

New SEZ law unlikely to offer more direct tax incentives

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The Centre is unlikely to offer new direct tax incentives for units operating in special economic zones (SEZs) and may instead allow the grandfathering of previous exemptions that such units were entitled to, according to proposed amendments to the SEZ Act, 2005, people aware of the matter said.

The amendments, proposed by the commerce department, will soon be considered by the Cabinet for approval. This represents a departure from the department's earlier plan to introduce these changes through the Development Enterprises and Services Hubs (DESH) Bill, 2023, which faced strong criticism from the Ministry of Finance.

"SEZ developers will be allowed to avail themselves of grandfathering direct tax benefits for the entitled period, and no additional incentives will be provided," one source informed Business Standard.

Under DESH Bill, the commerce

department had previously suggested a concessional corporate tax rate of 15 per cent for all greenfield units in SEZs, intending to establish these zones as India's new manufacturing hub.

SEZs are areas within the country subject to different economic regulations, effectively treated as foreign territory, with a primary focus on promoting exports. Companies operating in such zones receive tax incentives from the government.

In scrapping DESH Bill, the commerce department has now drafted an SEZ (Amendment) Bill, 2023, aimed at creating a more favourable fiscal framework by adjusting Customs rules and ensuring easier integration of SEZs with the domestic market. This will prevent companies in these zones from losing out due to restricted market access.

The government's present-day objective is to shift the primary focus from exports to a "broad-based economic outlook" by promoting manufacturing, investment, and integration with global value chains to spur economic growth.



The proposed law is expected to allow the sale of products manufactured in an SEZ to the domestic market with zero import duty. This will ensure that SEZ units are not at a disadvantage compared to units outside SEZs that can benefit from zero or concessional import duties offered by free trade

KEY TAKEAWAYS

- **Positive net forex criteria** to continue
- **No new direct tax benefits** expected
- **Units may be allowed** to sell to the domestic market on import duties payment on inputs consumed and not on finished goods
- **Services definition to be tweaked** to allow ₹ payment for supply of services to units in the domestic market
- **Stronger single window clearance** mechanism, modern dispute resolution framework expected

agreements, as one source mentioned. The "positive net foreign exchange" criterion, a fundamental requirement for SEZ units, will continue to be a part of the new law, as it doesn't conflict with the World Trade Organization framework, thanks to a mutual resolution of the dispute between India and the US

in June.

Additionally, Customs duties on capital goods, such as machinery, computer equipment, and raw materials, may be deferred. The industry's demand that units should be allowed to sell to the domestic market by paying import duties on inputs consumed, not on finished goods, may also be included in the Bill.

The definition of "services" will also be tweaked in the new law to allow payment in Indian currency for the supply of services to units in the domestic market. Under the existing law, payments for services are to be made in foreign exchange.

The amendments also aim to strengthen the single-window clearance mechanism, establish a unified regulatory structure, and create a modern dispute resolution framework. To facilitate growth in SEZs and reduce compliance burdens, the proposed law will include the provision of "pre-cleared zones" that the Centre or state government will have the power to notify.

May ease some curbs on SEZ units: Goyal

Union commerce minister Piyush Goyal on Wednesday said the government is looking at easing certain restrictions for units in the special economic zones (SEZ) to give boost to units operating in these zones. "We are looking at ways and means to liberalise some of these restrictions on SEZ units. It's under consideration... We are discussing it with all the stakeholders and hopefully that itself will give a significant boost to the SEZ units," Goyal said at the DPIIT-CII National Conference on Ease of Doing Business.

Goyal further said that the government is aware of the industry's demand to extend benefits of the export boosting scheme Remission of Duties or Taxes on Export Products (RoDTEP) to SEZs. While currently there is a budget constraint as well, the commerce department wants to have a cautious approach.

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