

Incentives for SEZ Units In India

Special Economic Zones (SEZs) represent designated duty-free areas governed by the SEZ Policy, offering a conducive environment for business activities by treating these zones as deemed foreign territories, despite their physical location within India. Introduced as a development tool in April 2000, SEZs aim to attract foreign investment and boost exports by providing a competitive environment. This effort was formalized through the Special Economic Zones Act, 2005 and the SEZ Rules, 2006, both designed to streamline export-import processes and promote Foreign Direct Investment (FDI) into the country. The following outlines key incentives and benefits available to businesses operating within a notified SEZ:

CUSTOMS

- **Duty-free imports:** SEZ units can import or procure capital goods, raw materials, office equipment, and other services without incurring customs duties.
- **Five-year utilization period:** Imported or domestically procured goods can be used for up to five years, as per the unit's approved operational plan.
- **Sub-contracting flexibility:** SEZ units can subcontract parts of their production to entities in Domestic Tariff Areas (DTA), other SEZs, Export Oriented Units (EOUs), or Export Processing Zones (EPZs) with prior customs approval.
- **Exemption on imported and exported goods:** SEZ units enjoy customs duty exemptions on goods

imported into or exported from the zone as per the Customs Act, 1962 and Customs Tariff Act, 1975

BANKING AND EXTERNAL COMMERCIAL BORROWINGS

- **External Commercial Borrowings (ECB):** SEZ units can access up to USD 1.5 billion annually through ECBs without maturity restrictions
- **Relaxed all-in-cost ceiling:** Under certain conditions, such as for entities with a high investment grade, the RBI has allowed a higher all-in-cost ceiling for ECBs. This allows eligible SEZ units to potentially secure loans at more competitive rates, which may include an interest margin that exceeds the earlier prescribed limits.
- **100% Credit to EEFC Account:** SEZ units can retain 100% of their export earnings in Exchange Earner's Foreign Currency (EEFC) accounts, with some conditions on foreign exchange acquisitions..
- **Unrealized Export Write-Off:** Units can write off unrealized export bills and net off export receivables against import payments under specified conditions.
- **Hedging Flexibility:** Units are permitted to undertake hedging transactions in overseas markets to manage risks related to commodity price fluctuations, provided such transactions are isolated from domestic entities.
- **Simplified remittance processes:** The process for obtaining approvals from Authorized Dealer (AD) banks and the RBI for remittances or repatriation of profits is streamlined for SEZ units, reducing bureaucratic delays.
- **Trade financing options:** SEZ units can access trade financing facilities such as pre-shipment and post-shipment credit in foreign currency. This enables them to meet their working capital needs during the export process.

- **Export credit facilities:** SEZ units are eligible for export credit at preferential rates, which can lower the cost of financing for exports. This is particularly useful for units that require short-term financing to fulfil export orders

ENVIRONMENT

- **Simplified Clearances:** SEZ units benefit from streamlined environmental approval processes, with certain approvals delegated to State Pollution Control Boards.
- **Public Hearing Exemptions:** Units within SEZs that have undergone a public hearing for the SEZ as a whole are exempted from individual hearings for further clearances.
- **Duty-free procurement for renewable energy installations:** SEZ units can now enjoy duty exemptions on the procurement, installation, and operation of renewable energy equipment like solar panels, provided these are used for captive consumption within the SEZ.

REMOTE AND HYBRID WORK MODELS

- **Work-from-Home Flexibility for IT/ITES Units:** Hybrid work permission for SEZ units has been extended until December 31, 2024. This allows employees, including those in IT/ITeS units, to work from locations outside the SEZ premises as per the company's needs.
- **Permission replaced by intimation:** SEZ units are now only required to inform the Development Commissioner via email about employees working remotely, rather than obtaining prior approval. They must maintain records of such employees for potential verification.
- **Contractual workers:** The revised rules allow contractual workers employed by SEZ units to benefit from remote work arrangements, if their roles and responsibilities align with the SEZ unit's activities.
- **Duty-free goods for remote work:** SEZ units can provide duty-free laptops, desktops, and other electronic equipment to employees for remote work, without incurring customs duty or Integrated Goods and Services Tax (IGST). These items must be accounted for and returned to the SEZ within a specified period.

GOODS AND SERVICES TAX

- **Zero-rated supplies:** Supplies made by SEZ units to entities outside India are treated as exports, and no GST is charged. Additionally, supplies from Domestic Tariff Area (DTA) to SEZ units are also considered zero-rated supplies. This allows suppliers from the DTA to charge zero GST when selling goods or services to SEZ units, subject to certain conditions.
- **Input tax credit (ITC) and refunds:** Suppliers to SEZ units are allowed to claim Input Tax Credit (ITC) on inputs, input services, or capital goods used in making zero-rated supplies.
- **No GST on imports:** SEZ units are exempted from paying Integrated Goods and Services Tax (IGST) on the import of goods or services, provided these are used for authorized operations of the SEZ unit. This exemption includes the import of capital goods, raw materials, consumables, and input services required for the production or provision of export services.

MISCELLANEOUS

- **Single-Window Clearances:** Central and state-level approvals for SEZ units are managed through a single-window system, enhancing ease of business operations.
- **Stamp Duty Exemptions:** Instruments executed by or in favour of SEZ units are exempt from stamp duty under the Indian Stamp Act, 1899.
- **Simplified Movement of Goods:** The movement of goods into and out of SEZs is based on self-declarations, with minimal routine inspections unless specifically required by the Development Commissioner.
- **Disposal of Waste in DTA:** SEZ units can sell waste or scrap to DTAs without additional authorizations, subject to payment of applicable customs duties.

Special Economic Zones continue to be a critical tool for promoting India's export capabilities and attracting foreign investment. The incentives offered to SEZ units create a conducive environment for businesses looking to expand their operations with significant cost savings and streamlined compliance.

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