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THOUGHT LEADERSHIP ... APPLIED

ESTABLISHING AND OPERATING GLOBAL CAPABILITY CENTRES IN INDIA: LEGAL FRAMEWORKS AND STRATEGIC INSIGHTS

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TABLE OF CONTENTS

1. INTRODUCTION

India has firmly established itself as a global powerhouse for technology, innovation, and operational excellence. Central to this transformation is the emergence of Global Capability Centres ("**GCCs**")—specialized hubs that multinational corporations use to manage core business functions, including technology development, research, analytics, and customer experience. Over the past 2 (two) decades, India has transitioned from being a cost-effective outsourcing destination to a strategic partner in global value creation, with GCCs leading the charge.

Today, India is home to more than 1,500 (one thousand five hundred) GCCs, spanning diverse industries such as technology, financial services, pharmaceuticals, and consumer goods. These centres are no longer limited to support functions; they are innovation engines, driving strategic initiatives, digital transformation, and business agility for their parent organizations. As businesses worldwide navigate challenges like globalization, digital disruption, and talent shortages, India's GCC ecosystem offers a robust solution.

Recognizing the growing importance of GCCs in India's economic landscape, the Indian Government has announced in its 2025 budget that it will be rolling out a national framework to position the country as a leading destination for GCCs, with a particular focus on tier-2 city growth. This initiative is expected to further strengthen India's appeal as a global hub by expanding opportunities beyond traditional metropolitan centres and fostering a more inclusive and distributed innovation ecosystem.

The establishment and operation of these centres in India are governed by various legal, regulatory and tax framework that businesses must navigate carefully. From choosing the appropriate legal structure for setting up a GCC to understanding tax implications, employment laws, and intellectual property protections, a range of legal considerations come into play.

This article examines the legal landscape surrounding GCCs in India, focusing on the critical legal issues that multinational corporations must address when establishing and operating these centres. It also explores how India's evolving regulatory framework is shaping the future of GCCs and their contribution to the country's growing role in the global economy.

2. MODELS OF GCC IN INDIA

2.1. BUILD-OPERATE-TRANSFER

The build-operate-transfer ("**BOT**") model has gained significant traction as a preferred approach for mid-sized companies looking to have GCCs in India. The model offers a structured pathway to set up and operationalize a GCC while mitigating risks and optimizing costs, where a third-party service provider sets up and operates the GCC for a defined period of time before transferring ownership and control to the entity that originally established the GCC in its home country ("**Overseas Parent Company**" or "**Client**"). This model involves 3 (three) distinct phases- build, operate and transfer – each having its own legal implications and compliance requirements that warrant careful consideration as laid down in 3.1 below.

Some of the key advantages and disadvantages of the model are as follows:

Advantages	Disadvantages
Low initial capital investment.	Transition phase can be complex, requires meticulous planning.
Service provider's local expertise can be utilised during setup and operation.	Higher risks to intellectual property and confidentiality, limited oversight over employees.
Allows for a quick launch in the market, compared to other options.	Service provider may not be able to maintain the culture and values that the overseas parent provides.

2.2. DO-IT-YOURSELF

As the name suggests, the do-it-yourself ("**DIY**") model for setting up GCCs involves the Overseas Parent Company fully owning and managing the GCC. Unlike the BOT model, where external partners are engaged to build and operationalize the centre, the DIY model puts the Overseas Parent Company in full control of the process from inception.

Advantages	Disadvantages
Extensive control over processes, workflows and data & IP security.	Requires upfront investment in registered office, IT equipment, office spaces, support employees, making setup and operational costs relatively high.
Permits GCC's activities to align closely with the Overseas Parent Company's culture and values.	Requires understanding of regulatory complexities. Some legal requirements, such as labour and real estate vary from state to state.
Direct physical oversight over human resource management.	Requires ongoing management of local challenges.

2.3. OTHER HYBRID MODELS

Apart from the BOT and DIY models, companies may also choose to use 'employer-on-record ("**EOR**")' or 'professional employer organisation ("**PEO**")' arrangements, which combine elements of the aforementioned models. In this model, the service provider acts as the legal employer of the workforce, handling HR functions such as payroll, benefits, compliance, etc. However, the model is relatively uncommon in India. Accordingly, this article majorly discusses the BOT and DIY models of GCCs.

Advantages	Disadvantages
Increased flexibility and scalability without local involvement	Service quality concerns with respect to support staff
Quick establishment with low initial capital investment	May prove costly for large number of employees
Can permit direct oversight over human resources	Added risks to intellectual property and proprietary information

3. BOT MODEL – KEY CONSIDERATIONS

3.1. CORPORATE LAW COMPLIANCES

As the model involves the service provider building the GCC, the corporate law compliances are largely to be undertaken by the service provider. This arrangement stems from the service provider's role as the initial architect and operator of the GCC, making them accountable for regulatory adherence during the build and operate phases.

3.1.1. Build phase

Setting up a GCC can take one of 2 (two) forms – either as a separate legal entity, or a division within the existing service provider's legal entity.

i. *Separate legal entity*

Forming a separate entity may be slightly time consuming in the short term, by taking time to set up, requiring capital infusions and deputation of personnel as directors, along with the legal compliances associated with running the venture such as filing returns with governmental authorities. However, it permits a relatively easier transfer phase, when such time comes.

A separate legal entity is typically structured as either a private limited company or a limited liability partnership ("**LLP**"). While other forms of entities (such as a branch office) exist, it is preferable to use a private limited company or an LLP due to the wide range of activities they may pursue, ease of transfer of undertaking, and permissibility of foreign investment. Some key compliances of these structures are discussed below:

	Private Limited Company	LLP
Oversight and regulation	Regulated by the Ministry of Corporate Affairs ("**MCA**") and the Registrar of Companies ("**ROC**") under the Companies Act, 2013 ("**Companies Act**").	Regulated by the MCA and the ROC under the Limited Liability Partnership Act, 2008.
Cost of setting up the entity	Nominal registration fees payable at applicable rates calculated on the amount of authorized capital of the company. Private companies are exempt from having a minimum paid up capital.	Nominal registration fees payable based on capital contribution. No minimum paid up capital requirement for incorporation.
Number of directors / partner / members	The company should have a minimum of 2 (two) directors (1 (one) mandatorily Indian resident) and have 2-200 (two to two hundred) members excluding employees.	The LLP should have a minimum of 2 (two) designated partners (1 (one) mandatorily Indian resident) with no upper limit.
Requirement for meetings	4 (four) mandatory board meetings (1 (one) in every 120 (one hundred twenty) days) and 1 (one) mandatory shareholders' meeting in a financial year.	There are no statutory requirement of statutory meetings to be maintained.
Charter documents	Governed by memorandum of association and articles of association	Governed by partnership deed
Timeline for setting up	Varies upon factors such as complexity of memorandum and articles, time taken for choosing registered office, number of non-resident directors and first subscribers. Can take from 1-3 (one to three) months.	Relatively shorter than company, 1-2 (one to two) months.
Applicable tax rate[1]	22%[2] (twenty two percent)	30% (thirty percent)

1. The tax rates are without applicable surcharge and cess.
2. The beneficial tax rate of 22% is applicable only upon fulfilment of certain conditions as prescribed under section 115BAA of the Income Tax Act, 1961 ("**IT Act**").

	Private Limited Company	LLP
Dividend distribution	Dividend declared, distributed or paid is taxable in the hands of shareholder. A non-resident shareholder shall be liable to pay tax on dividend income, at the rate of 20% (twenty percent) plus applicable surcharge and cess. However, this is subject to tax treaty benefit, if any, available to the non-resident shareholder. A private limited company is under an obligation to withhold appropriate tax on dividend income.	Distribution of profit by LLP to its partners, is exempt from tax in accordance with the provision of Section 10(2A) of the IT Act. Further, there will be no withholding tax implication in the hands of LLP on distribution of profits to the partners of the LLP.

Apart from the above-stated compliances, private limited companies are also required to make periodical regulatory filings with the MCA and ROC. Primary compliance obligations include the submissions of annual financial statements, director-related filings such as appointments, modification to registered office and/ or any amendments to constitutional documents of the company, maintenance of statutory registers, conducting mandatory audits, filing tax returns, and maintaining proper documentation of board and shareholder meetings.

ii. Division within the same legal entity

In contrast with a separate legal entity for setting up the GCC, a division within the same entity can be significantly cheaper in the short term and allow for a quick turnaround for a potential client. However, certain shortcomings exist in the form of intellectual property risks and dependency on the Overseas Parent Company's operations. A division within the same entity will also reduce the potential to inculcate any Client requirements regarding benefits to be provided to employees, company values and culture, etc. A separate division within the same entity will also bring forward a relatively more complex transfer mechanism (discussed below in section 3.1.3 below)

From the perspective of the Client, conducting a limited legal due diligence to ensure that the service provider is legally permitted to provide the said services is of importance. Having strong and detailed contractual arrangements with the service provider that define the terms of setup, operation, and transfer are necessary once a service provider is chosen. These should detail specific timelines, performance metrics, intellectual property protection and confidentiality requirements.

3.1.2. Operate phase

The operate phase involves legal compliance by the service provider alone and relatively less legal aspects are to be considered by the Client at this stage. The service provider should ensure meticulous legal compliance, as the Client may be likely to conduct due diligence prior to the transfer and seek indemnities for any potential legal violations.

From the perspective of the Client, it is beneficial to require the service provider to provide regular legal compliance reports (including material such as challans, filings, etc.), to ensure that the GCC entity has no legal liabilities at the time of the transfer of the undertaking. Such aspects should be discussed and agreed upfront so that the periodical compliances are undertaken properly and effectively.

3.1.3. Transfer phase

The transfer phase will vary significantly depending on whether a separate legal entity or a division within the same legal entity is chosen at the time of the build phase.

A brief comparison of the key factors is provided below:

	Separate Entity	Division within Service Provider
Legal Complexity	Minimal (share transfer)	High (carve-out, new entity establishment may be required)
Form of contract	Share purchase agreement	Business transfer / asset purchase agreement
Operational Continuity	Entity and operations remain intact	Infrastructure and employee migration may be involved
Employee Retention	Minimal change for employees immediately, attrition risks lower	Risk of attrition high since employee consent for the transfer may be involved
Time Required	Shorter	Longer
Integration Effort	Moderate (policy and culture alignment possible from day 1 (one))	High (operational and structural setup required, shift from service provider to client's culture)
Tax impact	Share transfer is generally taxable as "capital gains" income. However, a factual analysis is needed to determine factors such as manner of holding, holding period, tax treaty benefits, valuation requirements, withholding tax implications.	The tax considerations for both the buyer and the seller will differ depending upon the mode of transfer, that is, either as a business transfer or an asset sale.

In terms of foreign exchange compliance, acquisition of an Indian entity's shares requires compliance with the Foreign Exchange Management (Non-Debt Instruments) Rules, 2019, which stipulates, inter alia, pricing guidelines, reporting requirements, etc. It may be noted that under Indian foreign exchange laws, a non-resident entity is not permitted to conduct business operations in India without having a place of business in India.[3] Accordingly, a non-resident is not permitted to directly acquire an Indian business undertaking. To consummate a business / asset transfer, it has to first establish an Indian entity (which, similar as above, involves compliance with the Foreign Exchange Management (Non-Debt Instruments) Rules, 2019) and then use such Indian entity for the acquisition.

In either case, acquisition agreements will have to be drafted that clearly outline the terms of the transfer from the service provider to the Client. The operations of the service provider and periodical legal compliances being undertaken will be required to be reviewed to limit liability upon the client. If any contracts require intimation or consent from the counterparty as a consequence of the acquisition of the undertaking, the same will be required to be obtained by the service provider and evidenced to the Client.

3.2. LABOUR LAW REQUIREMENTS

Labour law compliance in the BOT Model requires careful navigation of both central and state-level statutes, requiring a comprehensive understanding of these laws to mitigate the risk of non-compliance, with a key focus on employee protection during business transfers. Some key labour law compliance requirements from a BOT model perspective are highlighted below:

i. The Client must ensure that employment contracts entered into between the service provider and its employees are meticulously drafted to include sufficient safeguards such as confidentiality, non-compete, intellectual property, and non-solicitation, providing the Client with protection against potential risks.

3. It may be noted that a foreign company can also choose non-incorporated forms of business such as a liaison office, project office or a branch office to carry out business in India. However, the scope of activities for these forms of business is relatively narrow, making them unsuitable for GCCs.

ii. In the event of a transfer of an undertaking, Section 25FF of the Industrial Disputes Act, 1947 outlines key employee protection requirements. Under the provision, the employer must comply with certain conditions including ensuring continuity of service and providing terms of employment that are similar to or better than the existing employment terms. If these conditions are not met, the employer may be liable to pay retrenchment compensation (calculated at 15' (fifteen) days average pay for every year of continuous service). In practice, companies the 'resign-and-rehire' and 'tripartite transfer' arrangements are common for employee transfers. The Client should carefully evaluate these obligations during any business transfer to ensure compliance and mitigate the risk of legal disputes.

iii. To ensure seamless employee retention post-transfer, the agreement between the service provider and the Client must incorporate clear provisions to include incentives, retention bonuses, and transfer of employee benefits, ensuring minimal disruption and business continuity.

iv. The Client must negotiate comprehensive indemnity provisions with the service provider to cover potential employee-related claims during the agreement term and post-termination period (generally 1-3 (one to three) years). These claims may include wrongful termination, wage disputes etc. Given the long-tail nature of such claims, indemnity coverage must account for immediate and future liabilities, while appropriate limitation of liability provisions must be incorporated to mitigate financial and legal risks.

3.3. INTELLECTUAL PROPERTY ASPECTS

The operation of a GCC is likely to involve usage/development of intellectual property ("**IP**") in the form of software, source codes, manuals, etc. For protection of IP, the following key items should be considered:

i. Contracts with a service provider should clearly detail and identify IP ownership.

ii. Relevant licensing clauses must be incorporated if IP is licensed to a service provider, specifying the scope of the license, including whether it is sub-licensable, assignable, its term, and other key conditions.

iii. The contract must clearly outline how the improvement, if any, made to the IP will be handled, specifying ownership and rights.

iv. The contract with a service provider must also include confidentiality and non-compete agreements to safeguard any other proprietary information and secure deliverables.

3.4. DATA PROTECTION ASPECTS

Operating a GCC in India involves managing large volumes of sensitive data, including personal, financial, and proprietary information. To ensure compliance and mitigate risks, GCCs must address several data protection concerns, including the recently enacted Digital Personal Data Protection Act, 2023 and any rules framed thereunder ("**DPDP Act**"). The DPDP Act regulates the collection, processing, storage, and transfer of personal data in India. Key obligations include obtaining consent, minimizing data collection, ensuring security safeguards, and reporting breaches.

Under the recently released draft DPDP Rules, GCCs, as entity determining the purpose and means of processing personal data ("**Data Fiduciaries**"), must implement robust security measures such as encryption, access controls, monitoring logs, and data backups to prevent and address personal data breaches. They are required to retain logs for at least one year and ensure compliance in contracts with data processors i.e. services providers in a BOT model. For cross-border data transfers, GCCs must adhere to government-specified restrictions.

In addition to the DPDP Act, industries like finance, healthcare, and telecommunications have additional, relatively-stringent data protection requirements under sectoral laws. For instance, in the banking sector, compliance with the Reserve Bank of India's Cyber Security Framework in Banks and the Master Directions on Digital Payment Security Controls mandates encryption of sensitive customer data, robust access controls, and periodic audits to safeguard information. For service providers servicing foreign clients, compliance with foreign data protection regulations such as the General Data Protection Regulation (GDPR) may be assessed as well.

Companies dealing with data in India often highlight their credentials and proper management of computer systems through international certifications such as the ISO 27001 standard, which may be fruitful for service providers.

3.5. TAX ASPECTS

Under the BOT model, the primary role of third-party service provider shall be to serve the Overseas Parent Company. From a tax perspective, the considerations would differ at the time of set up and at the time of transfer of the company by third party service provider to the Overseas Parent Company.

i. At the time of set up

Assessment of risk of permanent establishment ("**PE**") including secondment concerns become relevant here. The concept of PE has been created to grant the right to country A to tax profits of an enterprise of country B. In other words, if an entity in country A creates a taxable presence of a foreign company established in country B, then, country A has the right to tax profits attributable to the taxable presence. Thus, in case a foreign company operates without a separate taxable presence in India, it may create risk of PE in India.

In such a case, profits attributable to such taxable presence is liable to tax in India, on a net income basis (after deduction of expenditure) at the rate of 35% (thirty-five) (plus applicable surcharge and cess).

Based on OECD and UN commentaries and judicial precedents, there can broadly be three types of PE, namely, fixed place PE, service PE or a dependent agent PE. A brief description of each of these is hereinbelow provided:

(a) Fixed Place PE: A fixed place PE would arise when the business of the Overseas Prent Company is wholly or partly carried on in India through a fixed place of business in India. Some tests for determining this are place of business test, business activity test and place at disposal test.

(b) Service PE and secondment concerns: Secondment or temporary transfer of employee for a specified duration by the overseas company to GCC is a common mode to share expertise and knowledge within a group. Thus, legally, employee works for company A but is on payroll of company B.
The tax considerations differ depending upon the secondment arrangement. In case Overseas Parent Company pays salary to employee but claims reimbursement from GCC in India, it may either qualify as a "pure reimbursement" or as a "fee for technical service (FTS)", subject to a potential withholding. On the other hand, if the interpretation is that the overseas company is rendering services to GCC in India through its employees, then, it may constitute a service PE. Secondment may also be construed as import of services by GCC from overseas company and subject to goods and services tax ("GST") under reverse charge mechanism.

(c) Dependent Agent PE / Agency PE: This may arise when an entity acts on behalf of another entity. Factors such as whether the entity has authority to conclude contracts in India, on behalf of the Overseas Parent Company and the Overseas Parent Company is bound by the contract of the entity in India without any material modification are relevant to determine existence of this PE.

A factual analysis in light of the respective tax treaty needs to be undertaken in order to assess PE risk from tax perspective.

ii. At the time of transfer

After the expiry of a specified duration, the third-party service provider operating the GCC shall transfer the ownership to the Overseas Parent Company. The tax considerations for both the buyer and the seller will differ depending upon the mode of transfer, that is, either as a slump sale or an asset sale.

3.6. DISPUTE MITIGATION STRATEGIES

To ensure the successful establishment of a GCC under the BOT Model and mitigate the risk of litigation, it is imperative to address several critical success factors. These factors are essential for ensuring compliance with legal and regulatory requirements, safeguarding the interests of all parties involved, and minimizing the potential for disputes. The following key considerations should be implemented to prevent legal complications and ensure the smooth and effective operation of the GCC.

(i) Contractual safeguards in terms of IP protection and data protection will be most important for Client, as discussed is 3.4 above.

(ii) At the time of transfer of undertaking, no-less favourable conditions and continuity of service provided to employees will be imperative, as discussed in 3.2 above.

(iii) BOT agreements with service provider should clearly address risk allocation between parties through provisions covering indemnification, operational liabilities, and transition. The service provider should be responsible for regulatory compliance during operation phase, with indemnities for non-compliance. The agreement should also include transfer protocols and procedures for handling disputes, penalties, and labour issues.

That said, in the past few years, confidence in the judicial system of India has grown. For resolving commercial disputes, arbitration is also now a well settled mode. India's arbitration statute, the Arbitration & Conciliation Act, 1996, is based on the UNCITRAL Model Law and facilitates international commercial arbitration as well as domestic arbitration and conciliation. India also recognises institutional arbitration as a means of dispute resolution, and parties commonly contemplate for arbitration at the Singapore International Arbitration Centre, London Court of International Arbitration or the International Chamber of Commerce in Paris for contractual disputes

4. DIY MODEL – KEY CONSIDERATIONS

4.1. CORPORATE LAW COMPLIANCES

As the DIY model involves the Overseas Parent Company setting up a legal entity in India, corporate compliances will have to be undertaken as a whole by them. Some corporate compliances include:

(i) Establishment of a legal entity in India, typically a wholly owned subsidiary (as a private limited company or an LLP) and compliance with applicable governing law. Some key requirements of the entities are discussed above in section 3.1.1.

(ii) As GCCs in India engage in exporting services to the Client, they must comply with Foreign exchange management regulations, including sectoral caps, sectoral conditions, pricing guidelines and reporting requirements outlined by Reserve Bank of India. In this context, adherence to Master Direction – Export of Goods and Services becomes imperative as it provides a comprehensive framework for managing export transactions.

(iii) As a good practice for related party transactions and as a requirement for transfer pricing norms, inter-company arrangements between the overseas parent and Indian subsidiary should involve written agreements at arm's length basis. Any related party transactions not on arm's length basis will require compliance with Section 188 of the Companies Act, 2013 which may require a prior board resolution, prior shareholders' resolution and disclosure in the company's annual board report.

It is advisable to incorporate an entity from the beginning, as this will provide the Client with limited liability protection and a well-defined governance structure.

4.2. LABOUR LAW REQUIREMENTS

As the model involves setting up an entity in India on its own, compliance with applicable labour law is the foremost requirement. These include payment of bonus, provident funds and insurance, registration under state-specific shops & establishments acts, constitution of internal committees for prevention of sexual harassment, framing of policies, amongst other requirements.

If any foreign nationals are sought to be hired by the Indian entity, valid employment visas will be required by such persons. For foreigners intending to stay in India for a period of more than 6 (six) months, a registration with the Foreigners Regional Registration Office is required (except certain exempt categories). If secondments are contemplated, a formal secondment agreement must be established outlining the terms of such secondment, including employees' rights and obligations, payment structure and responsibilities as good corporate practice. The agreement must clearly stipulate that while the client maintains the payroll obligations and handles direct remuneration to secondees including social security benefits, the service provider will reimburse these costs on a cost-to-cost basis. Furthermore, it must detail the supervision and control framework under which the secondees will operate within the Indian entity, the duration of the secondment, performance evaluation mechanisms, and the process for repatriation upon completion of the secondment period.

4.3. INTELLECTUAL PROPERTY ASPECTS

The key intellectual property protection foundations will remain similar in any GCC arrangement. Prime amongst these is establishing clear ownership of IP through robust agreements with every supplier, customer, contractor, and employee to ensure that all IP created or used within the GCC is appropriately assigned or licensed to the parent organization, minimizing risks of disputes or ambiguities. Additionally, protecting trade secrets with NDAs, secure data handling, and limited access to sensitive information is essential.

If any patents are involved, determination of whether the GCC will file patents locally or globally, due arm's length licensing of patents from foreign parent to Indian subsidiary and conducting local due diligence to ensure that the GCC's activities do not infringe on third-party patents is crucial.

As a GCC involves a high number of employees dealing with company data, employment agreements for employees involved in developing IP should explicitly include clauses that assigns all IP rights to the GCC entity or the designated client, to ensure that ownership of the IP resides with appropriate party from the outset.

Regular audits, employee training on IP policies, and addressing disputes through predefined mechanisms can ensure long-term IP security and operational success.

4.4. DATA PROTECTION

Data protection considerations in the DIY model are similar to those highlighted in section 3.4 above.

4.5. TAX ASPECTS

The DIY model will also involve assessment of PE risk including secondment concerns (as discussed in section 3.5 for the BOT model).

Additionally, transfer pricing may also be applicable. GCC and Overseas Parent Company often belong to the same group and thus, will be required to undertake transactions to be priced on an arm's length basis. This also includes a detailed transfer pricing documentation to substantiate arm's length pricing before tax authorities. In cases where GCC employs the group's global relationships in securing agreements with third parties, such transactions can be considered deemed international transactions and will thus, then, require evaluation for arm's length pricing.

As far as remuneration is concerned, GCC's remuneration may follow cost-plus method, with margin based on FAR (Functions, Assets, Risks) Analysis. FAR Analysis is part of a transfer pricing study evaluating the functions, assets, and risks of both GCC and the Overseas Parent Company. Transfer pricing litigation can be managed cost-effectively by adhering to Safe Harbour rules and carefully selecting dispute resolution mechanism.

The Finance Bill, 2025 has proposed a multi-year arm's length price scheme to streamline the process of determining fair market prices for international transactions. Under these proposals, arm's length price in relation to an international transaction or a specified domestic transaction for a particular tax year shall also apply to next two consecutive tax years (block of 3 years). The government indicated that detailed rules will be announced in approximately three months' time.

4.6. DISPUTE MITIGATION STRATEGIES

(i) Compliance with applicable law will be the foremost priority for the company. Compliance with central-level statutes such as the Companies Act (or Limited Liability Partnership Act, 2008, if an LLP is incorporated) and foreign exchange compliance is straightforward for small companies.

(ii) Given that this model involves employing personnel by oneself, development of compliant and comprehensive employment contracts that detail roles, responsibilities, intellectual property clauses, and conditions for termination to prevent labour-related disputes is necessary.

(iii) On similar lines, clear, enforceable contracts with local vendors and service providers, specifying terms around performance, indemnities, dispute resolution, and termination is important.

(iv) While India has a large English-speaking population, knowledge of the local language may be necessary for conversing with support staff, local authorities and any trade unions.

5. GEOGRAPHICAL LOCATIONS OPTIONS AND TAX INCENTIVES

5.1. SPECIAL ECONOMIC ZONES ("**SEZ**")

SEZ are vibrant hubs of economic activity, designed to foster export growth by offering a host of tax and regulatory incentives to units set up within the SEZ. For GCCs, setting up operations in an SEZ opens the door to significant indirect tax advantages:

i. GST exemptions:

(a) Export supplies by SEZ units are zero-rated under the GST framework, effectively eliminating tax on exports.[4]

(b) SEZs can procure goods and services (for authorised operations) without paying GST by furnishing a letter of undertaking, which enhances working capital efficiency.

ii. Custom duty waivers:

Goods imported into SEZs are exempt from all customs duties[5], including basic customs duty (BCD), integrated GST (IGST), and applicable cesses, reducing costs for capital goods and inputs

iii. Operational efficiency through procedural relaxations:

SEZ rules allow seamless procurement and movement of goods and services within the zone, provided units maintain meticulous records to substantiate tax benefits.

Operating within an SEZ, while rewarding, is not without its hurdles. GCCs must consistently achieve a "positive net foreign exchange", ensuring that their export earnings exceed foreign exchange expenses. Failure to meet this criterion can lead to withdrawal of benefits including the levy of penalties. Additionally, the process of obtaining necessary approvals, such as environmental clearances, building plan sanctions, and SEZ-specific registrations, can be time-consuming and bureaucratic. Ensuring compliance with periodic reporting and adherence to procedural norms requires dedicated resources and expertise, which can delay operations and increase administrative overheads. Furthermore, navigating changes in regulations or procedural norms adds to the complexity, making it imperative for GCCs to have dedicated teams or external advisors to manage these aspects efficiently.

5.2. SOFTWARE TECHNOLOGY PARKS ("**STP**")

In India, STPs are set up under the Ministry of Electronics and Information Technology (MeitY). The Software Technology Parks of India ("**STPI**") is an autonomous society under MeitY that promotes the STP Scheme, which provides infrastructure, regulatory support, and incentives for IT and software export companies. The STPs scheme, is specifically designed by the government to promote software exports and IT-enabled services. STPs plays a pivotal role in positioning India as a global IT powerhouse by fostering IT development and enabling entrepreneurship.

Units registered under the STPs scheme can avail themselves of various fiscal and non-fiscal benefits, particularly aimed at encouraging the export of software services. GCCs registered under STPs units can claim indirect tax benefits at the time of imports, particularly beneficial for GCCs requiring highly advanced technical equipment. STPs units are allowed to import capital goods, raw materials, and other necessary items without paying customs duty.[6] This includes hardware, software, and other equipment required for development and export-oriented operations. Refund of the GST paid on inputs (goods and services) used for export orientated purposes can be claimed under STPs. By registering under STPs, companies can significantly reduce costs on capital and operational imports while benefiting from streamlined processes for software and IT services exports.

5.3. GIFT CITY

The Gujarat International Financial Tech-city ("GIFT City") is a pioneering global hub for financial and IT services, the first of its kind in India. It boasts cutting-edge infrastructure, integrating all essential urban amenities and offering seamless external connectivity. The city aims to attract companies across financial services, technology, and various other service industries, positioning itself as a premier destination for global

4. Section 16 of the IGST Act, 2017.
5. Section 26 of the SEZ Act, 2005.
6. 52.2003 Customs dated March 31, 2003 (as amended and applicable in this context from time to time).

business operations. GIFT City has been approved as a multi services SEZ under the SEZ Act, 2005. The launch of the IFSC at GIFT City is the first step towards bringing financial services transactions relatable to India, back to Indian shores

The units within GIFT IFSC and the service providers in GIFT SEZ units are given exemptions on duties under the GST and custom laws. This implies that no GST is applicable on supplies received by a unit in GIFT City and provided to offshore companies. However, GST is applicable on services provided in Domestic Tariff Area ("**DTA**"). There are various subsidies available to the units located in GIFT City like the electricity duty reimbursement, operating expense subsidies, attractive IT & ITeS policies, lease rental subsidy etc.

For GCC formed exclusively for financial services group (in compliance with prescribed definitions), 100% (hundred percent) tax holiday for 10 (ten) consecutive years out of first 15 (fifteen) years is available.

5.4. DTA

Foreign Trade Policy ("**FTP**") offers various incentives and schemes to promote exports and attract foreign investment. While it primarily focuses on goods and services exports, GCC's can indirectly benefit from certain FTP provisions depending on their operations. Under Export Promotion Capital Goods scheme, if GCCs are involved in export-linked operations requiring capital equipment, they can avail duty-free imports of capital goods. Under the FTP, GCCs engaged in IT, ITeS, consulting, and R&D may benefit from the Advance Authorization scheme, which allows duty-free import of inputs required for the provision of export-oriented services. This scheme helps GCCs procure essential hardware, software, and related equipment without paying customs duties provided these are used in services exported with a minimum value addition criterion. The exemption applies to items necessary for fulfilling contractual obligations related to foreign clients, ensuring reduced operational costs and improved global competitiveness.

Income-tax implications of DTA units are same as explained above.

6. DRIVING GCC GROWTH: STATE-LEVEL INCENTIVES

States across India are jumping on the bandwagon to provide lucrative incentives for establishing GCCs in their regions, recognizing the GCC's potential to drive economic growth and employment. Karnataka, the pioneer in launching a dedicated GCC policy, offers a comprehensive range of benefits, including incentives on rental costs, EPF contributions, property taxes, electricity duties, strengthening research and development, and reimbursements for internet fees and intellectual property filing fees. The policy emphasizes talent development through skill enhancement and leadership programs in collaboration with academic institutions and supports R&D through grants for AI, innovation labs, and centres of excellence. Regulatory flexibility with fast-track approvals via a single-window system further enhances its appeal, with efforts to promote GCCs in cities like Mysuru, Mangaluru, and Hubbali beyond Bengaluru.

Following suit, Andhra Pradesh has also unveiled its IT and GCC Policy. This policy adopts a three-model approach for coworking spaces, neighbourhood workspaces, and IT campuses, offering capital subsidies, rental support, and early bird incentives such as rent exemptions in government buildings. IT firms and GCCs benefit from recruitment subsidies, power incentives, and employee-focused measures like HRA and skill development programs. With Visakhapatnam emerging as a tech hub, Andhra Pradesh leverages its strategic advantages, skilled workforce, and robust infrastructure to attract GCC investments.

Most recently, with a vision to establish Gujarat as a preferred GCC hub, the Gujarat government has announced its own GCC Policy for the period 2025-2030, containing incentives for units having more than 50 employees on their payroll. Key incentives under the policy include capital expenditure and operational expenditure support, with higher maximum incentives available for companies with higher fixed capital investments. Other incentives include a one-time employment generation incentive per employee, subsidies on interest on term loans, electricity duty incentives, alongside the benefits already available to companies under an existing Gujarat IT/ITeS Policy. These incentives are especially lucrative for companies operating in GIFT City, which would be able to seek benefits from three discrete sources.

On similar lines, the Maharashtra and Uttar Pradesh governments are also preparing to launch dedicated GCC policies. These coordinated efforts underscore India's ambition to become a global hub for innovation, talent, and economic growth through GCCs.

7. CONCLUSION

The establishment of global capability centres in India is a testament to the country's growing significance as a strategic partner in global business operations. Whether through the BOT model or the DIY model, multinational corporations can leverage India's robust talent pool, cost advantages, and supportive regulatory framework.

However, each approach presents its own set of legal, operational, and compliance challenges that businesses must navigate with precision. From choosing the right corporate structure to addressing labour law compliance, intellectual property protection, and tax implications, careful planning and robust legal strategies are essential for the success of a GCC.

India's dynamic regulatory landscape continues to evolve, offering new opportunities and posing challenges that require proactive management. By adopting the right strategy, tailored to their operational and legal needs, organizations can not only ensure the smooth establishment of their GCC but also position themselves to drive innovation, efficiency, and long-term value from their Indian operations.

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