

POTENTIAL INVESTMENT OPPORTUNITY FOR INDIAN FAMILIES IN GIFT CITY THROUGH SETTING UP OF FAMILY INVESTMENT FUND



The Gujarat International Finance Tech-city ('GIFT City') is India's first and only International Financial Services Centre ('IFSC') and is being developed as a global financial services hub. The aim of GIFT City is to facilitate a world-class financial services environment for international financial institutions and overseas branches of local financial institutions. The evolution of GIFT City is an opportunity to drive reforms towards providing a thriving financial ecosystem critical to support and expand businesses. It is a project of national importance and has become an integral part of

the India's growth story as the country marches towards fulfilling the dream of becoming a developed nation.

The Concept of Family Investment Fund

Since long, high net worth families have been setting up family offices in countries like Dubai, London, Singapore, etc., as these geographies offered business-friendly incentives, lower tax regimes, progressive regulation and unrestricted access to global markets unlike in India where Liberalized Remittance Scheme ('LRS') or Overseas Direct Investment ('ODI') rules under Foreign Exchange Management Act ("FEMA"), 1999, are difficult to navigate. However, with an aim to change the above scenario, the Government has permitted the establishment of Family Investment Fund ('FIF') in GIFT City, making India attractive for families.



A FIF is a self-managed fund which can pool resources from a single family or entities under the family's control. The fund can be set up as a corporate body, Limited Liability Partnership ('LLP'), proprietorship, trust or company where an individual or a single family controls the company and has substantial economic interest and is regulated through the IFSC Authority (Fund Management) Regulations, 2022 ('FME Regulations').

Residential Status of FIF

The FIF set up in GIFT City will be considered as an Indian resident for tax purposes and an overseas resident or offshore unit from a FEMA perspective. Any investments flowing from India into the FIF will be regulated by the provisions of FEMA and any onward investments by FIF will be regulated by the FME Regulations.

Investment by resident individuals or Indian entities in FIF will be considered as Overseas Portfolio Investment (“OPI”) in accordance with the Foreign Exchange Management (Overseas Investment) Rules, 2022 read with Foreign Exchange Management (Overseas Investment) Directions, 2022.

Why invest in FIF in GIFT City?

Some of the reasons that make GIFT City an ideal choice for family offices in place of offshore destinations are discussed below,

- **Diversification of Investment in various Assets**

The FIF has the ability to create a portfolio of various overseas products, that is, the FIF can invest in listed and unlisted securities, alternative investment funds, physical assets such as real estate, bullion, art, etc., in comparison to other routes i.e. remittance under LRS or ODI, wherein assets for investment are limited along with certain conditionalities.

- **Leveraging of Banks in GIFT City**

FIF has been allowed to take leverage in foreign currency from banks located in GIFT City and since such loans are expected to be available at affordable rates, it is a great option for sourcing high-cost funds from India.

- **Maximization of LRS limit by Individuals**

One of the significant benefits of establishing an FIF is the maximization of the LRS limit for family members. Investment can also be made in an FIF through family-owned entities and thus individual family members can save their personal USD 250,000 under LRS for other permissible capital/current account transactions. Remittances by family owned entities would not attract the levy of TCS.

- **Tax Concessions**

- Under Income Tax

- A FIF set up in SEZ zone of GIFT City is entitled to 100% Income Tax exemption for a period of 10 consecutive years out of 15 years subject to fulfillment of conditions specified in section 80LA of the Income-tax Act,1961.

Under Goods and Services Tax ('GST')

No GST will be applicable on services received by unit in GIFT City. However, GST will be applicable on services provided to DTA.

- **Greater Convenience for Individuals**

GIFT City offers unparalleled opportunities to High Net Worth Individuals ('HNIs') and ultra HNIs across the globe to access diverse financial services domestically and eliminating the need for overseas transactions. This will help HNIs in de-risking their investment portfolios by offering various modes of diversification, i.e. geographical, currency, product and fund manager diversification. It will also lead to greater convenience, streamlined paperwork and amplified efficiency for managing international investments.

- **Overcoming the Difficulty of Investment in Unregulated Funds Abroad**

The Overseas Investment regime of FEMA allow investments only into regulated funds by Indian individuals and entities, which may create difficulty in setting up family funds in foreign jurisdictions that may not be regulated. Investment in FIF in GIFT City will remove such difficulty for the Indian individuals and entities as funds set up in GIFT City are duly regulated under FME Regulations.

Establishment of FIF in GIFT City

In order to set up a FIF in the GIFT City, the entity will be required to register as an Authorized Fund Management Entity by submitting an application as prescribed in the FME Regulations along with necessary documents.

In order to provide new investment options in the life cycle of the Indian Family Offices the Government has built a platform under FME Regulations allowing formation of FIF in the GIFT City. The establishment of FIF in the GIFT City is bound to attract the high net worth families looking for setting up of their family offices. In addition, the IFSC Authority is proactive to the needs and requirements to make the regime successful and is taking measures to enhance the strength of the framework. It is the right time for the families to move towards GIFT City that provides a collection of investment opportunities with the best-in-class infrastructure and favorable regulatory regime.