

FAMILY  
OFFICES IN  
GIFT CITY

# AGENDA

- Introduction
- What is a Family Office and Can I Set One Up in GIFT City?
- A Light-Touch Framework
- Self-Managed Pooling Vehicle
- Pooling Funds from a Single Family
- Net-worth and Target Corpus
- Permissible Investments
- Why GIFT and Not Overseas?
- Investment by way of OPI
- FIF Taxation
- Conclusion

# INTRODUCTION

- Introduction to Family Offices in GIFT City
  - IFSCA issuing relaxations to enable funding from a larger set of investors
  - Current framework governing family office in GIFT City
  - Practical considerations for high net-worth Indian families



# WHAT IS A FAMILY OFFICE AND CAN I SET ONE UP IN GIFT CITY?

- Family offices have a long history, originating in Europe in the sixth century
  - Used by royalty to manage wealth and family affairs
- Modern family offices act as a one-stop shop for all family needs
  - Manage estate planning, healthcare, education, and investment activities
- In India, family offices are generally thought of as the investment arm for the family
  - IFSCA has issued a framework for Family Investment Funds, which can only act as investment vehicles for the family

# A LIGHT-TOUCH FRAMEWORK

- IFSCA introduces framework for Family Investment Funds under the IFSCA (Fund Management) Regulations, 2022
  - FM Regulations provide detailed conditions for fund managers and the funds they launch
  - A light-touch approach has been afforded to FIFs

# SELF-MANAGED POOLING VEHICLE

- Only one entity is required to be set up for FIFs
  - Acts as both the Authorised FME and the pooling vehicle for the family
- FIFs can be set up as contributory trusts
  - Investors must also be beneficiaries of the trust
  - Beneficiaries and their beneficial interest must be fixed and identifiable in the Trust Deed
- Trust structure is cost-effective, tax efficient, and subject to fewer regulatory compliances
  - Potential foreign exchange implications of appointing an Indian-resident trustee

## POOLING FUNDS FROM A SINGLE FAMILY

- FIFs can only pool funds from a single family
  - Definition of single family expanded to include entities with family control and economic interest
- FIFs can accept contributions from employees, directors, or service providers
  - Must be permitted by internal policy or to align interests
  - Cannot exceed 20% of FIF's profits
- Indian families with wealth in domestic trust structures must consider alternatives for remitting funds to FIF in GIFT City

## NET-WORTH AND TARGET CORPUS

<b>Requirement</b>	<b>Authorised FMEs</b>	<b>FIFs</b>
Net Worth	USD 75,000	No Requirement
Minimum Investor Contribution	USD 250,000	No Requirement
Minimum Target Corpus	N/A	USD 10 million (within 3 years)

- FIFs do not need to satisfy the net worth requirement of USD 75,000 applicable to other Authorised FMEs.
  - No minimum investor contribution prescribed for investors of an FIF.
- FIFs required to have a minimum target corpus of USD 10 million within the first three years of launch.
  - Family members funding the FIF directly are subject to a cap of USD 250,000 under the LRS route.
  - May cause difficulties for families who do not wish to bring multiple family members into the FIF structure as contributors.
  - Family may consider using existing group companies/LLPs or setting up a new structure for funding the FIF.





## PERMISSIBLE INVESTMENTS

- Securities: Unlisted, listed or to-be listed
  - Debt securities
- Other investment schemes
  - Set up in the IFSC, India and foreign jurisdiction
  - Includes mutual funds and AIFS in India or abroad
- Derivatives
  - Includes commodity derivatives
- Investment in LLPs
- Physical assets
  - Real estate, bullion, art, etc.

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# WHY GIFT AND NOT OVERSEAS?

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- Investment by way of OPI

# INVESTMENT BY WAY OF OPI

- New Foreign Exchange Management (Overseas Investment) Rules, 2022
  - Investment into unlisted securities only through ODI route
  - Individuals not permitted to make ODI in foreign entities engaged in financial services activities
  - Investment by Indian resident individuals into overseas funds regulated by host jurisdiction is permissible by way of OPI
  - Unlisted entities prohibited from making OPI in overseas funds
  - More favourable regime for remittance into GIFT City
  - Investment into pooling vehicles in GIFT City treated as OPI
  - FIF in GIFT can make global investments without FEMA restrictions
  - OPI investment by individuals through LRS with cap of USD 250,000 per individual per financial year

OPI by Indian Residents	GIFT City FIF	Overseas Family Office (fund)	
		Regulated	Unregulated
Indian resident Individual			
Unlisted Indian Entity			
Listed Indian Entity			

# FIF TAXATION

- FIF taxation is determined by whether it is set up as a trust, LLP or company
  - For example, if set up as a fixed interest trust, contributions and distributions should be tax exempt
  - Capital gains earned by the FIF should be taxed in the hands of the trustee
  - If set up as an LLP, capital gains should be taxable at the rate of 20%
  - Subsequent distributions to partners should be tax exempt
- Offshore family offices are also structured in jurisdictions with only one layer of taxation
  - Generally, at the time of distribution to the Indian family members
  - Distributions in the form of long-term capital gains should be taxed at 20%

Structure	Contributions and Distributions	Capital Gains
Fixed Interest Trust	Tax Exempt	Taxed in the hands of the trustee
LLP	Distributions Tax Exempt	Taxable at the rate of 20%
Offshore Family Office	One layer of taxation at distribution	Long-term capital gains taxed at 20%

# CONCLUSION

- IFSCA's light-touch regulatory framework for FIFs
  - Foreign exchange provisions promote investment into IFSC funds
  - Tax regime comparable with popular offshore jurisdictions
  - GIFT City is an appealing jurisdiction for Indian families
  - Access to global markets
- Nuances of FM Regulations and India's foreign exchange regulations
  - Ensure appropriate structure for FIF and funding from India