Taxability of PPFAS GIFT Outbound Funds

About Parag Parikh IFSC S&P 500 Fund of Fund and Parag Parikh IFSC NASDAQ 100 Fund of Fund

Parag Parikh IFSC S&P 500 Fund of Fund and Parag Parikh IFSC NASDAQ 100 Fund of Fund (the "Schemes") are set up as irrevocable determinate trusts and are registered with International Financial Services Centres Authority ("IFSCA") as open-ended Retail Scheme under the IFSCA (Fund Management) Regulations, 2025. The Schemes collects monies from the public and make investments outside India in ETFs, UCITs and similar instruments that track the performance of overseas Index.

These Schemes are managed by PPFAS Alternate Asset Managers IFSC Private Limited, which is registered with IFSCA as a Registered Fund Management Entity (Retail).

Taxation of the Retail Scheme in IFSC

Currently, the Income-tax Act, 2025 (the "Act") does not contain any specific provisions governing the taxation of Retail Scheme in IFSC that has resident Indian investors. In such a scenario, the Scheme would be taxed as per the general principles of taxation of trusts.

In case of an irrevocable determinate trust like this Scheme, the trustee (in the capacity of a representative assessee) is generally responsible for paying taxes on the income earned by the Scheme, in like manner and to the same extent, in the capacity of a "representative assessee". Thus, the taxes on income earned by the Scheme will be paid by the Scheme using its own PAN, at the rates mentioned as per FAQ 2. Further, losses incurred by the Scheme will be set-off at Scheme level only and balance losses will be carried forward at Scheme level.

If the Scheme's income is treated as business income, then all of Scheme's income would be taxed at 30% (plus surcharge and cess). The Scheme intends to operate in a way that avoids this classification.

Taxation of the investors in the Scheme

Considering taxes are discharged at Scheme level, the same income is not again taxable in the hands of investors. As a result:

- Gains arising from sale of units of the Scheme shall not be taxable in the hands of investors. Similarly, investors will not be able to claim set-off of any losses on sale of units of Scheme against any other taxable income.
- Losses arising to Scheme on sale of investments made by the Scheme are not available for set-off against any other taxable income of the investor.

Taxes paid by Scheme will not appear in the investor's Form 168, as tax is paid using the Scheme's PAN.

For ease of reference, we have summarized below a list of Frequently Asked Questions ("FAQs") pertaining to the taxability of the Scheme and the investors.

1. **Who will be responsible for paying tax on the income earned from the Scheme - the Scheme itself or the investors?**

Based on the trust taxation principles mentioned above, the taxes will be paid at the Scheme level and the investors will not be taxable on any gains earned by the Scheme. Thus, **any taxes on income earned by the Scheme will be discharged by the Scheme** itself using its own PAN.

2. How does Scheme level taxation work?

In domestic mutual funds, investors are directly responsible for paying capital gains tax based on the difference between their subscription amount and redemption amount. However, in case of Scheme, being a GIFT City Fund, the taxes are discharged at the Scheme level as mentioned above. The implications for the investors of the Scheme are as under:

• **Net Asset Value (NAV) Impact:** The NAV you see is already "Post Tax". When the fund realizes gains (by selling underlying assets) or receives dividends, it calculates the tax liability, pays it to the authorities, and reflects that cost in the NAV.

• **Redemption is "Net of Tax" for you:** When you redeem your units, the proceeds you receive are net of all Indian Taxes. Since the Tax has already been discharged by the Fund using its own PAN, you do not owe further capital gains tax on redemption.

• **Reporting:** While you don't pay tax on the exit, you typically disclose these as "Exempt Income" in your ITR. Because the fund is an IFSC (GIFT City) you still need to disclose the holding in Schedule FA (Foreign Assets) on your tax return., though it is a disclosure of ownership and not a tax trigger.

3. How will capital gains and dividend/ interest income be taxable in India for the Scheme?

Any taxes on income earned by the Scheme will be paid by the Scheme using its own PAN, at following rates:
• **Long-term capital gains** (investments held for more than 24 months): 12.5% plus applicable surcharge and cess (highest tax rate – 14.95%)

• **Short-term capital gains** (investments held for 24 months or less): 30% plus applicable surcharge and cess (highest tax rate – 42.744%)

• **Dividend income:** 30% plus applicable surcharge and cess (highest tax rate – 35.88%)

• **Interest income:** 30% plus applicable surcharge and cess (highest tax rate – 42.744%)

4. Is the Scheme supposed to pay any taxes in the jurisdictions where it invests (on income from capital gains and dividend)?

The taxability of the Scheme in the jurisdiction where it invests will depend upon the taxation laws of the said jurisdiction as well as the provisions of the tax treaty which India has with such respective jurisdiction. Thus, such income may be taxable in the jurisdiction in which the Scheme invests. However, since taxes in any overseas jurisdiction is discharged at the Scheme level, the income is not taxable in the hands of the investors.

5. Are there any credits received for foreign tax paid and who will be responsible for claiming the same?

Generally, taxes paid by the Scheme, if any, in the jurisdiction where it has invested should be available against taxes payable in India on the same income. However, the availability of tax credit would depend upon the tax laws of the jurisdiction in which the Scheme has invested as well as the provisions of the tax treaty which India has with such respective jurisdiction. Any such credit, if available, can be claimed only at Scheme level.

6. Can income earned by the Scheme be taxed in the hands of the investors and whether tax deducted and paid by the Scheme will reflect in the investor's Form 26AS?

Since the income of the Scheme is already taxed at Scheme level, the same income **should not be taxed again in the hands of the investors.** Accordingly, gains arising from Scheme operations or sale of Scheme units should not be taxable in the hands of the investors. Further, taxes paid at the Scheme level will not reflect in Form 168 of the investor.

Further, in case of corporate investors, income from the Scheme could be considered for Minimum Alternate Tax ('MAT') purposes.

7. Will the Scheme withhold any taxes at the time of distribution of income to the investors?

The Scheme offers only growth plan to its investors. Accordingly, no income is declared or paid to investors, and therefore no withholding will be made by the Scheme. Sale/ redemption of units by investors will be net of tax and hence no further withholding will be made by the Scheme.

8. Will the Scheme provide tax credit certificate to the investors?

Since the gains from sale of Scheme units are net of applicable taxes, there is no tax Credit available for Investors. Therefore, the Scheme will not provide any tax certificate to the investors.

9. How should investors report capital gains on transfer of units of the Scheme in their income tax return?

Since the taxes on income earned by the Scheme is discharged at the Scheme level, any gains on transfer of units of the Scheme will not be again taxed in the hands of the investors. Accordingly, while reporting the gains on transfer of units of the Scheme, the investors may disclose the said gains under Schedule "Exempt Income".

10. How are the long-term post tax NAV and short-term post tax NAV arrived at?

While computing the NAV of the Scheme, all the income and expenses as well as any taxes on realised income/ gains will be considered and adjusted in the NAV. However, for computing the tax on unrealised gains (i.e., gains on mark-to-market of the underlying investments by the Scheme), in case of:

• **Long term post-Tax NAV:** It will be assumed that all the investments made by the Scheme are held for more than 24 months (irrespective of the actual period of holding). Thus, such unrealised gains would be taxable at a lower rate of 12.5% plus applicable surcharge and cess.

• **Short term post-Tax NAV:** It will be assumed that all the investments made by the Scheme are held for less than 24 months (irrespective of the actual period of holding). Thus, such unrealised gains would be taxable at a rate of 30% plus applicable surcharge and cess.

Accordingly, in case of Long term post-Tax NAV, the tax rate applied on the unrealized gains is expected to be lower than in case of Short term post-Tax NAV. Thus, the NAV in case of Long term post-Tax NAV is expected to be higher as compared to NAV in case of Short term post-Tax NAV.

11. Why does the Scheme have separate Long-term and Short-term post tax NAV? At what rate will the investors subscribe/ redeem the units in the Scheme?

The Subscription to the Units of the Scheme after the expiry of the Initial Offer Period, including the purchase of Units and Additional Subscription will be at Long term post-Tax NAV. The sale of Units of the Scheme (including Compulsory Redemption) will be either at Long term post-Tax NAV or Short term post-Tax NAV, depending upon the period of holding of the Units of the Scheme by the Investors. The following rules would apply in this regard:

• **Investors transferring upto 2 years from the date of subscription of Units:** NAV on transfer will be Short term post-Tax NAV.

• **Investors transferring post expiry of 2 years from the date of subscription of Units:** NAV on transfer will be Long term post-Tax NAV.

12. Are the investments made by the Scheme required to be reported in Schedule of Foreign Assets by the investors in their tax returns?

An investment in a Scheme setup in IFSC may not necessarily constitute a foreign asset, as the investor holds units of the Scheme rather than the underlying foreign securities directly. The Scheme itself, not the investor, owns the underlying overseas/ foreign securities. Accordingly, disclosure in the Schedule of Foreign Assets may generally not be required in the investor's tax return.

However, since the Act does not expressly define the term "foreign asset", and no statutory or administrative clarification is available, a conservative approach is recommended. As a matter of prudence, investors may consider voluntary disclosure to mitigate interpretational risk and consequent penalties.

13. Is inheritance tax/estate tax applicable on investment in these funds as well?

The Scheme is setup in GIFT City and is governed by Indian tax laws. As there is no inheritance tax/estate tax in India, resident Indian individuals investing in the Scheme are not expected to pay inheritance tax/estate tax in India on their investments.

14. What are the TCS implications for investing in this fund through LRS?

TCS at applicable rates, currently, 20% will be collected by the remitting bank on investment amounts exceeding INR 10 lakh made by **resident Indian individuals** under the RBI's Liberalized Remittance Scheme ('LRS'). No TCS will be applicable on investments made by any person other than resident Indian individuals.

15. How can investors claim credit for the TCS collected on their investment in the Scheme?

TCS collected at the time of making an investment in the Scheme is reported under the investor's PAN and reflected in the investor's Form 26AS. The investor can claim credit for such TCS against their tax liability at the time of filing their income tax return or claim a refund if the tax liability is less than the TCS.

16. Can an investor nominate an NRI or foreign national as their nominee, and what are the tax implications?

An investor may nominate any individual as a nominee including NRIs, OCIs, and foreign nationals irrespective of their residency or citizenship status. Upon the investor's demise, the units will be transmitted to the nominee in accordance with the prescribed transmission procedures. If the nominee is a non-resident, the proceeds may generally be repatriated to their overseas account, subject to applicable foreign tax laws and standard "discharge of liability" documentation.

However, nominees who qualify as US persons (including US citizens, green card holders, or resident aliens) are subject to a distinct and complex tax regime. The US does not have a federal "inheritance tax" (tax paid by the person receiving the money) but it does have a federal estate tax (tax paid by the estate of the deceased) and a very specific, often punitive, regime for foreign mutual funds called PFIC – Passive Foreign Investment Companies. GIFT City Schemes are treated as PFICs under US law, which may have adverse tax implications for US investors. Investors are strongly advised to consult a qualified US tax advisor before investing.

Disclaimer:

This information does not purport to be a complete analysis of all relevant tax considerations; nor does it purport to be a complete description of all potential tax costs, incidence and risks inherent in purchasing or holding the units of the Scheme. The information contained herein is based on an interpretation of tax legislation for the Tax Year 2026-27 and could therefore change or be adversely affected if alternative interpretations are adopted.

PLEASE CONSULT YOUR TAX EXPERT PRIOR TO INVESTING IN THE SCHEME.