



GIFT IFSC Business Set Up & Significant  
Operating Guidelines  
*Alternative Investment Fund ('AIF')*

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**BEACON TRUSTEESHIP LIMITED**

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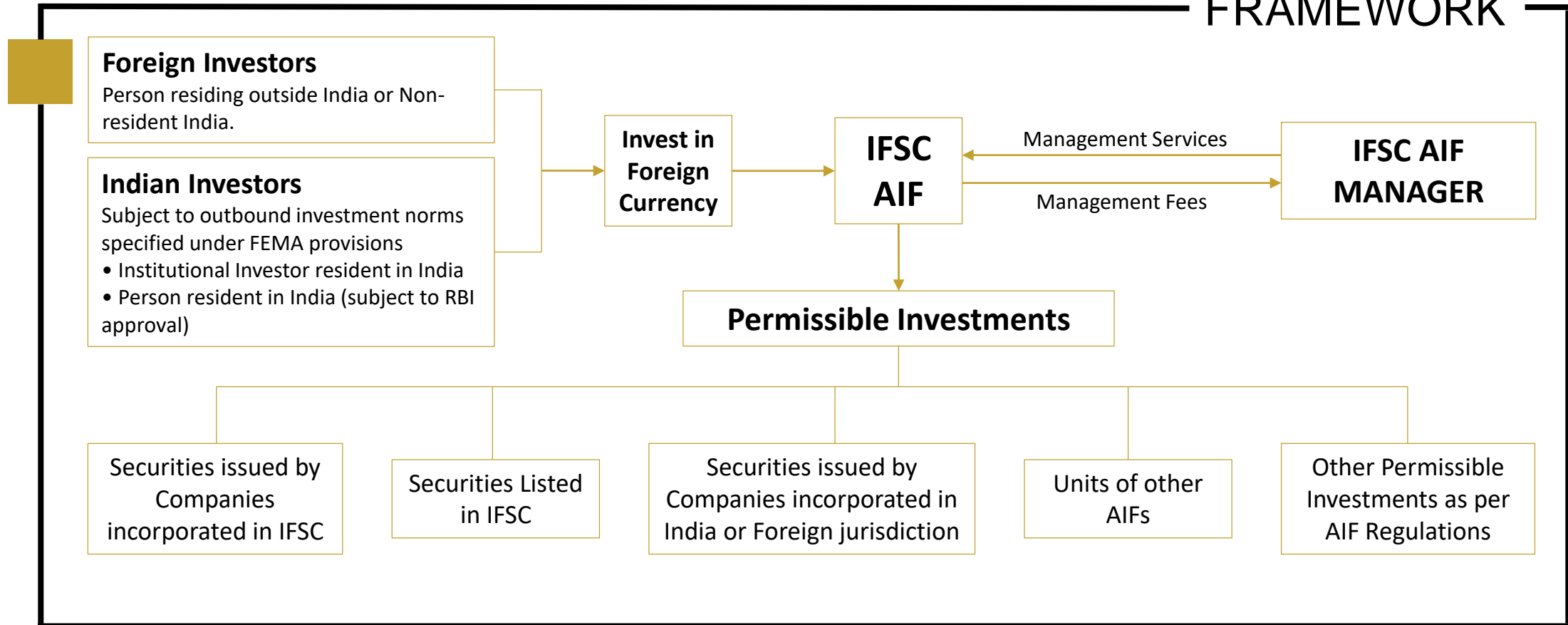
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## FRAMEWORK

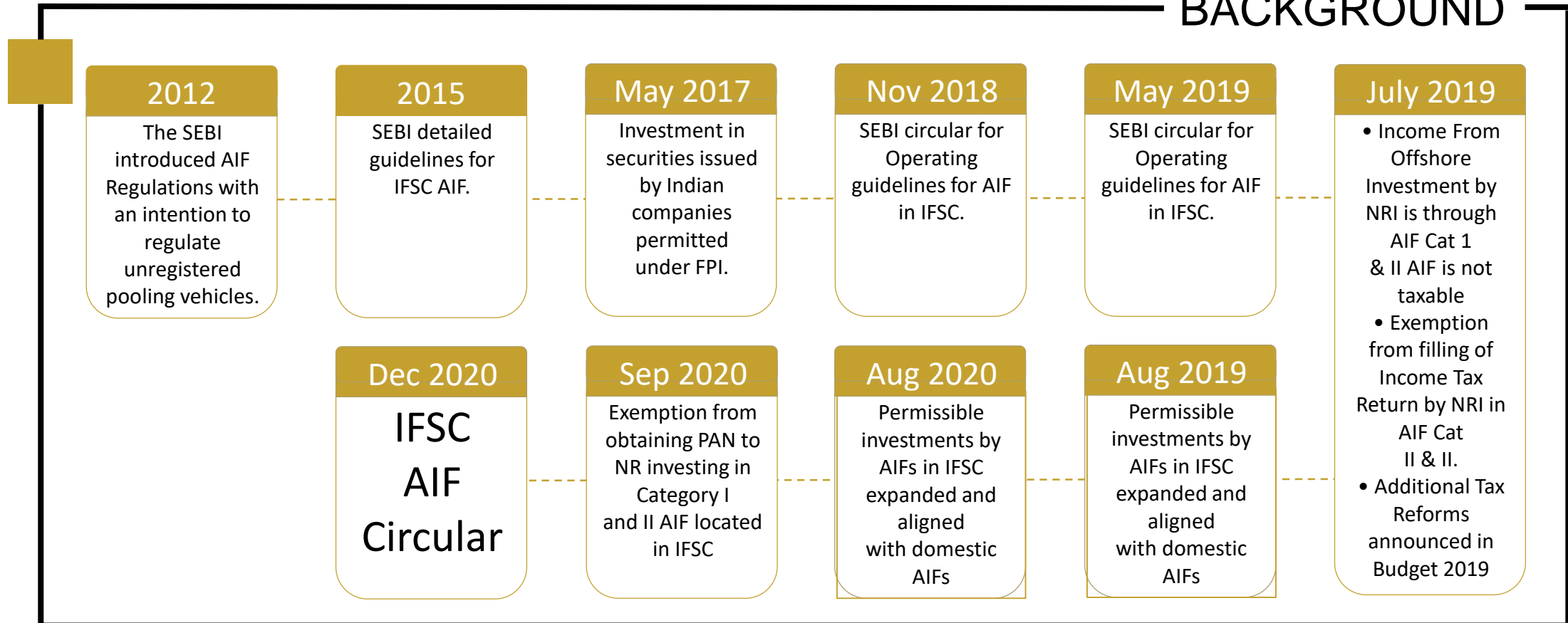


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## BACKGROUND





## CLASSIFICATION

AIFs in India are broadly classified into 3 categories on the basis of certain variables as listed below:

Category I AIF	Category II AIF	Category III AIF
<b>I. SEBI AIF Regulations</b>		
Funds investing in start-ups or early stage ventures, social ventures, SMEs, Infrastructure or other sectors or areas which govt. or regulator consider as socially or economically desirable.	Residual category i.e. other than Category I & Category III AIF	Funds employing diverse or complex trading strategies & leverage including through investment in listed or unlisted securities / derivative.
<b>II. Tenure of AIF</b>		
Close ended fund	Close ended fund	Either of an open or close ended fund
<b>III. Minimum Investor Investment</b>		
<ul style="list-style-type: none"><li>• USD 40,000 for employees or directors of the AIF or its Manager.</li><li>• USD 150,000 for other Investors</li></ul>	Same as Category I AIF	Same as Category II AIF



## CLASSIFICATION

Category I AIF	Category II AIF	Category III AIF
<b>IV. Investment in one Investee Company</b>		
Allowed (Previously - not more than 25% of corpus)	Allowed (Previously - not more than 25% of corpus)	Allowed (Previously - not more than 10% of corpus)
<b>V. Investment in other AIF</b>		
Permissible for Investment in Category I AIF	Permissible for investment in Category I & II AIF	Permissible for investment in Category I & II AIF alongside other portfolio investments in India but excluding Category III AIF
<b>Structure</b>		
<ul style="list-style-type: none"><li>• Trust</li><li>• Company</li><li>• Limited Liability Partnership</li><li>• Body Corporate</li></ul>	<ul style="list-style-type: none"><li>• Trust</li><li>• Company</li><li>• Limited Liability Partnership</li><li>• Body Corporate</li></ul>	<ul style="list-style-type: none"><li>• Trust</li><li>• Company</li><li>• Limited Liability Partnership</li><li>• Body Corporate</li></ul>
<b>Tenure of Scheme</b>		
Min. 3 years with extension subject to conditions.	Min. 3 years with extension subject to conditions.	Not Applicable

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## CLASSIFICATION

Category I AIF	Category II AIF	Category III AIF
<b>Minimum Corpus per Scheme of the AIF</b>		
USD 3,000,000 (For Angel Funds – USD 750,000)	USD 3,000,000	USD 3,000,000
<b>Borrowing of funds / leverage</b>		
Permitted with the consent of Investors & subject to prior disclosure in placement memorandum alongside comprehensive risk management framework		
<b>Co-investment in segregated portfolios</b>		
Permissible for co-investments made through segregated portfolio by issuing separate class of units. The permission is further subject to conditions of prior disclosure in placement memorandum & terms not been more favorable than those offered to other common portfolios of the AIF.		
<b>Custodian appointment</b>		
Sponsor or Manager to appoint custodian if the corpus exceeds USD 70 million.		Mandatory irrespective of the corpus size.

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## TAXATION

### AIF Category – I & II & Its Investors

- Category I & Category II AIF have tax pass-through status for Indian income-tax purposes (except for business income, which is taxable in the hands of the AIF for which 100% tax holiday can be claimed for a period of 10 consecutive years out of a block of first 15 years.
- Investors are taxed on income arising from investments made by the AIF as if the investments were made directly by them.
- Income accruing or arising or received by non-resident investors from offshore investments through a Category I & II AIF is not taxable in India.
- Investors can claim losses (other than business loss) of AIF on pass through basis, provided the units of such AIF are held for a period of 12 months or more. However, any business loss can be carried forward only at the AIF level.
- Exemption has been provided to no-resident investors from filing return of income, provided they can earn income only from investments made in a Category I or Category II AIFs in IFSC & tax has been deducted on the distribution made by such AIFs to non-resident investors. Further, such non-resident investors are also exempted from obtaining PAN in India.
- To the extent beneficial, the investors can avail the tax treatment in accordance with the Tax-Treaty subject to satisfaction of Tax Treaty eligibility conditions.

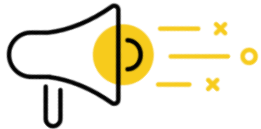




## TAXATION

### AIF Category III & Its Investors

- Category III AIFs are subject to fund level taxation.
- The following income earned by the Category III AIF, which are attributable to no-resident investors in the AIF, is exempt from tax:
  - Income on transfer of any securities (other than shares in a company resident in India), including derivatives, debt securities and off-shore securities.
  - Income from securities issued by a non-resident (not being a Permanent Establishment) & where such income otherwise does not accrue or arise in India.
  - Income from a securitization trust chargeable under the head “Profits & Gains of Business or Profession”.
  - Income on transfer of specified securities listed on a recognized stock exchange located in IFSC where consideration for such transaction is in convertible foreign exchange.
- Income on transfer of shares in an Indian company is taxable as follows to the Category III AIF:
  - Short Term Capital Gains – 15% if Securities Transaction Tax paid, else 30%
  - Long Term Capital Gains – 10%



## TAXATION

### AIF Category III & Its Investors

- Income in respect of securities (such as interest, dividend) is taxable to the Category III AIF at the rate of 10% (5% in case of interest income on certain rupee denominated bonds, government securities or municipal debt securities referred to in Section 194LD)
- Any income accruing or arising to or received from the Category III AIF or on transfer of its units is exempt from tax in the hands of investors.
- Surcharge on certain Long-Term Capital Gains, Short Term Capital Gains & dividends earned by the Category III AIF is capped at 15%. Further, the provisions of Alternate Minimum Tax are not applicable to the Category III AIF.
- Exemption from Stamp Duty, Securities Transaction Tax & Commodities Transaction Tax for transactions carried out on IFSC exchanges.



## TAXATION

### Fund Manager

- 100% corporate tax exemption for 10 consecutive years out of block of 15 years (from date of approval from regulator) in respect of income from business carried on in IFSC.
- The Minimum Alternate Tax ('MAT') / Alternate Minimum Tax ('AMT') rate has been reduced to 9% (as against 18.5%). However, companies in IFSC choosing to opt for new tax regime under domestic tax law shall be exempt from MAT provisions.
- The dividend distributed by Manager may be taxable in the hands of its shareholders under the domestic tax law.
- Supply of services by Manager to AIFs in IFSC is exempt from Goods & & Services Tax.
- Interest payable to a non-resident in respect of monies borrowed exempt from income tax.



## REGISTRATION

Phase I Incorporation of Entity & Manager	Phase II Application to Authorities	Phase III Post Authorities Approval
<ul style="list-style-type: none"><li>• Application for name reservation of an entity (in case of Company / LLP) and Fund Manager in case of Company or LLP) to be setup in IFSC.</li><li>• Identify office Space and obtain Provisional Letter of Allotment (PLOA) along with address proof for Company / LLP incorporation.</li><li>• Registration of Trust / Company / LLP for Fund and Fund Manager entity</li><li>• To use IFSC " in the name of Fund and Fund Manager entity</li></ul>	<ul style="list-style-type: none"><li>• Application to SEZ Authority (Development (Separate application for Fund and Fund Manager entity)</li><li>• PAN / TAN/ GIIN Registration for the entity</li><li>• Application to IFSC Authority for grant of certificate of registration as Category III AIF in IFSC (combined application for Fund and Fund Manager) (Documents same as per SEBI AIF application)</li><li>• Application to RBI for making outbound investments to IFSC and NOC from SEBI may also be required</li><li>• Post the submission of the SEZ application, Unit Approval Committee meeting to discuss application (within 15 days of application).</li><li>• Unit to receive Letter of Approval (LOA) from the office of Development Commissioner.</li></ul>	<ul style="list-style-type: none"><li>• Obtaining RCMC registration for availing any exemption, drawback and concessions.</li><li>• The SEZ unit has to then execute Bond cum Legal undertaking with the DC Office, obtain IEC or amend the existing to include the SEZ unit.</li><li>• GIFT AIF to appoint custodian and open Bank account with IBUs and Special Non resident Rupee account for administrative expenses</li><li>• GST registration for SEZ unit.</li><li>• Commencement of Business</li></ul>

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## FEEES

Particulars	Amount*
Application Fees	USD 1500
Registration Fees for Category I AIF other than Angel Fund	USD 7500
Registration Fees for Category II AIF	USD 15000
Registration Fees for Category III AIF	USD 22500
Registration Fees for Angel Funds	USD 3000
Scheme Fees for AIF other than Angel Funds	USD 1500
Re-registration Fee	USD 1500

\*Values given above are approximate estimates & subject to fluctuations in exchange rates & regulatory fees from time to time.

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