

GIFT IFSC'S FAMILY OFFICE CONUNDRUM: OPPORTUNITY OR OBSTACLE



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A new frontier for global family offices

With the number of High-Net-Worth Individuals (“HNIs”) and Ultra-High-Net-Worth individuals (“UHNIs”) rising globally, family offices are playing an increasingly central role in advanced wealth management and international investment strategies. Family offices are now evolving from their traditional role of managing wealth to becoming the next generation wealth creators. This shift is propelling a trend towards greater professionalisation, as families engage seasoned executives, implement institutional-grade governance structures and adopt cutting-edge technologies. With a renewed focus on innovation, family offices are exploring alternative investment structures, impact-driven ventures and entrepreneurial opportunities that align with long-term legacy goals.

Recognising this trend, the International Financial Services Centres Authority (“IFSCA”) has introduced a progressive regulatory framework to attract HNIs and UHNIs to establish family or multi-family offices within India’s first International Financial Services Centre (“IFSC”), nestled in Gujarat International Finance Tec-City (“GIFT City”). Located in Gandhinagar, IFSC, GIFT City stands as India’s flagship global financial hub, offering streamlined market access, competitive tax incentives and cutting-edge infrastructure and a unique non-resident status from foreign exchange norms perspective. With its strategic positioning amid other developed financial hubs like Singapore, Mauritius and Dubai, IFSC, GIFT City is fast emerging as a magnet for cross-border capital flows, bolstering India’s economic momentum and reinforcing its stature in the global financial ecosystem.

Structuring Family Investment Fund or Multi-Family Office at IFSC, GIFT City

At the core of this initiative are the Family Investment Fund (“FIF”) and Multi-Family Office (“MFO”) structures, which operate through a customized Fund Management Entity (“FME”) duly registered as an Authorised FME or a Registered FME (Non-Retail), as applicable, in accordance with the IFSCA (Fund Management) Regulations, 2025 (“FM Regulations”). FIF can be structured as a

company, contributory trust, limited liability partnership or other approved legal forms, tailored to the family’s needs. If an FIF is established as a contributory trust, it must ensure that all beneficiaries are identifiable, and the proportion of each beneficiary’s share can be determined basis the provisions of the trust deed. Furthermore, adding new contributors to the trust should not make existing beneficiaries obscure or their shares indeterminate.

Designed as a self-managed fund, FIF can pool capital exclusively from a single family, with narrowly defined exceptions for employees, directors or service providers, according to internal policies intended to align interests. The term ‘*single family*’ is broadly interpreted to include a group of individuals who are the lineal descendants of a common ancestor, along with their spouses (including widows, widowers, whether remarried or not) and children including stepchildren, adopted children, ex nuptial children. Further, single family also includes entities such as sole proprietorship firm, partnership firm, company, Limited Liability Partnerships (“LLPs”), trust or body corporate, in which an individual or a group of individuals of a single-family exercise control and directly or indirectly hold at least 90% (ninety percent) substantial economic interest.

The regulatory provision permits Registered FME (Non-retail) to service Multi-Family Offices (“MFO”) pursuant to portfolio management agreement. However, in practicality, the typical Alternative Investment Fund (“AIF”) structures, and most often Category III AIF structure have emerged as common investment vehicles for MFO within IFSC, GIFT City. Under this arrangement, investments are apportioned among participating different families based on a mutually agreed commercial understanding. This approach has emerged as a practical workaround amongst FMEs in absence of explicitly regulatory guidance for MFO fund structures within IFSC, GIFT City.

This structure ensures both operational autonomy and regulatory clarity, making IFSC, GIFT City a compelling jurisdiction for global families seeking to consolidate and grow their wealth with confidence.

Scope of Investment for FIF / MFO in IFSC, GIFT City

FIF / MFO are designed to offer significant investment flexibility, allowing families to diversify their portfolios across a wide spectrum of asset classes. These funds are permitted to invest in securities issued by unlisted, listed, to be listed entities or traded on stock exchanges based out of the IFSC, GIFT City, within India or in foreign jurisdictions. Capital may also be allocated to money market instruments, debt securities and securitised debt instruments, including both assets backed or mortgage-backed securities. FIF / MFO can participate in other investment schemes established in IFSCs or in jurisdictions outside India and they are allowed to trade in derivatives, including commodity derivatives.

In addition, subject to an investment not resulting in round tripping, FIF / MFO may invest in units of mutual funds and AIFs in India or foreign jurisdiction. The structure also permits investments in LLPs and physical assets such as real estate, bullion and art, etc. Beyond these categories, FIF / MFO may invest in other securities, financial products or instruments, as may be specified by the IFSCA, ensuring adaptability with evolving financial landscapes and keeping abreast with global financial hubs.

Strategic Investment Scenarios in FIF / MFO – Opportunities and Regulatory Nuances

Under the Reserve Bank of India's ("RBI") Foreign Exchange Regulations Framework ("FEMA Framework"), a FIF established in IFSC, GIFT City, is considered as a person resident outside India or non-resident. Investments by Indian entities, listed or unlisted and must therefore, adhere to the permissible overseas investment routes and comply with the regulatory regime. Regardless of whether the FIF is structured as open-ended or closed-ended, it must achieve a minimum corpus of USD 10 (ten) million within 3 (three) years of its registration with the IFSCA. In case of a FIF set up by resident Indian family, this capital threshold may be met through contributions from resident individuals in the family under the Liberalised Remittance Scheme ("LRS") or via investments from listed or

unlisted entities owned and controlled by members of the said family through Overseas Portfolio Investment ("OPI"). Notably, the outbound FIFs structure, to invest overseas, are not being approved but on the contrary, offshore families including Non-Resident Indians ("NRIs") (using their offshore funds) can easily establish FIF within IFSC, GIFT City, boosting the core objective of setting up IFSC, GIFT City i.e. to 'onshore the offshore'.

Unlocking Investment Opportunities in FIFs / MFOs

1. Investments by Indian Resident Individuals

Indian residents can invest up to USD 250,000 (United States Dollar Two Lakh Fifty Thousand) per person in a financial year under the LRS scheme. A Tax Collected Source ("TCS") of 20% is levied on any remittances beyond INR 10,00,000 (Indian Rupee Ten Lakh) in a financial year.

2. Investments by NRIs / Persons of Indian Origin ("PIOs")

Investments can be made in FIF / MFO using funds from NRE ("Non-Resident External") or NRO ("Non-Resident Ordinary") accounts. NRO accounts permit remittances and repatriation up to USD 1 (One) million per financial year, while NRE accounts are fully repatriable without limit. No TCS applies to remittances from these accounts and investments from NRE accounts. NRIs / PIOs investing other monies directly from overseas are outside the FEMA Framework and therefore, subject to any restrictions imposed by the applicable laws of the relevant overseas jurisdictions, there is no limitation on the quantum of funds that can be invested in such FIF / MFO.

3. Investments by Indian Entities

Investment in or contribution to investment funds or vehicles set up in IFSC, GIFT City would specifically be categorised as OPI under the OI norms applicable as part of foreign exchange control regulations in India. Under the OPI framework, listed Indian entities are permitted to undertake investments up to 50% (fifty per cent) of their net worth, as per the latest audited balance sheet. However, in the specific context of investments in the IFSC, GIFT City, all unlisted Indian entities are also eligible to invest under the OPI route.

4. Investments by FIF / MFO structured as Cat III AIF in IFSC, GIFT City

With the recent amendments to the FM Regulations, the IFSCA has made the AIF route more attractive for FIF / MFO. Under the revised FM Regulations, FIF / MFO may qualify for classification as Category III AIF, depending on their investment strategies. With enhanced regulatory clarity now available on the applicable taxation provisions, an inbound FIF / MFO structures that primarily invests in Indian listed securities can be classified as a Category III AIF. This classification enables fund to qualify under the specified fund regime, which offers substantial tax benefits including complete exemption from capital gains tax on income generated through investments in debt instruments and derivatives, as well as concessional flat tax rate of 10% (ten per cent) on dividend and interest income earned from such securities. These progressive reforms have sparked considerable interest among non-resident Indian family offices seeking exposure to India's vibrant markets. To avail these benefits, FIF / MFO must secure registration as a Category III AIF under the FM Regulation.

This robust framework enables a wide spectrum of investors to participate in FIF / MFO, while maintaining full compliance with the IFSCA's regulatory and tax regimes.

Navigating Investment: GIFT City or Overseas

While setting up FIF / MFO in IFSC, GIFT City is permissible, regulators are wary of structures being exploited to circumvent remittance restrictions. There is likely to be greater regulatory comfort if FIF / MFO are funded by offshore families or by investors able to prove that the capital originates overseas. This approach seeks to prevent FIF / MFO from becoming vehicles for draining domestic funds offshore.

On the other hand, recent amendments to India's foreign exchange regulations have introduced greater complexities for families seeking to invest overseas. Under the Foreign Exchange Management (Overseas Investment) Rules, 2022 ("OI Rules"), investments in unlisted securities are typically only permitted through the ODI route. Also, resident India individuals are restricted from making ODI into foreign entities

engaged in financial services activities. This poses a challenge for families aiming to establish investment manager for outbound family offices, particularly in overseas jurisdictions.

Nevertheless, the Foreign Exchange Management (Overseas Investment) Directions, 2022 which accompany the OI Rules, provide considerable flexibility by clarifying that Indian resident individuals and listed entities may invest in overseas funds regulated by a financial services authority in their respective host jurisdictions via the OPI route. Yet, this relief is limited in practice. Popular jurisdictions for family office setups, such as Singapore and Delaware, typically regulate fund managers rather than the funds themselves, rendering many structures ineligible. Furthermore, unlisted entities are explicitly prohibited from making OPI in overseas funds, regardless of their regulatory status.

In contrast, the OI Rules and Directions carve out a more favourable regime for investments into GIFT City. Investments into pooling vehicles established within IFSC, GIFT City, are treated as OPI, enabling families, whether acting individually or through listed or unlisted group entities, to remit funds to a FIFs/ MFOs via the OPI route. Once established, the FIF / MFO can deploy capital globally without being constrained by FEMA's overseas investment restrictions.

Tax advantages for FIF / MFO in IFSC, GIFT City

FIF / MFO established in IFSC, GIFT City, are treated as Indian tax residents and are subject to Indian taxation laws. However, IFSC, GIFT City presents a highly attractive tax regime for FIF / MFO, positioning it as a strategic hub for consolidation and managing global wealth of HNIs and UHNIs. The Investment Manager or FME is eligible for 100% exemption on business income for any 10 (ten) consecutive years within the first 15 (fifteen) years of operations, complete exemption from Minimum Alternate Tax ("MAT") and reduced tax rates on dividends and bond interest for non-resident investors. Furthermore, additional incentives include tax-free interest on loans, exemptions from customs duties and Goods & Services Tax ("GST") on both inbound and outbound services, relief from transaction taxes and stamp duty on trades within the IFSC, GIFT City.

State-level subsidies further enhance cost efficiency, making operations economical.

Conclusion

IFSCA's light-touch regulatory framework for single family and multi-family offices, combined with progressive foreign exchange provisions and a globally competitive tax regime, has positioned IFSC, GIFT City as an increasingly attractive jurisdiction for Indian families seeking access to global markets. By streamlining cross-border investments and offering distinct advantages over traditional offshore financial hubs, IFSC, GIFT City, enables portfolio diversification beyond domestic assets while maintaining regulatory clarity and operational efficiency. Supported by

world-class infrastructure and a forward-looking policy environment, the ecosystem empowers family offices to manage wealth strategically, preserve their legacy and expand their global investment footprint. With growing recognition for the advantages offered to family offices, IFSC, GIFT City is rapidly emerging as a premier destination for efficient wealth management and expansion.

All is not a bed of roses. The enablers for outbound FIFs to be a success and more facilitating structures for MFOs providing clear flexibility for inter alia segregating the portfolios is still required to be brought in. the conundrum remains if here if this is so by chance or choice.

