

Sailing into the Future: GIFT IFSC's Ship Leasing Opportunities

Facilitating ship leasing in GIFT IFSC is a revolutionary move that compliments the Indian maritime sector by increasing India-owned tonnage and addressing the vessel demand-supply gap for EXIM trade. The tax incentives, streamlined regulations, and access to international capital enhance the competitiveness of the Indian shipping industry. This initiative aims position India as a leading maritime hub, driving sustained growth in the sector.



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INTRODUCTION

INDIA'S MARITIME BACKBONE: THE VITAL ROLE OF SHIPPING

Shipping plays a vital role in India's economy, driven by both domestic and global trade, as well as its strategic location on the world's major shipping routes. With a coastline of approximately 7,517 km, comprising 12 major and 205 minor ports, India's maritime sector is crucial for its economic growth.

According to the Ministry of Shipping, a significant proportion of India's goods trade relies on maritime transport, with around 95% of trade by volume and 70% by value being carried out through this mode.

INDIAN SHIPPING FLEET: A COMPARATIVE ANALYSIS

Despite its importance, India's shipping fleet stands at a modest 13.6 million gross tonnages, which is less than 1% of the world's total fleet of 1,565 million gross tonnages. This disparity has resulted in India being a country of charterers rather than ship-owners, leading to a substantial expenditure on chartering foreign flag vessels for international trade and significant exposure to maritime freight rates.

NAVIGATING TURBULENT WATERS: THE OBSTACLES FACED BY INDIAN SHIPPING COMPANIES

Several factors have driven Indian shipping companies to relocate their bases abroad. Attractive tax regimes in other countries, flags of convenience, lower costs of finance. Availability of low cost financing for vessels flying foreign flags, streamlined regulatory regimes, ease of doing business make it simpler for companies to operate and grow in some developed maritime hubs.

However, there are also several push factors including tax and non-tax matters have contributed to this trend. Additionally, the limited appetite of Indian financial institutions for long term financing for shipping vessels pushes up cost of finance for ship owners in India, further adding to the challenges faced by Indian shipping companies.

GIFT CITY AND IFSCA: A NEW HORIZON FOR MARITIME SECTOR

GIFT City, located in Gandhinagar, Gujarat, is India's first operational smart city and international financial services hub. It aims to provide a conducive environment for financial services and businesses, aspiring to compete with global financial centers like London, Singapore, and Dubai. The International Financial Services Centres Authority (IFSCA) was established to regulate and develop the financial products, financial services, and financial institutions in GIFT IFSC.

Ship leasing is a vital component of the global maritime industry, providing a crucial link between ship owners, operators, and financiers. As a key hub for international trade, India is witnessing a surge in demand for ship leasing services, driven by its growing economy and increasing reliance on imports.

Gujarat International Finance Tec-City (GIFT IFSC) is capitalizing on this trend, offering a unique ecosystem for ship leasing companies to thrive. With its business-friendly regulatory framework, attractive tax incentives, and ability to access global capital pool, GIFT IFSC is fast becoming a preferred destination for ship leasing companies looking to tap into the vast opportunities presented by the Indian market.

A BRIEF OVERVIEW OF IFSCA'S SHIP LEASING REGULATORY FRAMEWORK

The IFSCA has been actively promoting ship leasing, providing a globally benchmarked regulatory framework, attractive tax regime and low cost of operation.

a. Mode of Business

The entity may set up operations in an IFSC in the form of a Company or a Limited Liability Partnership (LLP) or a Trust or a Branch under this Framework or in any other form as may be specified by the IFSCA from time to time

b. Permissible activities

- Financial lease or a hybrid of a financial and operating lease, operating lease including sale and leaseback, purchase, novation, transfer, assignment, and other similar transactions in relation to ship lease;
- Voyage Charters, Contract of Affreightments, 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 lessor or by any of its Group Entities set up in IFSCs in India;
- Any other related activity with the prior approval of the IFSCA.

c. Currency

The entity can deal in any freely convertible foreign currency as specified by IFSCA. The entity is permitted to defray its administrative expenses in INR.

TAX FRAMEWORK

Additionally, the government has introduced various tax incentives, including exemptions from withholding tax on lease payments and capital gains tax, to incentivize the development of the ship leasing and financing ecosystem within the GIFT IFSC.

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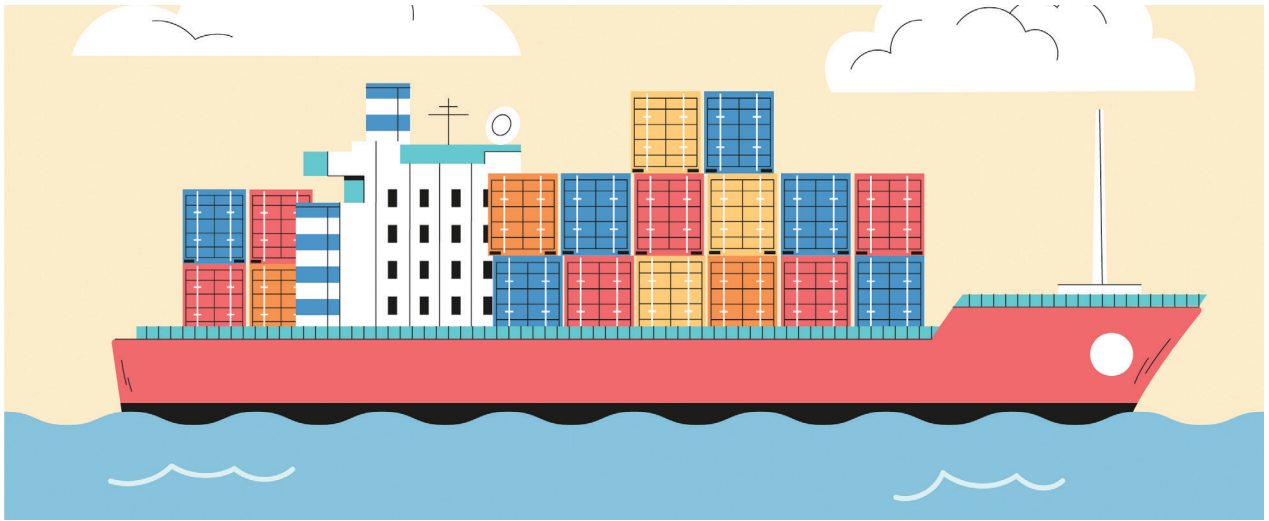
The conducive regulatory and tax environment, coupled with access to skilled manpower and robust infrastructure, has positioned the GIFT IFSC as an attractive destination for ship leasing companies.

a. Direct Tax

- Tax holiday for any 10 consecutive years out of the first 15 years.
- Minimum alternate tax (MAT) or alternate minimum tax at 9% of the book profits. – MAT is not applicable to companies in the IFSC opting for the new tax regime.
- No tax withholding on the payment of interest or royalty on account of lease payments to non-residents by a unit in the IFSC.
- No tax withholding on lease payments (including supplemental lease) from India to an IFSC unit during the tax holiday period.
- Withholding tax on Interest income exempt in the hands of non-resident lenders where such interest payments are made by a unit in the IFSC.
- Withholding of tax at the reduced rate of 10% on payments of dividend from units in the IFSC to non-residents.
- No capital gains on sale of ship during the tax holiday period.
- Tonnage tax can be opted for post the tax holiday period.

b. Indirect Tax

- Leasing a ship or ocean vessel in the IFSC is not subject to IGST, if the services are procured for authorised operations.
- Leasing a ship or ocean vessel by a unit in the IFSC to an Indian company is subject to IGST under forward charge on lease rental payments.



- Leasing a ship or ocean vessel by a unit in the IFSC to a unit in the IFSC or SEZ or outside India is not subject to GST.
- No stamp duty is leviable on certain transactions for 5 years commencing from December 2021.
- The import of a ship or ocean vessel into the IFSC is not subject to basic custom duty (BCD) subject to conditions.

THE MARITIME ECOSYSTEM IN GIFT IFSC

- **Gujarat Maritime Cluster:** Wholly-owned subsidiary of Gujarat Maritime Board in GIFT, one stop solution for the maritime industry and service providers.
- **Availability of Talent:** Gujarat Maritime University (GMU) in the vicinity of GIFT City offers a range of undergraduate and postgraduate courses such as Nautical Science, Marine Engineering, Naval Architecture, Shipbuilding, Port and Shipping Management.
- **Gujarat International Maritime Arbitration Centre (GIMAC)** - Special Alternate Dispute Resolution (ADR) center has been developed with world class infrastructure comparable with best arbitration centers across the globe.
- **Access to Funding:** GIFT IFSC provides access to a deep pool of funding from international investors, banks, and financial institutions. This enables ship leasing companies to raise capital at competitive rates, which they can then use to acquire ships and offer leasing services to their clients.
- **Gujarat IT/ITES Policy:** The Gujarat IT/ITES Policy provides additional incentives and benefits to IT and ITES companies operating in GIFT IFSC. This policy provides benefits such as subsidies on land and infrastructure, exemptions

from stamp duty and registration fees, and support for R&D and innovation.

THE TIDAL SHIFT

The impact of ship leasing from GIFT IFSC is multifaceted. Firstly, it will lead to increase in India owned tonnage allowing the IFSCA entities to bridge the gap between the demand and supply of vessels for the Indian EXIM trade, and to enhance the competitiveness and efficiency of the Indian shipping industry.

It can attract FDI inflows into the Indian maritime sector, leveraging the liberalized FDI policy and conducive business environment. Additionally, GIFT IFSC ecosystem can also facilitate investment and financing for Sagarmala-related initiatives, such as port infrastructure and maritime logistics projects, through ECB and other innovative financing solutions.

Furthermore, leasing transactions denominated in foreign currencies can contribute to India's forex reserves, enhancing the country's ability to manage external shocks and maintain exchange rate stability.

Finally, the availability of ship leasing services in GIFT IFSC can incentivize Indian shipping companies to bring back their offshore operations onshore, reversing the trend of offshore operations.

CONCLUSION

As India's economy continues to expand, driven by increasing commodity and consumer demand, and with a target of reaching \$ 1 trillion in merchandise exports by 2030, the shipping sector is poised for significant growth. Leveraging policy reforms and fostering a conducive business environment, India stands to capitalize on this upward trajectory. Already a leader in ship management and recycling, India with policy initiatives can harness the potential of the shipping industry, contributing to economic growth, employment generation, and the realization of India's goal of Viksit Bharat by 2047. 