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Game Changer for Ship Leasing to set - up an entity in IFSC India

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India, despite having a large coastline, growing domestic market and international seaborne trade, deep-rooted maritime traditions, and skilled seafarers, continues to have a smaller share in the international shipping sector because of the less favourable legal and regulatory framework in comparison to the global hubs such as Singapore, Panama, Dubai, Netherlands, Hong Kong, London.

In June 2021, International Financial Services Centres Authority (IFSCA) had constituted a committee to examine global best practices in financing and leasing of ships, identify opportunities and devise a roadmap to enable such activities from Gujarat International Finance Tech-City (GIFT) IFSC under the chairpersonship of Ms. Vandana Aggarwal with representatives from Government of India, Gujarat Maritime Board, industry and finance experts, and academicians.

The committee submitted its report¹ dated October 28, 2021, to the IFSCA with the primary objective of enabling the seeding of a robust **Ship Acquisition, Financing And Leasing (SAFAL)** regime at India-IFSC. The report comprises of a set of critical and necessary changes required to be made in the legal and regulatory framework, including in direct and indirect taxes and other duties, and in the export-import provisions relating to ships, ship finance and shipping services in India-IFSC.

Key changes suggested by the Committee

- Providing 'operating lease of any equipment' as financial product to be carried out from GIFT IFSC - Notified on December 14, 2021
- Provide a framework for vessel-operating lease and enabling ancillary services relating to vessel financing and leasing to be done from GIFT IFSC
- Set up a dedicated help desk for IFSC financial products and services that provides prompt responses to investor/service providers' queries

¹<https://ifsc.gov.in/CommitteeReport>



- Introduce a new category titled 'Indian IFSC controlled tonnage', offering certain relaxations and overcome challenges and impediments in existing regime
- Indian Group companies to be freely permitted to opt for either the Indian flag or the foreign flag of a Flag State and crewing and the flag to be mandated by the IFSCA/DG Shipping only if the Indian group companies are involved in India reserved imports or India coastal trade
- Foreign company, a subsidiary of an IFSC unit, to set up a branch in IFSC. The place of effective management of the foreign company should be in IFSC
- Any income of a non-resident by way of royalty or hire charges of vessel lease by IFSC unit should be exempt from tax. Also, there should be no withholding tax obligation on such payments by IFSC unit
- Capital gains exemption to be provided arising on transfer/sale of vessels or transfer/sale of partnership interest/shares of SPV holding the vessels
- Dividends paid by company in IFSC should not be taxed in the hands of the non-resident shareholder. Also, exemption should also be provided from any withholding tax on such dividend income.
- To make shipping operators in IFSC at par with foreign shipping operators, GST exemption (currently IGST – 5%) to be granted on import freight services (ocean freight) provided by IFSC unit to a foreign consignor.
- GST exemption (currently exempted up to 30 September 2022) to be granted on export freight services (ocean freight) without sunset clause for services provided by IFSC unit to a foreign consignor.
- GST exemption (currently IGST – 5%) to be granted on ocean freight and other ancillary services when provided to Indian companies for shipments from one country to another (both outside India).
- Ship leasing and related business in IFSC should be exempted from Net Foreign Exchange Earning requirement as ship leasing business cannot be net foreign Exchange earner in 5 years period

The report also suggests various other financial recommendations for the banks, insurance companies, NBFCs and other Funds to create an ecosystem favourable for the global ship leasing companies to relocate to IFSC India.

In a nutshell, the Committee has carried out a 360-degree review and examination of the extant regulatory framework affecting such activities and put down the wish list for shipping companies to set-up in IFSC in India. Considering that the suggested changes are accepted, and with the increasing demand for an Asian base for operations of shipping company, this will be a good opportunity for the global players to set up in IFSC India.



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