Ship leasing from the IFSC in India

The International Financial Services Centre (IFSC) has been set up in India to aid the country in unlocking its potential in the international financial services space.

The International Financial Services Centres Authority Act, 2019, authorised the International Financial Services Centres Authority (IFSCA) as a unified regulator, with representation from India’s main regulators – the Reserve Bank of India, Securities and Exchange Board of India, Insurance and Regulatory Development Authority, Pension Fund and Regulatory and Development Authority – and the government on its critical decision-making bodies.

Gujarat International Finance Tec-City (GIFT City) is a global financial and information technology services hub, the first of its kind in India, designed to be at par with benchmarked global financial centres.

GIFT City consists of a conducive multi-service Special Economic Zone (SEZ) area which is notified as an IFSC (GIFT IFSC) and an exclusive Domestic Tariff Area with the associated social infrastructure.

GIFT IFSC is designed as a financial Central Business District, which is strategically located between Ahmedabad and Gandhinagar in Gujarat, India.

GIFT IFSC offers all the factors required to create a differentiated momentum such as regulatory and supervisory coherence, competitive tax policies, a large and deep talent pool, and an alternative dispute resolution mechanism besides ancillary services support, all at one place.
Business opportunities in GIFT IFSC

- Banking and finance companies
- Asset management
- Capital markets
- Aircraft leasing
- Ship acquisition and leasing
- Insurance
- Professional service providers

Emerging business segments

- Global in-house centres
- Global and regional treasury centres
- FinTech hub
- International bullion exchange

Regulatory and tax framework in the IFSC

The IFSC is defined as a non-resident jurisdiction in India’s exchange controls regulations.

*IFSCA to be soon delegated powers under the SEZ (Budget 2023 announcement)
Tax framework

**Income tax**
- Tax holiday for any 10 consecutive years out of the first 15 years
- Minimum alternate tax or alternate minimum tax @9% of the book profits for a company or limited liability partnership (LLP) set up as a unit in the IFSC
- MAT not applicable to companies in the IFSC opting for the new tax regime
- Withholding tax exemption in respect of interest paid to non-residents on monies borrowed on or after 1 September 2019

**Goods and Services Tax (GST)**
- No input GST on services received from Indian or non-resident vendors
- No GST to be charged for services provided to other IFSC or SEZ units
- GST applicable on services provided by IFSC Banking Units to resident parties

**Other state subsidies**
- State subsidies – 25% of capital expenditure, 15% of operating expenditure subject to certain conditions
- Employee Provident Fund contribution – 12% of employer’s contribution (100% for female and 75% for male employees)
- Employment generation incentive (one-time): New and unique jobs created in the state of Gujarat – 15 days cost to company (INR 50,000 for male and INR 60,000 for female employees)
- Interest subsidy – 7% subject to maximum of INR 0.01 billion p.a. for five years
- 100% of electricity duty paid
- 50% or 25% monthly rentals on per seat basis for co-working spaces subject to conditions
Ship leasing

Global

- Fragmentation of ownership of dry bulk markets saw the advent of ‘ship operators’.
- Leasing of ships is widely used as a trading tool in almost all segments of shipping, such as dry bulk, containers and tankers.
- Leasing in the shipping market involves operating and financial leases.
- Global charter hire market – USD 100 billion

India

- Indian companies enter into freight agreements with entities outside India to ship their cargo from ports inside or outside India.

Key considerations

- Low tax structure
- Easy regulations
- Good business opportunities
Ship leasing from the IFSC

To tap the unleashed opportunity in aircraft leasing and financing and to realise the vision of the Ship Acquisition Financing and Leasing (SAFAL) report, in January 2022, the IFSCA notified ‘ship lease’ as a financial product. The notification also stated that ‘ship lease’ shall include the operating lease, and the hybrid of the operating and financial lease, of a ship or ocean vessel, engines of a ship or ocean vessel, or any other part thereof.

Subsequently, to facilitate the set-up of ship-leasing businesses in the IFSC, the IFSCA has provided a framework for enabling ship finance and operating leases on 16 August 2022.

Registration

Certificate of registration is required to be obtained from the IFSCA to act as a lessor.

Permissible activities

- Financial lease, hybrid of financial and operating lease or operating lease, including sale and leaseback, purchase, novation, transfer, assignment and other similar transactions in relation to ship lease
- Voyage charters, contracts of affreightment, employment in shipping pools, and all other legal commercial transactions for employment of ships
- Asset management support services for assets owned or leased out by the group entities
- Any other related activity with the prior approval of the IFSCA
- Ship broking related to ship-leasing activities and third-party asset management services can be performed by registering separately under the IFSCA’s Ancillary Services Framework

Mode of conducting business

- The entity can be set up as a company. Additionally, branch, LLP or trust forms are also permitted for undertaking operating lease

Capital requirements

- USD 3 million for finance lease
- USD 0.2 million for operating lease

Currency

- Dealings in convertible foreign currency only.
- Administrative expenses can be defrayed in INR by maintaining a Special Non-Resident Rupee (SNRR) account.

¹ F. No. IFSCA/2021-22/GN/021

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Tax regime for ship-leasing entities in the IFSC

- Tax holiday for 10 years out of the first 15 years
- No capital gains tax during tax holiday on sale of vessel
- No withholding on lease payments to non-residents
- No withholding on interest payment to non-residents
- Stamp duty exemption for five years

Why ship leasing from the IFSC?

- Unified regulatory regime
- Tax benefits: Liberal policies enabling flow of finance, financial products and services across borders
- Deemed foreign jurisdiction from exchange control perspective
- State-of-the-art infrastructure
- Skilled talent
- Maritime cluster
- Maritime university
- Maritime ecosystem