GIFT City IFSC Tax Rules 2026

What CBDT Notification 94/2026 and the No-TDS Regime Mean for Your Fund

A cross-border structuring map for fund managers, lessors and family offices. CBDT Notification 94/2026 · Rule 157(5)(c) · Section 80LA · Income-tax Act 2025.

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Why GIFT City Now Sits in Every Structuring Conversation

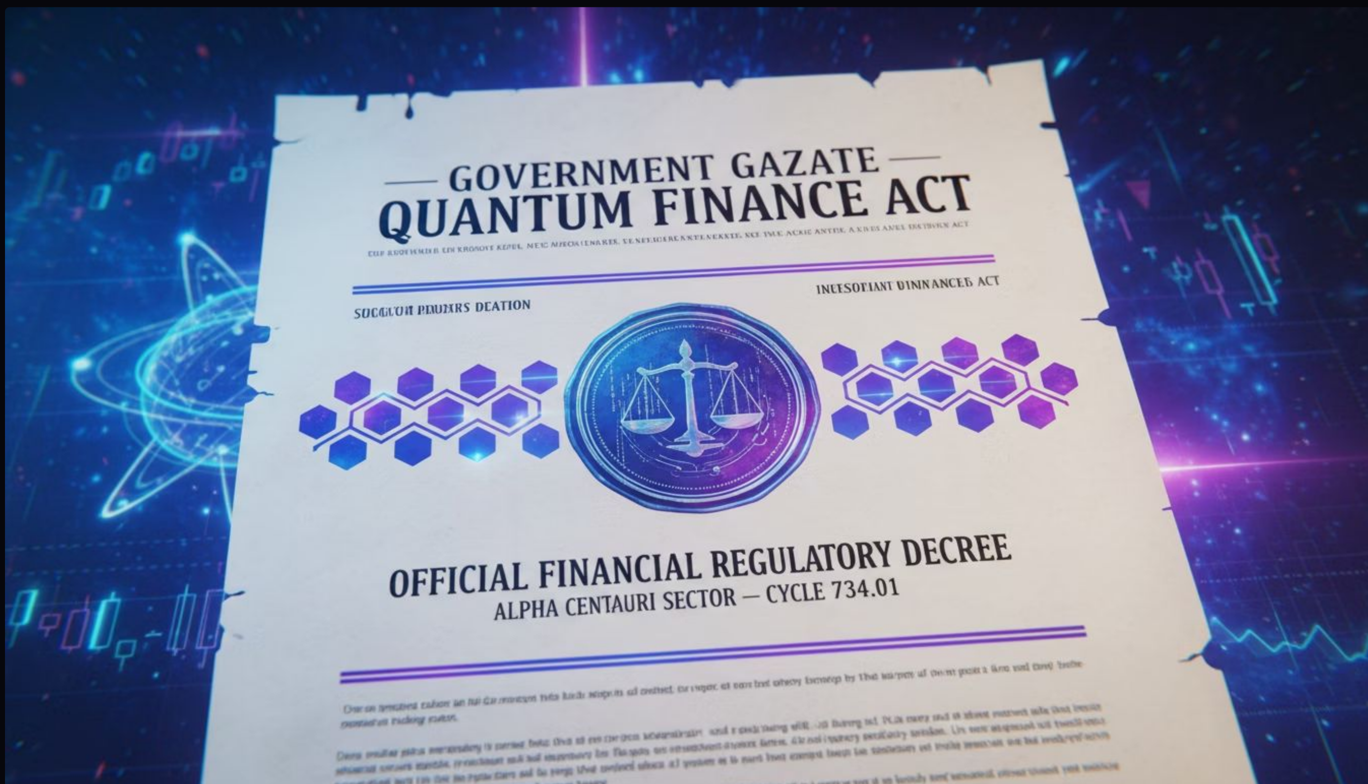
The International Financial Services Centre (IFSC) inside GIFT City has moved from a brochure to a default question in cross-border planning.

Every founder raising an offshore-friendly fund, every family office building a global book, and every aircraft or ship lessor now asks the same thing: does the IFSC route actually save tax?

In 2026 a run of CBDT notifications has made the architecture materially more usable. Classification is cleaner and withholding is lighter than a year ago.

This deck pulls the 2026 changes into one map.

Change 1: Notification 94/2026 Redefines "Specified Fund"



CBDT NOTIFICATION NO. 94/2026

Published as G.S.R. 646(E) on 21 July 2026, this is the Income-tax (Second Amendment) Rules, 2026. It came into force on the date of publication.

The operative change: Clause (c) of Rule 157, sub-rule (5) of the Income-tax Rules, 2026, was substituted with a wider definition of "specified fund".

Why it matters: "Specified fund" is the gateway to the concessional fund taxation regime. Get the definition right and the fund plus its non-resident investors sit inside the favourable framework. IFSCA registration now maps cleanly onto specified-fund status.

The New "Specified Fund" Definition, Limb by Limb

Notification 94/2026 substitutes Rule 157(5)(c) with three distinct qualifying limbs. Each limb must be read independently.

1	2	3
Limb (i)(A) A fund set up in India as a trust, company, LLP or body corporate, registered as a Category I or Category II AIF and regulated under the SEBI (Alternative Investment Funds) Regulations, 2012.	**Limb (i)(B)** A fund regulated under the IFSCA (Fund Management) Regulations, 2022 and located in any International Financial Services Centre.	**Limb (ii)** Any fund referred to in Schedule VI, Note 1(g) of the Income-tax Act, 2025.

⚠ **Note:** Category III AIFs run through a separate regime. Do not read Notification 94/2026 as settling the Category III position.

Two Withholding-Tax Reliefs Layered On Top

No TDS on Specified Payments to IFSC Units

Under CBDT Notification 80/2026, specified categories of payment to IFSC units are relieved from tax deduction at source. This is category-specific, not a blanket exemption. Confirm the payee category and payment type first.

No TDS on Aircraft and Ship Lease Rent

Lease rent paid to an IFSC unit engaged in aircraft or ship leasing is not subject to TDS in the notified cases. For lessors deciding where to domicile a leasing platform, this is one of the strongest arguments for GIFT City over an offshore base.

The Backbone: The Section 80LA Tax Holiday

None of the above works in isolation. The reason a fund manager, banking unit or lessor sets up in the IFSC is the profit-linked deduction under Section 80LA.

100%

Deduction on Eligible Income

Full profit-linked deduction available to eligible IFSC units.

10

Consecutive Assessment Years

Claimable over 10 consecutive AYs out of the first 15.

2026

Act in Force From

Income-tax Act 2025 governs from 1 April 2026, AY 2026-27 onwards.

An eligible IFSC unit can claim a 100% deduction on eligible income for 10 consecutive assessment years out of the first 15, provided the income is received in convertible foreign exchange and the unit meets the operating conditions.

⚠ The Income-tax Act, 2025 is in force from 1 April 2026 and carries the IFSC-unit deduction forward. For any AY 2026-27 opinion, confirm the corresponding provision under the 2025 Act rather than reusing an older section number out of habit.

What This Means For You

Fund Managers

Confirm your vehicle meets the new Rule 157(5)(c) definition. IFSCA (Fund Management) Regulations 2022 registration plus IFSC location now qualifies expressly.

CAs and Advisors

Refresh client memos. The specified-fund gateway is wider and two TDS reliefs cut withholding on IFSC payments. Verify payee-category conditions before applying either.

Aircraft and Ship Lessors

Model the GIFT City platform with nil TDS on lease rent and the 80LA holiday. Compare against your existing offshore base.

Founders and Family Offices

The IFSC fund route is now a cleaner base for a global book. The classification uncertainty that used to need a private ruling is reduced.

Compliance Checklist Before You Rely on the Regime

- ☐ Confirm registration: Category I or II AIF under SEBI (AIF) Regulations 2012, or a fund under IFSCA (Fund Management) Regulations 2022 located in an IFSC.
- ☐ Map your fund against Rule 157(5)(c) as substituted by Notification 94/2026, and keep the registration certificate on file as evidence of specified-fund status.
- ☐ Before switching off TDS on any IFSC payment, check the payee category and payment type against Notification 80/2026 and the leasing notifications.
- ☐ Verify the current Section 80LA-equivalent provision and conditions under the Income-tax Act 2025 for any AY 2026-27 position.
- ☐ Ensure eligible income is received in convertible foreign exchange.

Key Dates and the Bottom Line

1 April 2026

Income-tax Act 2025 comes into force. Governs from AY 2026-27.

21 July 2026

Notification 94/2026, G.S.R. 646(E), comes into force on publication. Rule 157(5)(c) substituted.

The 2026 GIFT City story is one of friction removal. A wider specified-fund definition, two withholding reliefs and a stable 80LA holiday make the IFSC a more defensible base than a year ago. The advisor's work is no longer arguing the incentive exists; it is confirming a specific fund or payment fits the notified conditions.

Talk to an Expert. CA Adityavikram Banka, Founder, A S Banka Advisors Private Limited.