New SEZ law to focus on job creation, not forex

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New Delhi, 24 July

The new law proposed for governing special economic zones (SEZs) is set to be compliant with World Trade Organization (WTO) norms and may do away with net foreign exchange (NFE) earnings as an evaluation criterion for SEZ units.

The Development of Enterprise and Service Hubs (DESH) Bill, which is scheduled to be tabled in the ongoing Monsoon Session of Parliament, seeks to introduce the concept of net positive growth for the evaluation of the performance of such units, said people in the know. They said the proposed Act looks to focus on broad-based parameters, such as employment generation and additional economic activity, promotion of investments and research and development, and infrastructure development.

Under the existing SEZ Act, 2005, it was mandatory for units in SEZs to achieve positive NFE earnings (their value of exports must exceed their value of imports). Such units received certain subsidies and tax exemptions from the government for having positive NFE earnings and that resulted in a dispute at the WTO three years ago.

Turn to Page 6

WHAT'S IN THE DESH BILL

- There'll be modern industrial parks with focus on research and additional economic activities
- A separate framework for manufacturing and services units
- Development hubs to be fully integrated with domestic markets
- A stronger single-window mechanism
- State governments will be key stakeholders

FROM PAGE 1

SEZ...

The focus of these development hubs would not be just to boost exports, unlike the current SEZs. They would be allowed to sell in the domestic market and duties would be paid only on imported raw materials and inputs, instead of final products.

Customs duty and integrated goods and services tax (IGST) on capital goods, such as machinery, computer equipment, and raw materials, shall be deferred, according to the proposed law.

M S Mani, partner at Deloitte, said the DESH Bill is much more flexible in accommodating "the genuine needs of exporters".

"SEZ units' ability to make DTA (domestic tariff area) supplies will become relatively flexible (under DESH). Earlier, these units had to take several permissions to make supplies to the domestic market. According to the existing law, if an SEZ unit uses imported capital goods to manufacture items and then sells them in the domestic market, customs duty that was earlier exempted must be reversed. The new proposed law says that the government may give relaxation under certain circumstances (which will be defined later)," Mani said.

The Bill shall propose the re-introduction of certain direct tax benefits, under which units set up in these development hubs shall attract a 15 per cent corporate tax until 2032; These tax benefits will apply to both greenfield and brownfield projects.

Early bird...

Operating margins tightened the most for companies in the mining & metals and IT sectors. The average operating margin (or Ebitda margin) for the early birds was down 150 basis points YoY to 28 per cent of total rev-