



WHY GIFT CITY IS THE SMARTEST GATEWAY FOR U.S. INVESTORS TO INVEST INTO INDIA



INTRODUCTION

India has made bold strides toward establishing itself as a major player in the international financial services with the development of Gujarat International Finance Tec-City (GIFT City). Located in Gujarat, this integrated hub is the country's first and only operational International Financial Services Centre (IFSC), positioned to rival financial centres such as Singapore and Dubai. GIFT City combines world-class infrastructure with

a streamlined regulatory framework and tax-friendly policies, making it particularly attractive to global investors.

For U.S.-based investors, including High-Net-Worth Individuals (HNIs) and Non-Resident Indians (NRIs), GIFT City presents a compelling case for portfolio diversification into Indian and global markets through a compliant and efficient route.

GIFT CITY'S ROLE IN INDIA'S FINANCIAL ECOSYSTEM

GIFT City was conceptualized to provide an internationally competitive financial center within India. The city hosts multiple entities across various financial services sector, including foreign banks, insurance companies, asset managers, and three international exchanges: India INX, NSE IFSC and IIBX. It functions under the supervision of a unified regulator, the International Financial Services Centres Authority (IFSCA), which consolidates roles previously handled by various Indian regulatory bodies.

One of the biggest attractions for international investors is that the GIFT City operates in foreign currencies, primarily the U.S. dollar. This eliminates currency conversion hassles and enhances the appeal for investors who want exposure to Indian markets without the complexities of dealing in INR.

One of the key advantages of investing through GIFT City is the significantly simplified and expedited KYC and onboarding process for US-based investors. Compared to traditional offshore routes, the regulatory framework within the International Financial Services Centre (IFSC) has been designed to be investor-friendly, with faster compliance checks and minimal documentation.

However, what sets GIFT City apart is its ability to provide a cost-effective access route to similar investment products that are available domestically or internationally. This affordability is made possible by its digital-first infrastructure, which streamlines administrative procedures and minimizes paperwork. The centralized regulatory oversight under the IFSCA eliminates the need to interact with multiple regulators, thereby reducing both the time and cost associated with compliance.

Additionally, the overall operational costs of running financial services within GIFT City are significantly lower than in traditional financial hubs like New York or Singapore. These

efficiencies allow fund managers to pass on cost savings to clients in the form of reduced management fees, faster account openings, and better service delivery.

HOW U.S. TAXATION DIFFERS FROM OTHER JURISDICTIONS?

One of the unique aspects of U.S. taxation is its global reach. Unlike most other countries, which follow a territorial or residency-based tax system, the United States taxes its citizens and residents on their worldwide income, irrespective of where it is earned. This creates a layer of complexity for U.S. investors that does not exist for investors from countries such as the UK, Singapore, or UAE, where overseas income is often taxed only upon remittance or in very specific cases.

For example, a Singapore-based investor in a GIFT City fund structure may not have any local tax reporting or liability on their offshore investment unless the income is brought back into Singapore. In contrast, a U.S. investor must report the income to the IRS (Internal Revenue Service) regardless of where it is received or whether it is repatriated. This distinction means that U.S. investors must take extra care to evaluate fund structures for PFIC status, track foreign account holdings, and maintain rigorous reporting under FATCA (Foreign Account Tax Compliance Act) and FBAR (Foreign Bank Account Report) rules, while also coordinating foreign tax credits to prevent double taxation. As such, financial strategies that work seamlessly for investors from other jurisdictions may require customization and tax-specific advisory when applied to U.S. investors.

ACCESS ROUTES FOR U.S. INVESTORS

GIFT City offers several structured investment channels tailored for different types of investors. Alternative Investment Funds (AIFs), divided into Categories I, II, and III, offer long-term and sophisticated investment

opportunities including Long only, hedge funds, private equity, private credit, infrastructure, and many more. Portfolio Management Services (PMS) also offer personalized portfolio strategies managed in USD, allowing high-net-worth clients to invest in listed Indian equities and international instruments.

Investors can also directly trade on GIFT City's international exchanges without setting-up any presence in the GIFT City. These platforms list global securities and ETFs, giving access to international markets without needing to convert currency. Moreover, global funds and fixed-income products offered in the city enable broader geographic and asset class diversification.

TAX BENEFITS OFFERED BY GIFT CITY

One of the most appealing aspects of investing via GIFT City is the generous set of tax incentives provided by the Indian government. Income earned through interest on foreign currency instruments and deposits within GIFT City is entirely exempt from Indian taxes. Dividends earned by non-resident investors attract a concessional tax rate of 10%, significantly lower than domestic dividend taxation.

Long-term capital gains on equity instruments traded on IFSC exchanges are taxed at just 12.5%, and in some specific cases, they are completely exempt. Gains from derivative and over-the-counter transactions or on transfer of units or any income from such units of Category III AIFs (investing in India under the FPI route) also enjoy full exemption from Indian taxation.

Additionally, transactions carried out within GIFT City are not subject to commonly levied taxes such as GST, Securities Transaction Tax (STT), or stamp duty. Management entities located in GIFT City also benefit from a 100% tax holiday for any 10 out of their first 15 years of operation, making fund-level operations far more efficient.

COMPLIANCE AND TAX OBLIGATIONS IN THE U.S.

Despite the tax-neutral framework in India, U.S. investors remain subject to taxation under their home jurisdiction. The U.S. taxes all global income, including interest, dividends, and capital gains, based on the investor's income bracket and asset holding period.

Long-term capital gains are typically taxed at 0%, 15%, or 20%, while short-term gains and dividends are taxed as ordinary income. However, the U.S.-India Double Taxation Avoidance Agreement (DTAA) permits investors to claim a Foreign Tax Credit (FTC) to offset taxes paid in India, preventing dual taxation.

In addition to federal taxation, U.S. investors may also be subject to state and local taxes, which can vary significantly depending on their place of residence. At the federal level, long-term capital gains are taxed at preferential rates of 0%, 15%, or 20%, based on income thresholds. However, individual states often treat capital gains as ordinary income and may impose their own income taxes. These state-level rates range from 0% in states like Texas or Florida to over 10% in high-tax jurisdictions such as California and New York.

Furthermore, certain cities, including New York City, levy an additional local income tax, increasing the overall tax burden. For example, consider an investor residing in New York City who earns \$100,000 in long-term capital gains from a GIFT City AIF and has total income high enough to fall into the top federal bracket. They would be liable for a 20% federal capital gains tax (\$20,000), a 3.8% Net Investment Income Tax or NIIT (\$3,800), a New York State income tax of approximately 8.8% (\$8,800), and a New York City income tax of around 3.88% (\$3,880). Altogether, the total tax paid on the \$100,000 capital gain would amount to \$36,480, representing an effective tax rate of 36.48%.

This multi-tiered structure highlights the

importance of considering not just federal, but also state and local tax obligations when evaluating net returns from international investments such as those routed through GIFT City.

An important consideration for U.S. investors is the classification of certain GIFT City-based AIFs as Passive Foreign Investment Companies (PFICs) under U.S. tax law. However, not all AIFs fall under the PFIC classification. Several funds are structured to be PFIC-safe or offer QEF (Qualified Electing Fund) election options, reducing adverse tax consequences.

Additionally, many fund managers operating from GIFT City are increasingly cognizant of the unique U.S. tax and regulatory landscape. These managers are proactively structuring their funds and investor disclosures in a manner that supports U.S. reporting obligations, offering greater peace of mind and comfort to U.S.-based investors.

U.S. tax laws also mandate extensive reporting for foreign assets. Form 8938 is required under FATCA to report foreign financial holdings, while FBAR (FinCEN Form 114) must be filed if account balances exceed \$10,000. Forms 8621, 8865, or 8832 may also apply depending on the nature of the investment and the structure of the entity.

Let's take a real-time scenario to understand.

EXAMPLE 1: AN NRI USING PMS STRUCTURE

An Indian-origin U.S. resident, opts to invest \$500,000 via a Portfolio Management Service (PMS) operating out of GIFT City. The portfolio is actively managed and focuses on mid-cap Indian equities. By holding these investments for more than one year, the investor qualifies for long-term capital gains (LTCG) treatment under Indian tax laws.

India imposes a 12.5% LTCG tax on listed securities for gains exceeding the exemption threshold of ₹1.25 lakh. Suppose the investor earns \$100,000 in long-term capital gains. The investor would pay \$12,500 in Indian taxes.

The entire gain is reported in the U.S., but investor can apply the \$12,500 as a Foreign Tax Credit (FTC) to offset U.S. tax liability, reducing overall tax burden.

Additionally, the PMS structure if properly set up under GIFT City and aligned with U.S. investor considerations can avoid Passive Foreign Investment Company (PFIC) classification, easing investor's IRS reporting obligations and potentially eliminating the need to file Form 8621.

EXAMPLE 2: INVESTOR'S STRATEGY IN DERIVATIVES AND LISTED EQUITIES

An investor from California, decides to allocate \$250,000 each to two different vehicles in GIFT City. The first is a Category III AIF focused on derivative strategies, while the second is a Portfolio Management Services (PMS) account targeting listed Indian equities and managed in USD.

In the derivative fund, investor earns a 20% return, generating \$50,000 in profit. Under Indian law (Section 10(4D) of the Income-tax Act), income from derivatives earned by Category III AIFs in GIFT City (registered as FPIs) is completely tax-exempt in India.

However, in the U.S., investor must report the full \$50,000 as ordinary income. Assuming the investor falls under the 24% federal tax bracket, the U.S. tax liability is \$12,000, resulting in a post-tax gain of \$38,000.

In the PMS structure, investor again earns a 20% return, resulting in \$50,000 in long-term capital gains (assuming the holding period exceeds one year). Under Indian tax rules, these gains are taxed at 12.5%, so the investor pays \$6,250 in India.

Investor must report the full \$50,000 to the IRS as long-term capital gain income. Assuming investor is taxed at the 15% U.S. long-term capital gains rate, the U.S. liability would be \$7,500, but investor can apply a Foreign Tax Credit of \$6,250, reducing the effective U.S. tax to \$1,250. The net post-tax gain would thus be \$42,500.

WHY STRATEGIC STRUCTURING MATTERS?

For distributors and wealth managers, GIFT City presents a valuable opportunity to offer U.S. clients access to India's growth story while optimizing for tax efficiency. Strategies could be built around derivative products, PMS models, and PFIC-compliant fund structures to limit exposure to adverse U.S. tax consequences.

Currency stability is another key benefit. Since all investments are handled in USD, investors do not face the challenge of currency conversion losses. This also simplifies reporting obligations and net asset value calculations.

As India continues to expand its economy and reform capital markets, GIFT City serves as a vital platform for attracting global capital. The strategic advantage lies in balancing tax efficiency, currency neutrality, and regulatory compliance—particularly for U.S. investors navigating one of the world's most complex tax systems.

CONCLUSION

GIFT City has quickly become one of the most attractive gateways for U.S. investors seeking to diversify their portfolios with Indian and global assets. With a unique blend of tax exemptions, regulatory consolidation, and access to high-growth opportunities, it stands out as a forward-thinking model in the global financial ecosystem.

While U.S. tax compliance adds a layer of complexity, thoughtful structuring and professional guidance can help navigate these requirements efficiently. By leveraging the right investment vehicles—be it AIFs, PMS, or direct exchange participation—U.S. investors can unlock the full potential of GIFT City while staying within the guardrails of international tax law.

As more U.S. investors explore India's investment potential, GIFT City is poised to play an even more prominent role in global wealth management strategies.

To Know, which are all the products available for US Based investors. Please visit <https://pmsbazaar.com/>

