

GIFT CITY IFSC AND ITS ROLE IN TRANSFORMING CORPORATE TREASURY OPERATIONS

Abstract

Gujarat International Finance-Tec (GIFT) City spans 886 acres, out of which 261 acres belong to a Multi-Service Special Economic Zone (SEZ) which is India's first International Financial Services Centre (IFSC) and 625 acres belong to an exclusive Domestic Tariff Area (DTA). As of now, there are three treasury centres registered with GIFT City IFSC, namely, IOC Global Capital Management IFSC Limited (parent company being Indian Oil Corporation Limited), OVL Overseas IFSC Limited (parent company being ONGC Videsh Limited), and AMNS Global Treasury Centre IFSC Private Limited (parent company being ArcelorMittal-Nippon Steel Luxembourg). This article explores how the GIFT City IFSC enables the establishment and smooth functioning of the Global/Regional Corporate Treasury Centres (G/RCTCs) through a conducive regulatory regime in the specific instances of the aforementioned treasury centres as well as summarizes the tax concessions available to such treasury centres.

INTRODUCTION

In a multi-national company, a treasury centre typically performs the role of an in-house financial intermediary. It helps in centralized management of the company's funds and in the use of global funds within the entire group. Through its circular (No. F. No. 331/IFSCA/GRCTC/2021-22 dated 25 June 2021), the International Financial Services Centres Authority (IFSCA) has notified a framework that a finance company/finance unit can follow if it wants to undertake the activities of a global/regional corporate treasury centre. Under



CMA Nilay A. Savla

Founder & CEO
Neat Ledgers Inc.
Ontario

nilay.savla@gmail.com

this framework, finance companies or finance units registered with the GIFT City IFSC are allowed to perform treasury activities and render treasury services for group entities from the IFSC.

TREASURY CENTRES REGISTERED WITH GIFT CITY IFSC

Gujarat International Finance-Tec (GIFT) City IFSC helps the establishment of finance companies, including those that conduct corporate treasury operations. Besides financial companies, non-financial companies can also set up corporate treasury centres in GIFT City IFSC. Setting up of corporate treasury centres in GIFT City IFSC is not limited just to the Indian multi-national companies but also possible for companies from outside of India. Again, it does not matter whether a company wishing to set up its corporate treasury centre is a public company or a private company. For instance, Indian Oil Corporation Limited is an Indian public sector undertaking and it established a finance company named IOC Global Capital Management IFSC Limited to handle its global treasury operations. Similarly, ArcelorMittal Nippon, a 60:40 joint venture between Luxembourg based ArcelorMittal and Japan-based Nippon Steel Corp has established a finance company, AMNS Global Treasury Centre IFSC Private Limited. Likewise, ONGC Videsh Limited has set up OVL Overseas IFSC Limited.

These IFSC entities act as global treasury centres, besides supporting the parent company's capital requirements for expansion. Supportive regulatory framework and tax incentives have made it possible for the companies to commence their global treasury centres in GIFT City IFSC in record time.

REGULATORY FRAMEWORK SUPPORTIVE TO THE ESTABLISHMENT OF TREASURY CENTRES

Three instances of corporate treasury centres have been mentioned in this article. In the paragraphs below, we take a quick look at these instances to understand their experience with GIFT City IFSC.

IOC Global Capital Management IFSC Limited: Indian Oil Corporation Limited became the first commercial non-finance company to establish this finance company as GIFT City IFSC. In July 2022, the company officials visited GIFT City to identify office space, met with the officials from the IFSCA, sought regulatory approvals from the Reserve Bank of India (RBI) and other authorities. In August 2022, the Ministry of Finance and the RBI notified Overseas Direct Investment (ODI) regulations. In September 2022, the company moved for Board approval following which the company received three important approvals in early 2023. These were NITI Aayog approval in February 2023, approval from the Department of Investment and Public Asset Management (DIPAM) in April 2023 and approval from Ministry of Petroleum and Natural Gas also in April 2023. Then, in May 2023, IOC Global Capital Management IFSC Limited was incorporated as a finance company. In August 2023, the certificate of registration was received from IFSCA. By the end of November 2023, this newly incorporated company had its physical office ready in the GIFT City IFSC.

OVL Overseas IFSC Limited: ONGC Videsh Limited was able to get started with its finance company OVL Overseas IFSC Limited in a record time of approximately 45 days from receiving the NITI Aayog approval. This approval came in November 2023 and in a fortnight's time the incorporation certificate was received from the Ministry of Corporate Affairs (MCA). In about 10 days after this, 'in-principle' approval from the IFSCA was received and in an additional 10 days, the company office was up and running.

AMNS Global Treasury Centre IFSC Private

Limited: The finance company was incorporated in August 2024 and in the same month an application was submitted to SEZ and IFSCA. The letter of allotment from SEZ was received in the same month. Subsequently, 'in-principle' approval from the IFSCA was received in September 2024. In the same month, the company obtained GST registration, executed Bond-cum-Legal Undertaking, obtained an EXIM Code and Registration-cum-Membership Certificate, and signed a lease deed. In October 2024, the company got the certificate of registration from IFSCA and commenced business soon after. It is worth noting that while the GIFT City IFSC, by this time, had gathered experience with helping public sector undertakings set up their global treasury centres, in case of ArcelorMittal Nippon a global treasury centre was being set up by a private company and there was limited guidance as to the best practices applicable in the case of private companies. Despite this, the process of setting up the finance company was quick.

In each of the instances above, it took less than a year for the finance companies to be set up once the parent companies initiated the process. This speaks to the efficiency with which the entire process of setting up the finance company was handled in each of the instances.

TAX BENEFITS RELEVANT TO TREASURY CENTRES

There are several tax benefits that the treasury centre entities registered in the IFSC can avail. Some of these are explained below.

Tax Holiday: IFSC-registered entities can avail of 100% income tax exemption for a period of 10 consecutive years within a 15-year block. For a company incorporated within the IFSC with the purpose of carrying out treasury centre activities, the tax holiday would lead to more cash being available that can be ploughed back into the company's subsequent years of operations.

Less or no Minimum Alternate Tax (MAT): IFSC-registered entities are subject to a lower MAT rate of 9% (instead of 15% that applies elsewhere within India) of their book profits. Additionally, MAT is not applicable in case of IFSC-registered entities option for the new tax regime. A treasury centre established within the IFSC would benefit from a lower or no MAT rate as it would mean more available cash at

its disposal.

Considerations and concerns around thin capitalization and deemed dividends: Often, parent companies intend to set up subsidiaries in foreign countries in such a way that these subsidiaries are thinly capitalized. The idea is to have these subsidiaries carry more debt funding vis-à-vis equity funding from the parent and repatriate most of their income to the parent in the form of interest on the said debt. This interest expense helps a subsidiary reduce its tax liability in the jurisdiction it operates in while effectively letting it transfer its earnings to the parent company through interest payments. Therefore, countries may either (1) require the parent to fund its subsidiary more by way of equity funding or (2) limit the interest deductions allowable to the subsidiary. Some countries may also treat the interest payments paid by the subsidiary to the parent company as deemed dividends to the parent company and this would give the countries the right to charge appropriate taxes. However, in case of an entity registered with the IFSC, exemption is granted from Section 94B of the Income Tax Act (IT Act) which limits deductible interest expenses for thinly capitalized firms. This exemption from the applicability of Section 94B of the IT Act encourages foreign companies to set up a subsidiary in the GIFT City IFSC to operate as a global treasury centre.

Goods and Service Tax (GST) not applicable: No GST applies on services exchanged between IFSC-registered entities or on services received by an IFSC-registered entity or on services provided by IFSC-registered entities to India. This means, no GST applies on the export of treasury services.

No withholding tax on interest paid by IFSC-registered entities to offshore lenders: Since interest income received by a non-resident lender from an IFSC-registered entity is not subject to withholding taxes, the non-resident lender will be more inclined to lend to the IFSC-registered entity. Such an entity will, therefore, find it easier to raise borrowed funds from its parent company/other companies that are from outside of India.

The article covers regulatory and tax frameworks using examples of corporate treasury operations that have been successfully set up within the GIFT City IFSC

Exemption from Foreign Exchange Management Act (FEMA) regulations: Treasury centres stand to benefit from dealing in foreign currency without coming under the purview of FEMA regulations for transactions done outside India.

It is worth noting that the tax concessions being made available to companies being set up in GIFT City IFSC are significant in value and quite generous.

CONCLUSION

It is evident that supportive regulatory framework and relaxed tax framework applicable to IFSC-registered entities in general has led to tremendous opportunities for companies in several areas. As far as the treasury operations are concerned, both Indian as well as foreign companies have an opportunity to centralize their treasury activities by setting up global/regional corporate treasury centres to raise funds, manage liquidity, avail tax benefits, and also manage risk. In sum and substance, GIFT City IFSC intends to play a significant role in transforming corporate treasury operations. However, the possibility of abuse of the facilitative regulatory and tax regime by companies cannot be ruled out. Therefore, regulatory oversight will have to be robust at all times to make sure that companies do not take undue advantage of the supportive regulatory regime and the tax concessions being made available to them. **MA**

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