

Commerce Ministry considers 5-year extension of income tax benefits for SEZ units

Amiti Sen New Delhi | Updated on October 24, 2019 Published on October 24, 2019

With exports and investments on the slide, the Centre is considering a five-year extension of tax benefits for units in Special Economic Zones (SEZs) by extending the sunset clause beyond March 31, 2020 to boost investor sentiment.

“There is a feeling in the Commerce Ministry that an extension of SEZ tax benefits could be critical in kick-starting the investment cycle. A five-year possible extension is being discussed with stakeholders, including the industry and government,” a government official told Business Line.

Removing Minimum Alternate Tax (MAT) on the export turnover of SEZs is also being considered, the official added.

According to the sunset clause, the 100 per cent income tax exemption on export income for SEZ units under Section 10AA of the Income Tax Act for the first five years, 50 per cent for next five years and 50 per cent of the ploughed back export profit for subsequent five years, will expire on March 31, 2020.

“All SEZs that are operational on or after April 1, 2020 will not be given income tax exemptions, which are the biggest drivers for investments. If the government seriously wants to do something for the economy, it should give more time to SEZs. This will help a large number of projects that have not yet been operational to take off,” said Hitender Mehta, Managing Partner, Centrum Legal.

A total of 351 SEZs have been notified so far, of which only 234 SEZs are operational. This means, there are 117 SEZs that may lose motivation to start operations if income tax benefits lapse in April 2020.

The government should either extend the sunset clause for SEZs or at least keep the SEZs notified till date out of its purview, according to the Export Promotion Council for EoUs and SEZs. “Investors joined the SEZ scheme keeping in mind the incentives available in the scheme, including income tax exemption. Withdrawing such a major incentive will hamper the image of India in the minds of investors, especially foreign players,” a representative said.

Exports from SEZs are growing at a faster rate than overall exports from the country. In April-June 2019, even as overall export growth from India slowed down to 2 per cent valued at Rs 5,62,000 crore, exports from SEZs posted a robust 15 per cent growth at Rs 1,85,763 core.

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Total investments by SEZs notified under the Act so far stand at Rs 4,76,166.49 crore, and 21,17,685 persons have been provided employment in these zones.

The Commerce Ministry has been trying to convince the Finance Ministry to do away with MAT on SEZs. Earlier this year, the government slashed the MAT rate to 15 per cent from 18.5 per cent.