

Special Economic Zone (SEZ)

Sector Impact – Neutral

Background

In April 2000, in order to enhance foreign investments, promote exports and to ensure global competitiveness for domestic manufacturing enterprises, the Government had announced a policy on SEZ. SEZ is deemed to be a foreign territory for the purposes of trade operations, duties and tariffs. Subsequently, the SEZ Act, 2005 provided for a substantial simplification of procedures constituting the Board of Approval (BoA) as one-window clearance for SEZs.

Various incentives/facilities are offered to units in SEZs as well as SEZ developers, which include:

For units in SEZs:

- Single window clearance for Central and State level approvals.
- Duty-free import/domestic procurement of goods.
- 100% Income Tax exemption on export income for first five years, 50% for the next five years thereafter and 50% of the ploughed back export profit for the next five years.
- Exemption from Minimum Alternate Tax (MAT), Central Sales Tax and Service Tax.
- Exemption from State Sales Tax and other levies as extended by the respective State Governments.
- External Commercial Borrowings (ECBs) upto US\$500 million in a year without any maturity restriction

For SEZ developers:

- Exemption from: Customs/Excise Duties, Central Sales Tax and Service Tax
- Income Tax exemptions
- Exemptions from: MAT/Dividend Distribution Tax

As in February 2010, there are 571 formally approved SEZs in India, with the prominent states being Maharashtra (109), Andhra Pradesh (102), Tamil Nadu (68), Karnataka (52) and Gujarat (48). Amongst sector-specific SEZs, IT/ITES sector has highest number of approved SEZs (351) followed by biotechnology (31), pharmaceuticals/chemicals (23) and engineering (23).

Exports from SEZs in India have grown at CAGR of 48.39% from FY04 to FY09. During FY09, the same grew by 50% to reach Rs.99,689 crore. Further, during the first three quarters of FY10 exports from SEZs recorded a growth of 127% over the corresponding period a year ago.

In the wake of the global economic slowdown, the pace of SEZ development in the country has slowed down. Besides, land acquisition has emerged as a significant risk, given the instances of stiff local resistance to the same in a few recent initiatives, queering the pitch for new SEZ ventures.

Budget Proposals

1. In the Budget, the Government maintained its commitment towards ensuring continued growth of SEZs to draw investments so as to boost exports and employment. However, there were no major changes announced for facilities or incentives offered to units in SEZ as well as to SEZ developers.
2. Electrical energy sold from units in SEZs to those in Domestic Tariff Areas and non-processing areas of SEZ would now attract customs duty of 16% ad valorem + Nil Special CVD. This change is being made retrospectively w.e.f. June 26, 2009.

Budget Impact: Industry

1. The budget does not have any major changes or has not provided any additional benefits to units in SEZs or SEZ developers, however, 2% interest subvention scheme for pre-shipment export credit has been extended for certain industries like handicrafts, carpets, handlooms and Small and Medium Enterprises (SMEs) by one more year upto March 31, 2011. This will benefit SMEs and units in the said industries in SEZs, which in turn may also benefit real estate players developing SEZs.

Budget Impact: Companies

Company	Products	Applicable Proposals	Overall Impact
DLF India Limited	SEZ developer	1	◄►
Unitech Limited	SEZ developer	1	◄►
Infosys Limited	Software developer	1	◄►
TCS Limited	Software developer	1	◄►

Legends:

▲▲	Highly Positive	▼	Negative	◄►	Neutral
▲	Positive	▼▼	Highly Negative	∅	No Proposals