CHAPTER 13 · COMPLIANCE MANUAL · 2024 EDITION

SPECIAL ECONOMIC ZONE

*This chapter is an extract from **The RST Compliance Manual**, a regulator-mapped reference for Indian business entities curated by the partners of R S T & Co.*

SEZ is **designated areas that possess special economic regulations** that are in different from the areas in the same country. Regulation contain measures that conductive to Foreign Direct Investment treated as Foreign Country in India Set for Export Purpose.

Exemption is available for both SEZ Unit and SEZ Unit Developer.

13.1 Meaning

SEZ Unit : Unit set up for Manufacturing, Trading, Production, Processing, Assembling, Repairing, Re-Engineering, Processing, etc.

SEZ Developer: Setting up, Operation, and Maintenance of Zone.

13.2 Exemptions/Benefits

Exemption is available for both SEZ Unit & SEZ Unit Developer under Income Tax Act, 1961 as follows -

13.2.1 Exemption to SEZ Unit

Particulars	First 5 years	Next 5 years	Last 5 years
SEZ units engaged in manufacturing or providing services on or after april 1, 2005 (Export profits)	100%	50%	50%
Off Shore Banking Units u/s 80LA:			
Scheduled banks or Foreign banks	100%	50%	Nil
Other than Scheduled or Foreign banks	100% - 3 yrs	Nil	Nil
Other than Scheduled or Foreign banks	50% - 2 yrs	Nil	Nil
Capital Gains u/s 54GA	100%		

13.2.2 Exemption to SEZ Developer

Particulars	First 5 years	Next 5 years	Last 5 years
Business of SEZ Developer u/s 80-IAB on or after April 1 ,2005 (available only for aggregate period of 10 consecutive yrs)	100%	100%	100%

Particulars	First 5 years	Next 5 years	Last 5 years
Dividend Distribution Tax [DDT] u/s 115-O (if paid out of Current Income)	100%	100%	100%
Minimum Alternative Tax (MAT) on or after April1, 2005 u/s 115JB	Would not be attracted	Would not be attracted	Would not be attracted

Service Tax is not payable by SEZ units.

External Borrowings by SEZ units up to $500 million in a year without any Maturity Restriction through any Recognized bank channels.

Managerial Remuneration with an Enhanced Limit of INR 2.4 crore is allowed.

Units of SEZ can Import Raw Materials without payment of Customs Duty.

Units of SEZ can manufacture without payment of Excise Duty.

Any dealer/ trader are exempted from sales tax/GST if sales made to SEZ Unit or SEZ Developer.

13.3 Compliances

13.3.1 Applications / Reports / Returns:

Application for setting up of Special Economic Zones (FORM-A)

Letter of Approval of For SEZ Developer (FORM-B)

Letter of Approval for Providing Infrastructure Facilities in SEZ (FORM-C)

Application For setting up Units in SEZ (FORM –F)

Annual Performance Report for Units (FORM – I)

13.3.2 OTHER compliances

SEZ may export goods or services on the basis of Letter of Approval. in case of services are exported in non-physical form, export value is to furnished by the units on the self-certification basis as per instructions of RBI.

Annual Performance Report in FORM – I to Development Commissioner, up on Development Commissioner Place the same before Approval Committee for Consideration.

Budget 2022: Amendments in Customs

Customs administration in SEZs will be fully IT-driven.

Phasing out concessional rates in capital goods and project imports gradually and applying the initial rate of 7.5%.

More than 350 exemptions on importing some Agri products, drugs, chemicals, etc., will be phased out.

Customs duty exemption on steel scrap is extended by a year to help MSME.

Petrol and diesel to be costlier with the levying of additional excise duty at Rs.2 per litre on unblended fuel for encouraging fuel blending.

Cut and polished diamonds gems to become cheaper as customs duty is reduced to 5%.

End of Chapter. *For the complete Compliance Manual, additional chapters, or a tailored briefing for your finance and compliance teams, contact* ***info@rstandco.co.in****.*