

Incentives to International Financial Service Centre (IFSC) - Budget 2025

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The International Financial Services Centre (IFSC) in India has the potential to play a significant role in attracting global investments, promoting financial services, and boosting the country's economic growth. IFSCs, like the one in GIFT City (Gujarat), aim to position India as a global financial hub. By focusing on the IFSC, the government can enhance India's integration with the global financial ecosystem, attracting international investors, multinational companies, and financial institutions.

Budget 2025 introduces several amendments aimed at enhancing the operational framework and tax incentives for units operating within the IFSC. These amendments are designed to promote the development of world-class financial infrastructure in India, encouraging greater foreign investment and competitiveness in global financial markets.

Let's go through the new measures brought in by Budget 2025 in order to promote units in IFSC.

1. Extension of sunset dates for several tax concessions pertaining to IFSC

It is proposed to extend the sunset dates for the commencement of operations of IFSC units.[\[1\]](#) to avail various tax concessions or for the relocation of funds to IFSC to 31 March 2030. This is a welcome change that will allow more time for the units to avail themselves of the benefits under these sections.

2. Boost to ship leasing units in IFSC

Last year, certain tax benefits were introduced for non-residents or IFSC units engaged in aircraft leasing from capital gains tax on transferring equity shares of domestic companies involved in aircraft leasing. Clause (34B) exempts dividends paid by such companies to other IFSC units engaged in the same business. It is proposed that these exemptions be extended to ship leasing, units in an IFSC.

3. Rationalization of definition of 'dividend' for treasury centers in IFSC

Inter-company loans may attract taxation as deemed dividends. Treasury centers of multinational companies located in IFSC faced exposure to taxation on receipt of loans from group entities. To address these concerns, it is proposed to amend relating to deemed dividends[\[2\]](#) to exclude advances or loans between group entities received by treasury centers in IFSC subject to the condition that the parent entity or principal entity is listed outside India in a specified country. Conditions for defining group, parent, and principal entities will be prescribed.

These amendments will take effect from 1 April 2025.

4. Simplified regime for fund managers based in IFSC

Section 9A exempts fund management activities in India from being considered a business connection, provided certain conditions are met, including a cap on Indian residents' participation in the fund.

These conditions regarding participation, etc., impacted the fund managers in an IFSC, and a specific simplified regime for IFSC-based fund managers, managing funds, situated in other jurisdictions was sought. This would help fund managers in IFSC to be at par with the fund management entities in competing foreign jurisdictions. To simplify the regime for IFSC-based fund managers, it is proposed to:

- Rationalize the participation conditions for all funds, requiring compliance on specific dates (April 1st and October 1st) each year, with a four-month grace period for non-compliance.
- Relax other conditions for funds managed by IFSC-based managers that start operations by 31 March 2030.

These amendments will take effect from 1 April 2025.

5. Exemption on life insurance policy from IFSC Insurance offices

Section 10(10D) exempts sums received under a life insurance policy, including bonuses, subject to certain conditions, that apply to policies issued by IFSC Insurance Offices. However, exemptions are not available if the premium exceeds Rs. 2.5 lakhs for unit-linked policies or Rs. 5 lakhs for other life insurance policies. Generally, life insurance policies obtained from overseas insurance providers are not taxable. To give parity to non-residents purchasing life insurance from IFSC insurance offices, it is proposed that clause (10D) be amended to exempt proceeds from such policies without the premium limit conditions.

These amendments will take effect from 1 April 2025.

6. Amendment of Section 10 related to Exempt Income of Non-Residents

Section 10(4E) exempts income from the transfer of non-deliverable forward contracts, offshore derivative instruments, or distributions from such instruments with an offshore banking unit of an IFSC. To further incentivize IFSC operations, it is proposed to extend this exemption to income from transactions with Foreign Portfolio Investors (FPIs) who are IFSC units, subject to prescribed conditions.

This amendment will take effect from 1 April 2026.

7. Inclusion of retail schemes and Exchange Traded Funds (ETFs) in the existing relocation regime of funds of IFSC

To further incentivize IFSC operations, it is proposed to amend the following:

- Section 47(viiab) allows tax-neutral relocation of shares or units from an original fund to a resultant fund in an IFSC, provided the resultant fund is registered as an AIF in India.
- It is proposed that retail schemes and Exchange Traded Funds (ETFs) located in the IFSC be included within the definition of "resultant fund" under this clause. This means the relocation of original funds to these IFSC-based funds will be treated as tax-neutral transactions.

This amendment will take effect from 1 April 2026

Our Comments

IFSCs enable a seamless flow of finances and financial services across our borders. They can fuel fast-paced development and infrastructure growth in all sectors, including renewable energy, infrastructure, technology, and defense. The incentives proposed in the financial budget 2025 by honorable FM Nirmala Sitaraman can aid India's better financial integration with rest of the world, thereby helping the country's long-term growth aspirations and enable to be a major global technical and financial power.

[\[1\]](#) under clause (d) of sub-section (2) of section 80LA, clause (4D), clause (4F), clause (4H) of section 10 and clause (viiad) of section 47,

[\[2\]](#) Section 2(22)(e)