

**GOVERNMENT OF INDIA  
FINANCE  
LOK SABHA**

UNSTARRED QUESTION NO:4468  
ANSWERED ON:19.05.2006  
IMPLEMENTATION OF SPECIAL ECONOMIC ZONE  
Suman Shri Ramji Lal

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

- (a) whether the implementation of the new special economic zone Act is likely to reduce direct tax collection;
- (b) if not, the projections of the Government in this regard;
- (c) the number of applications for transfer from DTS to SEZ received so far; and
- (d) the nature of the taxes alongwith the amount of exemptions decided to be given with regard to each of the said taxes under the special economic zone Act?

**Answer**

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

- (a) Yes Sir.
- (b) Does not arise
- (c) No such applications have been received so far.
- (d) The Special Economic Zones Act, 2005 provides for the following tax concessions:  
Direct Tax:
  - i) A unit set up in the Special Economic Zone on or after 1.4.2005 will be entitled to deduction of:
    - a) 100% of profits and gains derived from the export of articles or things or from services in the first five years;
    - b) 50% of profits and gains derived from the export of articles or things or from services in the next five years;
    - c) 50% of profits and gains for another five years if the profits are credited to a "Special Economic Zones Re-investment Reserve Account".
  - ii) Exemption of capital gains on transfer of assets in cases of shifting of an industrial undertaking from an urban area to any Special Economic Zone.
  - iii) Deduction of 100% of profits and gains, derived by a developer of a Special Economic Zone from the business of developing a Special Economic Zone, for 10 years.
  - iv) Deduction of 100% of income for five years and 50% of next five years of an Off-shore Banking Unit or a unit of an International Financial Services Centre in a Special Economic Zone, derived from activities with units located in the Special Economic Zones.
  - v) Minimum Alternate Tax (chargeable @ 10% of the book profit) is not applicable to the income arising on or after 1.4.2005 to units located in Special Economic Zones or to developers of Special Economic Zones.
  - vi) Exemption to developers of Special Economic Zones from Dividend Distribution Tax on dividends to be distributed by them on or after 1.4.2005.

Indirect Tax:

- i) Any goods or services exported out of, or imported into, or procured from the Domestic Tariff Area by a Unit in a Special Economic Zone or a Developer shall, subject to certain prescribed conditions, terms and limitations, be exempt from the payment of taxes, duties or cess under all enactments in the First Schedule of the Special Economic Zones Act, 2005.
- ii) Every developer and the entrepreneur shall be entitled to the following exemptions, drawbacks and concessions, namely:-

- a) exemption from any duty of customs, under the Customs Act, 1962 or the Customs Tariff Act, 1975 or any other law for the time being in force, on goods imported into, or service provided in, a Special Economic Zone or a unit, to carry on the authorized operation by the developer or entrepreneur;
- b) exemption from any duty of customs, under customs Act, 1962 or the Custom Tariff Act, 1975 or any other law for the time being in force, on goods exported from, or services provided in, from a Special Economic Zone or from a unit, to any place outside India.
- c) exemption from any duty of excise, under the Central Excise Act, 1944 or the Central Excise Tariff Act, 1985 or any other law for the time being in force, on goods brought from Domestic Tariff Area to a Special Economic Zone or unit, to carry on the authorized operation by the developer or entrepreneur;
- d) drawback or such other benefits as may be admissible from time to time on goods brought or services providers from the domestic tariff Area into a Special Economic Zone or unit or services provided in a Special Economic Zone or unit by the service providers located outside India to carry on the authorized operations by the develop or entrepreneur;
- e) exemption from Service Tax under Chapter-V, finance Act, 1994 on taxable services provided to a developer or unit to carry on the authorized operations in a special Economic Zone;
- f) exemption from the Securities Transaction Tax leviable under Section 98 of the Finance (2) Act, 2004. In case the taxable securities transactions are entered into by a non-resident through the International Financial Services Centre;
- g) exemption from the levy of taxes on the sale or purchase of goods other than newspapers under the Central Sales Tax Act, 1956 if such goods are meant to carry on the authorized operations by the developer or entrepreneur.

The revenue loss over the period 2006-07 to 2009-2010 is estimated to be Rs.93,904 crores. Out of this, the revenue loss on account of direct taxes is estimated to be Rs.53,740 crores and on account of indirect taxes, it is estimated to be rs.40,164 crores.