

**GOVERNMENT OF INDIA  
FINANCE  
LOK SABHA**

UNSTARRED QUESTION NO:1102

ANSWERED ON:28.11.2014

SEZS

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**Will the Minister of FINANCE be pleased to state:**

(a) the details of tax concessions extended to firms engaged in Special Economic Zones (SEZs) during each of the last three years and the current year and those withdrawn subsequently along with the reasons for withdrawal; and

(b) the steps taken or proposed to be taken by the Government in this matter ?

**Answer**

MINISTER OF STATE IN THE MINISTRY OF FINANCE (JAYANTSINHA)

(a) So far as direct taxes are concerned, Section 10AA of the Income-tax Act, 1961, inter-alia, provides for a 15 year tax benefit to a unit established in a SEZ which begins to manufacture or produce article or things or provide any services on or after 01.04.2005. Section 10AA provides for hundred per cent deduction of profits & gains derived from export of such articles or things or from services for five consecutive assessment years and fifty per cent of profits for further five assessment years and thereafter for the next five assessment years, so much of the amount not exceeding fifty per cent of the profit as is debited to the profit and loss account of the previous year in respect of which the deduction is to be allowed and credited to a reserve account to be created and utilized for the purposes of business.

Section 80-IAB of the Income-tax Act, 1961 provides for 100% deduction of profits derived from the business of developing a SEZ notified on or after 01.04.2005 under the-SEZ Act, 2005. The deduction is available at the option of the assessee for any 10 consecutive assessment years out of 15 years beginning from the year in which an SEZ has been notified.

Minimum Alternate Tax (MAT) has been levied on developers of Special Economic Zones (SEZs) and units operating in SEZs with effect from assessment year beginning 1st April, 2012 vide Finance Act, 2011.

The Ministry of Commerce amended the Income-tax Act through Special Economic Zones Act, 2005. Sub-section (6) as inserted by SEZ Act, 2005, in section 115JB, of the Income-tax Act provided that MAT shall not apply to the income accruing or arising on or after 01.04.2005 from any business carried on or services rendered by an entrepreneur or a developer, in a unit or a Special Economic Zone. There was no sunset date for this exemption. MAT is levied on the principle that everyone participating in the economy must contribute to the exchequer. It was noticed that companies were making huge profits and distributing dividend to their shareholders but were not paying any income tax due to the large number of exemptions / deductions available under the Income-tax Act. Accordingly, MAT was levied on all companies to address inequity in taxation of corporate taxpayers. The removal of MAT from SEZ developers and units had no justification vis-a-vis other sectors of economy which were liable to pay MAT. Further, MAT is in the nature of only an advance payment of tax liability. MAT paid by the company can be carried forward for set-off against regular tax payable during the subsequent year(s), up to ten assessment years when the regular tax payable under the normal provisions of the Income-tax Act is more than the computation provided under MAT.

So far as indirect taxes are concerned, under SEZ Act, all goods and services imported by a developer/unit either from abroad or Domestic Tariff Area (DTA) are exempted from duties of Customs, Central Excise and Service Tax. In addition to this, drawback or such other benefits as may be admissible from time to time on goods brought or services provided from the DTA into SEZ would be available to the goods/services provided. No concessions since then have been withdrawn so far as indirect taxes are concerned.

(b) The proposals in respect of legislative changes in direct tax/ indirect tax laws are considered through the Finance Bill during the Annual Budgetary exercise. Any step taken by the Government shall be reflected in the Finance Bill, 2015.