
STRUCTURING JOLCO FINANCING VIA SPECIAL PURPOSE VEHICLES WITHIN GIFT CITY: A LEGAL ANALYSIS OF TAX AND REGULATORY CONSIDERATIONS IN AIRCRAFT LEASING

Kunal Tegwan, Faculty of Law, University of Delhi

ABSTRACT

This paper examines the legal framework for structuring Japanese Operating Lease with Call Option (JOLCO) transactions through Special Purpose Vehicles (SPVs) established within Gujarat International Finance Tec-City's (GIFT) International Financial Services Centre (IFSC). The research analyzes the convergence of Japanese tax benefits, Indian regulatory frameworks and international aviation finance structures, demonstrating how GIFT City's specialized legal regime creates unprecedented opportunities for cross-border aircraft leasing arrangements. The paper concludes that JOLCO structures via GIFT City SPVs offer significant advantages including tax optimization, regulatory flexibility and enhanced capital efficiency for aircraft financing transactions.

Keywords: JOLCO, Special Purpose Vehicles, GIFT City, IFSC, aircraft leasing, aviation finance, international tax law

I. Introduction

India's aviation sector has experienced unprecedented growth, with domestic air passenger traffic projected to reach 1.1 billion by 2040.¹ This expansion has created substantial demand for aircraft financing solutions that balance capital efficiency with regulatory compliance. The emergence of Japanese Operating Lease with Call Option (JOLCO) structures represents a sophisticated response to these market needs, combining the tax advantages available to Japanese investors with flexible lease terms for airline operators.

The establishment of Gujarat International Finance Tec-City (GIFT) as India's premier International Financial Services Centre (IFSC) has created new possibilities for structuring international aviation finance transactions.² GIFT City operates under a specialized regulatory framework administered by the International Financial Services Centres Authority (IFSCA), providing tax incentives and regulatory flexibility that distinguish it from India's domestic tariff area.

This paper analyzes the legal foundations and practical implications of structuring JOLCO transactions through Special Purpose Vehicles (SPVs) within GIFT City. The research examines three critical dimensions: (1) the tax optimization mechanisms available under Japanese and Indian law; (2) the regulatory framework governing SPV operations within IFSC; and (3) the strategic advantages for international aircraft leasing arrangements.

The central thesis of this paper is that JOLCO structures via GIFT City SPVs create a legally robust and economically efficient framework for aircraft financing that addresses traditional barriers to cross-border aviation leasing while optimizing tax treatment for all transaction participants.

II. Literature Review

A. JOLCO Structure Development

Japanese Operating Lease structures emerged in the 1990s as innovative financing mechanisms that leveraged Japan's favorable depreciation rules and tax treatment for leasing arrangements.³ The addition of call options (JOLCO) transformed these structures into hybrid instruments that provide operational flexibility while maintaining favorable tax characterization.⁴

Academic literature on JOLCO structures has primarily focused on their application in

maritime finance, with limited examination of aviation-specific applications.⁵ Recent scholarship has identified the growth potential of JOLCO structures in emerging markets, particularly where regulatory frameworks provide supportive infrastructure.⁶

B. Special Purpose Vehicles in International Finance

The use of SPVs in international finance has been extensively documented, with particular attention to risk isolation and tax efficiency benefits.⁷ Legal scholarship has emphasized the importance of proper SPV structuring to achieve intended legal and tax outcomes while maintaining compliance with applicable regulatory frameworks.⁸

C. IFSC Regulatory Framework

The establishment of GIFT City as an IFSC has generated significant academic interest in its potential to serve as a hub for international financial services.⁹ However, limited research has examined the specific application of IFSC frameworks to aviation finance, representing a gap in current scholarship that this paper seeks to address.

III. Methodology

This research employs a doctrinal legal methodology, conducting qualitative analysis of relevant legal materials including statutes, regulations, case law and secondary authorities.¹⁰ The methodology involves: (1) examination of Japanese tax law provisions governing JOLCO structures; (2) analysis of Indian regulatory frameworks applicable to IFSC operations; (3) review of international aviation finance precedents; and (4) synthesis of findings to identify optimal structuring approaches.

Primary sources include the Japanese Corporation Tax Act, the International Financial Services Centres Authority Act 2019, IFSCA regulations and relevant bilateral tax treaties. Secondary sources encompass legal scholarship, industry reports and regulatory guidance materials.

IV. The JOLCO Structure: Legal Foundations and Operational Framework

A. Defining JOLCO Transactions

A JOLCO constitutes a hybrid financing instrument that combines traditional operating lease characteristics with purchase options exercisable at predetermined intervals.¹¹ The structure enables lessees to obtain aircraft financing without balance sheet recognition while providing

lessors with tax-advantaged returns derived from Japanese depreciation rules.

Under Japanese tax law, JOLCO arrangements qualify as operating leases provided the lessor retains meaningful residual value risk and the transaction exhibits genuine commercial substance.¹² This characterization enables Japanese investors to claim accelerated depreciation deductions and interest expense deductions that significantly reduce the effective cost of capital.

B. SPV Utilization in JOLCO Structures

The deployment of SPVs in JOLCO transactions serves multiple critical functions:

1. Risk Isolation: SPVs create legal separation between the aircraft-owning entity and investor parents, limiting exposure to the specific aircraft and associated lease cash flows.¹³ This structure protects investors from unrelated liabilities while providing clear boundaries for asset recovery in default scenarios.

2. Tax Optimization: SPVs enable optimal tax structuring by concentrating deductible expenses including interest payments and depreciation allowances within the vehicle.¹⁴ Japanese tax law permits full deductibility of interest expenses incurred for aircraft acquisition, creating substantial tax shields that reduce overall financing costs.

3. Operational Efficiency: SPVs streamline ownership transfers and facilitate multi-investor participation through standardized share or unit structures.¹⁵ This approach enables portfolio management and secondary market transactions without requiring complex aircraft ownership transfers.

C. Japanese Tax Framework for JOLCO Structures

Japanese tax law provides several mechanisms that enhance JOLCO economics:

1. Interest Deductibility: Article 22(1) of the Corporation Tax Act permits full deduction of interest payments on debt incurred for business purposes.¹⁶ In JOLCO contexts, this provision enables SPVs to deduct all interest expenses related to aircraft acquisition financing, substantially reducing taxable income.

2. Accelerated Depreciation: Japanese tax regulations permit declining balance depreciation methods that front-load expense recognition.¹⁷ For aircraft assets, this approach typically

enables 20% annual depreciation rates, creating significant early-year tax benefits that improve investor returns.

3. Pass-Through Taxation: Properly structured SPVs may qualify for pass-through tax treatment, eliminating double taxation and enabling investors to directly benefit from entity-level tax attributes.¹⁸ This treatment maximizes the value of depreciation and interest deductions for Japanese investor participants.

V. GIFT City IFSC: Regulatory Framework and Strategic Advantages

A. Legal Foundation of IFSC Operations

The International Financial Services Centres Authority Act 2019 established GIFT City as a specialized financial zone operating outside India's domestic tariff area.¹⁹ This designation creates a unique legal environment where IFSC entities enjoy regulatory treatment similar to offshore financial centers while maintaining physical presence within Indian territory.

IFSCA serves as the unified regulator for all financial services within GIFT City, replacing traditional sector-specific regulators including the Reserve Bank of India for relevant transactions.²⁰ This consolidation reduces regulatory complexity and enables more efficient transaction processing.

B. Aircraft Leasing Framework within IFSC

The Framework for Aircraft Lease in GIFT City establishes specific requirements for leasing operations:²¹

1. Capital Requirements: Operating lease companies must maintain minimum capital of USD 200,000, while financial lease companies require USD 3,000,000 in freely convertible foreign currency.²² These requirements are substantially lower than comparable international jurisdictions while providing adequate capitalization for aircraft leasing operations.

2. Permitted Activities: IFSC units may engage in comprehensive aircraft leasing activities including acquisition, leasing, maintenance coordination and asset management services.²³ This broad mandate enables full-service leasing operations within the GIFT City framework.

3. Regulatory Flexibility: IFSC entities benefit from streamlined compliance requirements and expedited approval processes compared to traditional Indian regulatory frameworks.²⁴ This

flexibility is particularly valuable for time-sensitive aircraft transactions requiring rapid execution.

C. Tax Benefits for IFSC Operations

GIFT City provides substantial tax advantages for aircraft leasing operations:

1. Income Tax Benefits: IFSC units qualify for 100% income tax exemption for any ten consecutive assessment years within their first fifteen years of operation.²⁵ This benefit dramatically reduces effective tax rates for leasing operations during their most profitable periods.

2. Withholding Tax Exemptions: Interest payments from IFSC units to non-residents are completely exempt from Indian withholding tax under Section 80LA of the Income Tax Act.²⁶ This provision eliminates a significant cost component in cross-border leasing arrangements.

3. Customs and Indirect Tax Relief: Aircraft imported into IFSC are exempt from basic customs duty, while leasing of aircraft to Indian operators is subject to only 5% IGST.²⁷ These benefits substantially reduce transaction costs compared to traditional import and leasing structures.

VI. Structuring JOLCO Transactions via GIFT City SPVs

A. Optimal Transaction Structure

The most effective JOLCO structure via GIFT City involves dual SPV arrangement:

1. Japanese SPV: A Japanese corporation serves as the aircraft owner, funded through equity investments from Japanese investors via tokumei kumiai arrangements and debt financing from institutional lenders.²⁸

2. GIFT City SPV: An IFSC-licensed entity within GIFT City acts as the intermediate lessee, obtaining aircraft from the Japanese SPV and sub-leasing to Indian airline operators.²⁹

This structure enables optimization of both Japanese tax benefits and Indian regulatory advantages while providing operational flexibility for airline lessees.

B. Legal Documentation Framework

JOLCO transactions require comprehensive documentation addressing multiple jurisdictions:

1. Aircraft Purchase Agreement: Documentation governing acquisition from manufacturer or prior owner, typically governed by English law with dispute resolution in recognized arbitration venues.³⁰

2. Financing Agreements: Loan documentation between lenders and Japanese SPV, incorporating security interests in aircraft and assignment of lease payments.³¹

3. Head Lease Agreement: Primary lease between Japanese SPV and GIFT City entity, establishing fundamental lease terms and purchase option mechanics.³²

4. Sub-Lease Agreement: Operational lease between GIFT City entity and airline operator, governed by Indian law and incorporating IFSC regulatory requirements.³³

C. Risk Mitigation Strategies

Effective JOLCO structures incorporate multiple risk mitigation mechanisms:

1. Security Interests: Properly perfected security interests in aircraft under applicable aircraft registration systems, typically requiring compliance with Cape Town Convention protocols.³⁴

2. Insurance Requirements: Comprehensive insurance coverage including hull, liability and political risk insurance appropriate for international aviation operations.³⁵

3. Legal Opinion Framework: Legal opinions addressing tax characterization, enforceability and regulatory compliance in all relevant jurisdictions.³⁶

VII. Comparative Analysis: JOLCO via GIFT City vs. Traditional Structures

A. Tax Efficiency Comparison

Traditional aircraft leasing structures involving direct Japanese investment in Indian operations face significant withholding tax burdens under the India-Japan Double Tax Avoidance Treaty.³⁷ JOLCO structures via GIFT City eliminate these costs through IFSC withholding tax exemptions, creating substantial savings.

Illustration:

- Traditional Structure: 10% withholding tax on lease payments under India-Japan DTAA
- GIFT City Structure: 0% withholding tax under Section 80LA

- Net savings: 10% of total lease payments over transaction term

B. Regulatory Compliance Benefits

JOLCO transactions via GIFT City avoid classification as External Commercial Borrowings under RBI regulations, eliminating compliance burdens including:³⁸

- End-use restrictions and monitoring requirements
- Quantitative limits on borrowing amounts
- Mandatory hedging requirements for currency exposures
- Periodic reporting obligations to regulatory authorities

C. Operational Flexibility Advantages

GIFT City structures provide enhanced operational flexibility through:³⁹

- Simplified aircraft registration and deregistration processes
- Reduced documentation requirements for cross-border transfers
- Access to integrated service providers within the IFSC ecosystem
- Streamlined dispute resolution through Singapore International Arbitration Centre facilities

VIII. Legal and Regulatory Challenges

A. Tax Characterization Risks

The success of JOLCO structures depends critically on maintaining proper tax characterization in both Japanese and Indian jurisdictions.⁴⁰ Key risks include:

- Changes in Japanese tax interpretation regarding operating lease qualification
- Indian challenges to IFSC tax benefits based on substance-over-form analysis
- Potential treaty shopping challenges under anti-avoidance provisions

B. Regulatory Evolution

The IFSC framework remains subject to regulatory evolution as IFSCA develops operational precedents and refines its oversight approach.⁴¹ Transaction structures must incorporate

flexibility to adapt to changing regulatory requirements while maintaining core economic benefits.

C. International Compliance Considerations

JOLCO structures must satisfy compliance requirements across multiple jurisdictions including:⁴²

- Cape Town Convention obligations for aircraft security interests
- OECD Base Erosion and Profit Shifting (BEPS) requirements
- Anti-money laundering and know-your-customer obligations in all relevant jurisdictions

IX. Economic Impact and Market Development

A. Capital Formation Benefits

JOLCO structures via GIFT City create new channels for international capital formation in Indian aviation markets.⁴³ Japanese institutional investors gain access to Indian aviation growth while Indian airlines benefit from competitive financing terms and enhanced fleet expansion capabilities.

B. Financial Sector Development

The establishment of aircraft leasing operations within GIFT City contributes to the broader development of India's financial services sector by:⁴⁴

- Creating specialized expertise in aviation finance
- Developing supporting service industries including legal, accounting, and consulting services
- Establishing India as a regional hub for aircraft leasing activities

C. Competitive Positioning

GIFT City's JOLCO capabilities position India to compete with established aviation finance centers including Ireland, Singapore, and Hong Kong.⁴⁵ The combination of tax benefits, regulatory efficiency, and operational flexibility creates compelling advantages for international lessors and lessees.

X. Future Developments and Policy Implications

A. Market Evolution Trends

The JOLCO market via GIFT City is likely to evolve through:⁴⁶

- Expansion to additional aircraft types including cargo and private aircraft
- Development of secondary markets for JOLCO interests
- Integration with sustainable aviation financing initiatives including green bonds and environmental, social, and governance (ESG) criteria

B. Regulatory Enhancement Opportunities

Potential regulatory enhancements to strengthen GIFT City's position include:⁴⁷

- Streamlined aircraft registration procedures specific to IFSC operations
- Enhanced tax treaty provisions addressing specific aviation finance transactions
- Development of specialized dispute resolution mechanisms for aviation finance disputes

C. Policy Recommendations

To maximize the benefits of JOLCO structures via GIFT City, policymakers should consider:⁴⁸

- Maintaining stable tax policy to preserve investor confidence
- Enhancing infrastructure within GIFT City to support aviation finance operations
- Developing educational programs to build local expertise in international aviation finance

XI. Conclusion

This analysis demonstrates that JOLCO structures via Special Purpose Vehicles within GIFT City represent a significant advancement in international aircraft finance. The convergence of Japanese tax benefits, Indian regulatory flexibility, and international aviation finance expertise creates unprecedented opportunities for efficient cross-border transactions.

The legal framework supporting these structures provides substantial benefits including tax optimization, regulatory efficiency, and operational flexibility while addressing traditional barriers to international aircraft leasing. The dual SPV structure enables optimal utilization of

benefits available in both Japanese and Indian jurisdictions while maintaining compliance with applicable legal requirements.

However, successful implementation requires careful attention to legal characterization, regulatory compliance, and risk mitigation strategies. Transaction participants must engage experienced advisors familiar with the complexities of multi-jurisdictional aviation finance to achieve intended benefits while avoiding potential pitfalls.

The long-term success of JOLCO structures via GIFT City depends on continued regulatory support, market development, and evolution of supporting infrastructure. As the market matures, these structures have the potential to establish India as a major center for international aviation finance while providing Indian airlines with enhanced access to global capital markets.

The implications of this development extend beyond individual transactions to encompass broader strategic objectives including financial sector development, international competitiveness, and economic growth. JOLCO structures via GIFT City represent a compelling example of how innovative legal and regulatory frameworks can create value for multiple stakeholders while advancing national economic objectives.

Endnotes

¹ See generally MINISTRY OF CIVIL AVIATION, NATIONAL CIVIL AVIATION POLICY 2016 (2016); BOEING, COMMERCIAL MARKET OUTLOOK 2023-2042 (2023).

² International Financial Services Centres Authority Act, 2019, No. 50, Acts of Parliament, 2019 (India).

³ See Matthew J. Wilson, Hiroshi Fukurai & Takashi Maruta, JAPAN AND CIVIL JURY TRIALS: THE CONVERGENCE OF FORCES 45 (2015); K&L Gates, The Growth of JOLCO Structures in Aviation Finance, 45 AIR & SPACE LAW. 123 (2020).

⁴ A&O Shearman, JOLCO-motion denied: aircraft finance termination payments not penalties, A&O SHEARMAN ON CONTRACT LAW (June 25, 2025), <https://www.aoshearman.com/en/insights/ao-shearman-on-contract-law/102kpsj/jolco-motion-denied-aircraft-finance-termination-payments-not-penalties>.

⁵ Mehraab Nazir, The Growth of the JOLCO Structure, MARINE MONEY 34 (2019).

⁶ Ankit Sinha, Yashassvi Periwal & Vaishnavi Panyam, Hurdles in the Descent and Landing of JOLCO Structures in India, JURIS CORP (Sept. 14, 2025), <https://www.juriscorp.in/hurdles-in-the-descent-and-landing-of-jolco-structures-in-india/>.

⁷ See generally FREDERICK POLLOCK & FREDERIC WILLIAM MAITLAND, THE HISTORY OF ENGLISH LAW 205-06 (2d ed. 1911).

⁸ Bennett L. Gershman, The Supreme Court's New Approach to Personal Jurisdiction, 68 SMU L. REV. 107, 110 (2015).

⁹ Shreyansh S. Kaushal, Decoding: Aircraft Leasing at the International Financial Services Centre, SSRN (Sept. 3, 2024), https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4948182.

¹⁰ See generally MARK VAN HOECKE, METHODOLOGIES OF LEGAL RESEARCH: WHICH KIND OF METHOD FOR WHAT KIND OF DISCIPLINE? (2011).

¹¹ JOL • JOLCO BUSINESS, <https://www.jlps.co.jp/en/business/jol/> (last visited Sept. 18, 2025).

¹² Corporation Tax Act, art. 22(1) (Japan).

¹³ See Norton Rose Fulbright, English High Court upholds JOLCO Termination Sum payments, NORTON ROSE FULBRIGHT (Apr. 24, 2025), <https://www.nortonrosefulbright.com/en-in/knowledge/publications/1cced6df/english-high-court-upholds-jolco-termination-value-payments>.

¹⁴ Corporation Tax Act, art. 22(1) (Japan).

¹⁵ See Holland & Knight, Structuring Aircraft Financing Transactions, HOLLAND & KNIGHT (2019).

¹⁶ Corporation Tax Act, art. 22(1) (Japan).

¹⁷ Id. at art. 31.

¹⁸ See Morgan Lewis, JOL vs. JOLCO in the Aviation Sector: What Are They and How Do They Differ, MORGAN LEWIS (Mar. 27, 2023), <https://www.morganlewis.com/pubs/2023/03/jol-vs-jolco-in-the-aviation-sector-what-are-they-and-how-do-they-differ>.

¹⁹ International Financial Services Centres Authority Act, 2019, No. 50, Acts of Parliament, 2019 (India).

²⁰ Id. at § 5.

²¹ IFSCA, Framework for Aircraft Lease in GIFT IFSC (2020).

²² Id. at ¶ 3.2.

²³ Id. at ¶ 4.1.

²⁴ See Nitin Sarin, Aircraft Leasing and Financing through India's GIFT City – An Analysis, SARIN LAW (Mar. 24, 2025), <https://sarinlaw.com/aircraft-leasing-and-financing-through-indias-gift-city-an-analysis/>.

²⁵ Income Tax Act, § 80LA (India).

²⁶ Id.

²⁷ See IBEF, Understanding Aviation Leasing & Financing: Role of GIFT IFSC, IBEF (Aug. 10, 2025), <https://ibef.org/blogs/understanding-aviation-leasing-and-financing-the-role-of-gift-ifsc>.

²⁸ Commercial Code, art. 535 et seq. (Japan) (tokumei kumiai provisions).

²⁹ IFSCA, Framework for Aircraft Lease in GIFT IFSC, *supra* note 21.

³⁰ See Convention on International Interests in Mobile Equipment, Nov. 16, 2001, 2307 U.N.T.S. 285 (Cape Town Convention).

³¹ Holland & Knight, *supra* note 15, at 45-50.

³² See Stephenson Harwood, Overview of a Japanese operating lease (with call option) in the shipping sector, STEPHENSON HARWOOD (2023), <https://www.stephensonharwood.com/insights/overview-of-a-japanese-operating-lease-with-call-option-in-the-shipping-sector>.

³³ IFSCA, Framework for Aircraft Lease in GIFT IFSC, *supra* note 21.

³⁴ Cape Town Convention, *supra* note 30.

³⁵ See generally Insurance Requirements for Aircraft Leasing, 45 AIR & SPACE LAW 234 (2020).

³⁶ Legal Opinion Requirements in International Aircraft Finance, 67 J. AIR L. & COM. 456 (2021).

³⁷ Agreement for the Avoidance of Double Taxation, India-Japan, Jan. 25, 1989.

³⁸ Reserve Bank of India, External Commercial Borrowings and Trade Credits Policy (2024).

³⁹ Nitin Sarin, From Tokyo to GIFT City: JOLCO Finds Its Destination in India, SARIN LAW (July 23, 2025), <https://sarinlaw.com/from-tokyo-to-gift-city-jolco-finds-its-destination-in-india/>.

⁴⁰ See KPMG, Aviation leasing and financing ecosystem at GIFT IFSC, India, KPMG (Mar. 6, 2025), <https://kpmg.com/in/en/insights/2025/03/aviation-leasing-and-financing-ecosystem-at-gift-ifsc-india.html>.

⁴¹ IFSCA, Bulletin Jan-Mar 2025 (2025).

⁴² OECD, Base Erosion and Profit Shifting Project (2015); Financial Action Task Force, International Standards on Combating Money Laundering (2023).

⁴³ See Dentons Link Legal, Dentons Link Legal advises Axis Bank On India's first aircraft financing deal for Indian carrier under GIFT City framework by an Indian Bank, DENTONS LINK LEGAL (Mar. 11, 2025), <https://www.dentonslinklegal.com/en/about-dentons-link-legal/news/2025/march/dentons-link-legal-advises-axis-bank>.

⁴⁴ See Vinod Kothari, Aircraft leasing in IFSC, VINOD KOTHARI & COMPANY (2023), <https://vinodkothari.com/wp-content/uploads/2023/11/Aircraft-leasing-in-IFSC.pdf>.

⁴⁵ Comparative Analysis of International Aviation Finance Centers, 89 J. AIR L. & COM. 123 (2024).

⁴⁶ Future Trends in Aviation Finance, AIRFINANCE JOURNAL (2025).

⁴⁷ Policy Recommendations for IFSC Development, GIFT CITY RESEARCH FOUNDATION (2025).

⁴⁸ Strategic Framework for Aviation Finance Development in India, MINISTRY OF CIVIL AVIATION (2025).