

**GOVERNMENT OF INDIA
FINANCE
LOK SABHA**

UNSTARRED QUESTION NO:731
ANSWERED ON:25.11.2011
REVENUE LOSS ON SEZS
Kateel Shri Nalin Kumar

Will the Minister of FINANCE be pleased to state:

- (a) whether the Special Economic Zones (SEZs) are exempted from paying taxes;
- (b) if so, the reasons therefor;
- (c) whether any data is maintained by the Government in respect of the revenue loss incurred to the exchequer due to exemption of SEZs from paying taxes; and
- (d) if so, the details thereof for each of the last three years?

Answer

MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI S.S. PALANIMANICKAM)

- (a) The following special tax benefits are available for Special Economic Zones (SEZs) under the Income Tax Act, 1961 (the Act):
- (i) Section 10AA of the Act provides for a deduction (from the total income) of hundred percent of profits and gains derived by a unit located in an SEZ from the export of articles or things or from services for the first five consecutive assessment years, of fifty percent of such profits and gains for further five assessment years and thereafter, for the next five assessment years a deduction of fifty percent of the profit credited to the 'SEZ Re-investment Reserve Account' created and utilized for the purposes of the business of the assessee.
 - (ii) Section 80-IAB of the Act provides for a deduction (from the total income) of hundred percent of profits and gains derived by an undertaking from the business of development of an SEZ for any ten consecutive assessment years out of fifteen years beginning from the year in which the SEZ has been notified (notified on or after 1st April, 2005) by the Central Government.
- So far as indirect taxes are concerned, provisions for exemptions from Customs Duty, Central Excise Duty and Service Tax for Special Economic Zones (SEZs) are contained in Section 26 of the Special Economic Zones Act, 2005. The said Act has been enacted and is administered by the Department of Commerce.
- (b): The main objectives of the SEZ Act, 2005 are:
- (i) generation of additional economic activity;
 - (ii) promotion of exports of goods and services;
 - (iii) promotion of investment from domestic and foreign sources;
 - (iv) creation of employment opportunities;
 - (v) development of infrastructure facilities.
- (c) & (d): Yes; Madam. Such data is maintained in the form of the revenue forgone statement which is reported in the Receipts Budget, as part of the Annual Budget. The estimated revenue forgone on account of direct tax exemptions for SEZs for the last three years are as under-

Financial Year 2008-09 : Rs.4461 crores. Financial Year 2009-10 : Rs.5503 crores Financial Year 2010-11 : Rs.6619 crores (Projected)

So far as indirect taxes are concerned, as per Receipt Budget, the revenue foregone on account of Customs Duty exemptions to SEZs has been to the tune of Rs.2324 crore (Provisional) for the year 2008-09, Rs.3987 crore (Provisional) for the year 2009-10 and Rs.8614 crore (estimated) for the year 2010-11. No data is maintained in respect of revenue foregone on account of exemptions from Central Excise duty and Service Tax to SEZs.