybrid of operating and financial lease, the minimum owned funds to be maintained shall be USD 3 million.

The entity shall obtain registration as a lessor from the IFSCA by making an application in the prescribed form.

All transactions by the IFSC entity shall be undertaken in a freely convertible foreign currency. However, it shall be permitted to have an INR account to meet their administrative expenses.

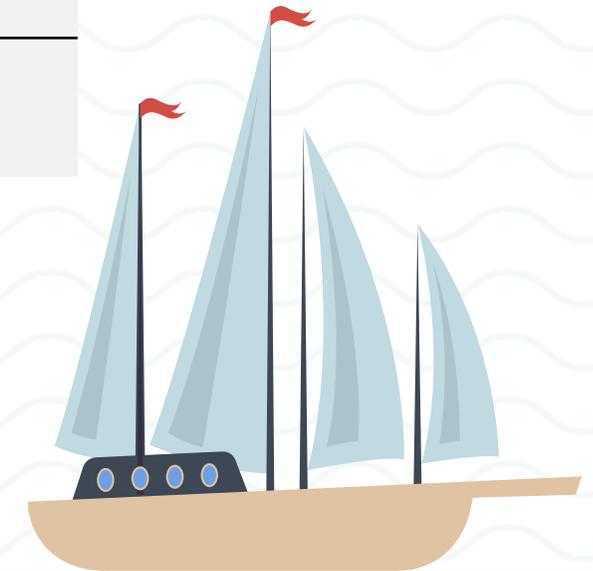


Tax holiday benefits

An entity located in an IFSC is treated as a resident for income tax purposes. Therefore, global income would be subject to tax.

However, tax holiday (i.e., 100% deduction of business income) for a period of 10 consecutive assessment years out of a period of 15 years, beginning with the year in which registration was obtained is provided for entities located in IFSC. The period of 10 consecutive years can be selected by the IFSC entity. The tax rate for an entity set up in IFSC shall be as follows:

Particulars	Rate of tax – normal tax	Rate of tax – MAT / AMT
Company	0% (during the tax holiday period)	9%. However, if the entity has opted for lower tax regime, MAT shall not be applicable.
LLP	0% (during the tax holiday period)	9%



Other income tax benefits

1

Capital gains arising from the transfer of a ship which was already leased by the IFSC entity shall not be subject to tax provided the entity has commenced its operations on or before 31 March 2024 and the said transfer has been effected during the tax holiday period.

2

No withholding tax implications on royalty or interest on account of lease payments by an IFSC entity to a non-resident if the IFSC entity has commenced its operations on or before 31 March 2024.

3

Further, there shall not be any withholding tax implications on interest paid by the IFSC unit to a non-resident with respect to money borrowed by the IFSC entity.



Corporate law and exchange control provisions



As per exchange control regulations, any unit set up in IFSC shall be treated as a person resident outside India.



Any transaction between the IFSC unit and an Indian resident shall be subject to exchange control regulations. However, any transaction between the IFSC unit and a non-resident will be outside such purview.



Minimum 2 board meetings shall be mandatory (one in each half year) for IFSC companies instead of quarterly requirement.



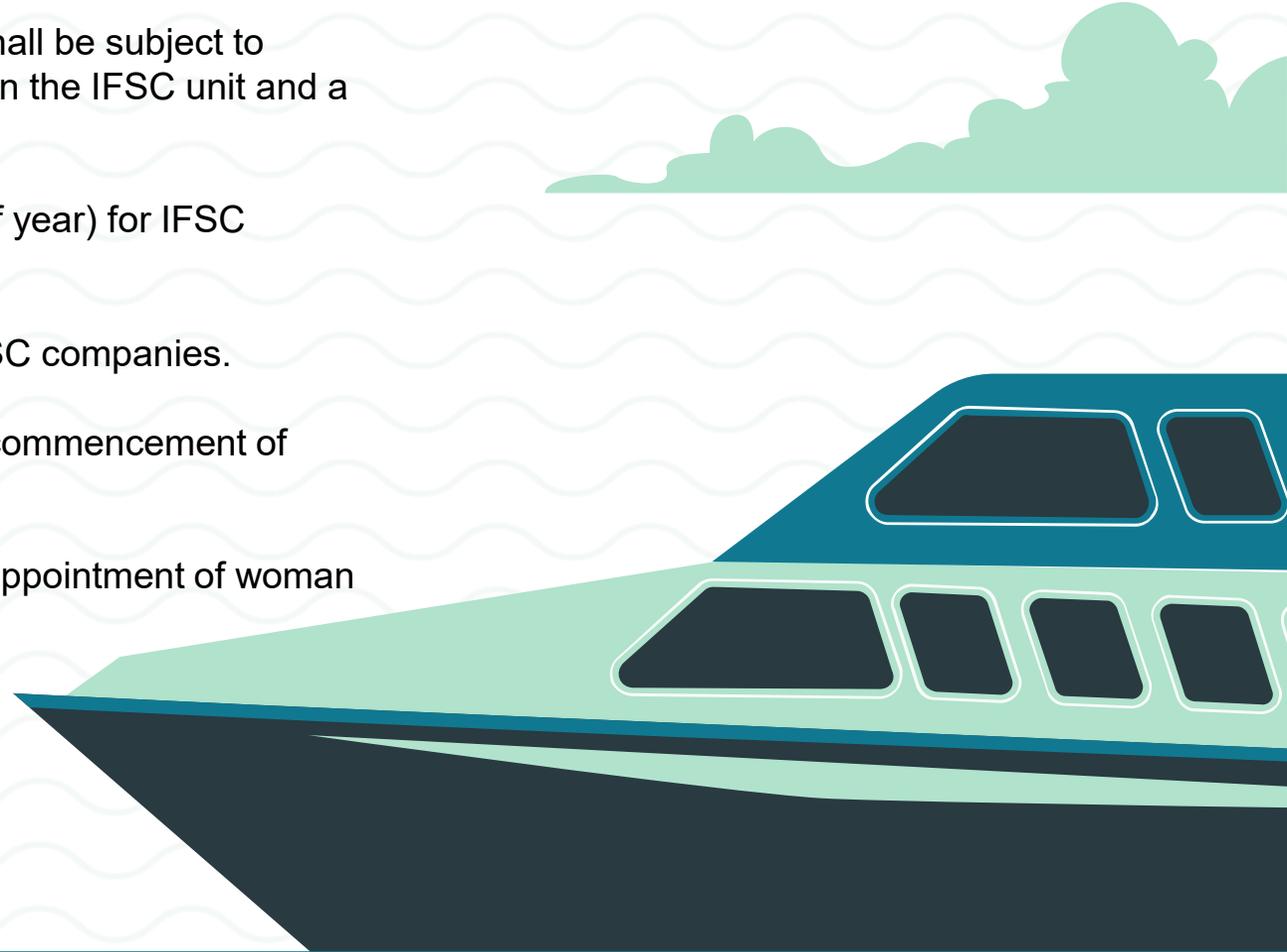
Layering restrictions under Section 186(1) shall not apply for IFSC companies.



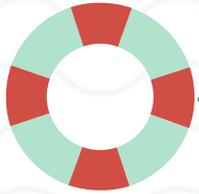
CSR provisions will be applicable only after five years from the commencement of business of an IFSC company.



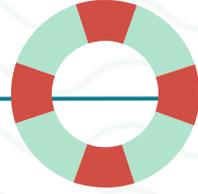
IFSC companies also enjoy certain exemptions with respect to appointment of woman director, independent director, etc.



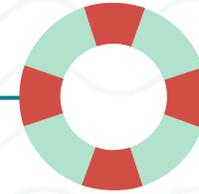
GST Implications



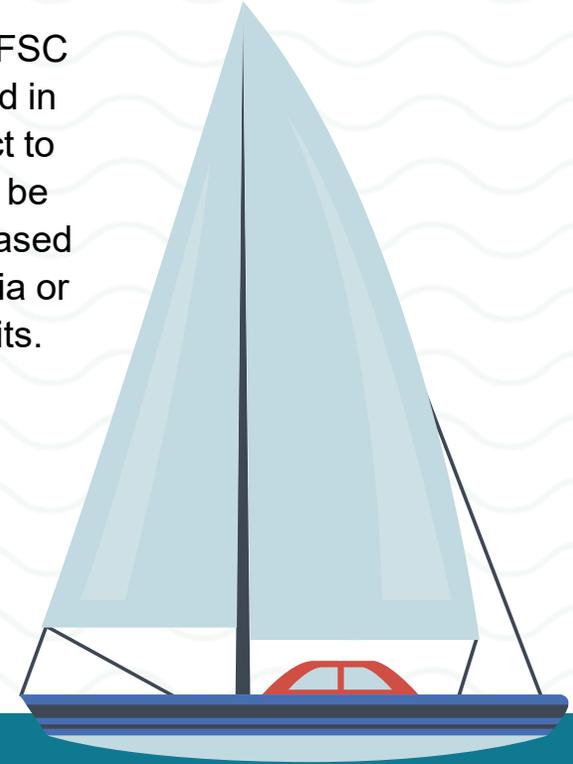
Supplies to an IFSC entity shall be regarded as “zero-rated supply” and accordingly no GST shall be levied, provided the supplier had obtained Letter of Undertaking (‘LUT’).



Imports by the IFSC unit shall not be subject to Reverse charge mechanism under GST if the import of goods / services is for the authorized operations of the IFSC unit.



Leasing of ships by the IFSC unit to customers located in DTA unit shall be subject to IGST and no GST shall be levied in case of ships leased to customers outside India or to other IFSC / SEZ units.



THANK YOU

Chennai - India

M2K Advisors LLP

7th Floor, Briley One,
No. 30/ 64 Ethiraj Salai,
Egmore, Chennai – 600 008,
Tamil Nadu, India

Hyderabad - India

M2K Advisors LLP

Manjeera Trinity Corporate
JNTU Road, Plot No S2 ,
Telangana- 500072
Hyderabad

Singapore

M2K Advisors Pte Ltd

The Octagon,
105 Cecil Street, #13-02
Singapore 069534

USA

M2K Sai Advisors Inc

1 AUER CT,
2nd Floor, East
Brunswick
New Jersey - 08816

UAE - Dubai

M2K Advisors

701 C Aspin Commercial
Tower, Sheikh Zayed Road,
Trade Center First, Dubai
PO Box - 50810

Reach us at:

knowledge@m2k.co.in



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