

**Q. What is a Special Economic Zone ?**

Special Economic Zone (SEZ) is a specifically delineated duty free enclave and shall be deemed to be foreign territory for the purposes of trade operations and duties and tariffs.

**Q. Where in India SEZs are located ?**

At present there eight functional Special Economic Zones located at Santa Cruz (Maharashtra), Cochin (Kerala), Kandla and Surat (Gujarat), Chennai (Tamil Nadu), Visakhapatnam (Andhra Pradesh), Falta (West Bengal) and Nodia (Uttar Pradesh) in India. Further a Special Economic Zone at Indore (Madhya Pradesh) is now ready for operation.

In addition 18 approvals have been given for setting up of SEZ at Positra (Gujarat), Navi Mumbai and Kopata (Maharashtra), Nanguneri (Tamil Nadu), Kulpi and Salt Lake (West Bengal), Paradeep and Gopalpur (Orissa), Bhadohi, Kanpur, Moradabad and Greater Noida (U.P.), Vishakhapatnam and Kakinada (Andhra Pradesh), Vallarpadam/Puthuvypeen (Kerala) Hassan ( Karnataka), Jaipur and Jodhpur ( Rajasthan) on the basis of proposals received from the State Governments.

**Q. Who can set up SEZs?**

Any private/public/joint sector or State Government or its agencies can set up Special Economic Zone (SEZ).

**Q Can Foreign Companies set up SEZs ?**

Yes

**Q How can one apply for setting up of SEZs ?**

15 copies of application, indicating name and address of the applicant, status of the promoter along with a project report covering the following particulars may be submitted to the Chief Secretary of the State:

- Location of the proposed Zone with details of existing infrastructure and that proposed to be established;
- Its area, distance from the nearest sea port / airport / rail / road head etc.
- Financial details, including investment proposed, mode of financing and viability of the project.
- Details of foreign equity and repatriation of dividends etc., if any
- Whether the Zone will allow only certain specific industries or will be a multi-product Zone.

The State Government shall, forward it along with their commitment to the following to the Department of Commerce, Government of India:

- That area incorporated in the proposed Special Economic Zone is free from environmental restrictions;
- That water, electricity and other services would be provided as required;
- That the units would be given full exemption in electricity duty and tax on sale of electricity for self generated and purchased power;
- To allow generation, transmission and distribution of power within SEZ;
- To exempt from State sales tax, octroi, mandi tax, turnover tax and any other duty/cess or levies on the supply of goods from Domestic Tariff Area to SEZ units;
- That for units inside the Zone, the powers under the Industrial Disputes Act and other related labour Acts would be delegated to the Development Commissioner and that the units will be declared as a Public Utility Service under Industrial Disputes Act.
- That single point clearances system and minimum inspections requirement under State Laws/Rules would be provided.

The proposal incorporating the commitments of the State Government will be considered by an Inter-Ministerial Committee in the Department of Commerce. On acceptance of the proposal, a letter of permission will be issued to the applicant

#### **Q. Are there any terms & conditions for setting up of SEZ ?**

- Only units approved under SEZ scheme would be permitted to be located in SEZ.
- The SEZ units shall abide by local laws, rules, regulations or bye-laws in regard to area planning, sewerage disposal, pollution control and the like. They shall also comply with industrial and labour laws as may be locally applicable.
- Such SEZ shall make security arrangements to fulfill all the requirements of the laws, rules and procedures applicable to such SEZ.
- The SEZ should have a minimum area of 1000 hectares and at least 25 % of the area is to be earmarked for developing industrial area for setting up of units.
- Minimum area of 1000 hectares will not be applicable to product specific and port/airport based SEZs .
- Wherever the SEZs are landlocked, an Inland Container Depot (ICD) will be an integral part of SEZs.

Detailed guidelines on setting up of SEZ in the Private/Joint/State Sector is given in Appendix 14-II.N of Handbook of Procedures Volume I.

#### **Q. What is role of State Governments?**

State Governments will have a very important role to play in the establishment of SEZ. Representative of the State Government, who is a member of the Inter-Ministerial Committee on private SEZ, is consulted while considering the proposal. Before recommending any proposals to the Ministry of Commerce & Industry (Department of Commerce), the States must satisfy themselves that they are in a position to supply basic inputs like water, electricity, etc.

#### **Q What are the facilities Incentive/ Facilities to SEZ Developer ?**

- 100% FDI allowed for:

(a) townships with residential, educational and recreational facilities on a case to case basis,  
(b)franchise for basic telephone service in SEZ.

- Income Tax benefit under ( 80 IA ) to developers for any block of 10 years in 15 years
- Duty free import/domestic procurement of goods for development, operation and maintenance of SEZs.
- Exemption from Service Tax /CST.
- Income of infrastructure capital fund/co. from investment in SEZ exempt from Income Tax
- Investment made by individuals etc in a SEZ co also eligible for exemption u/s 88 of IT Act
- Developer permitted to transfer infrastructure facility for operation and maintenance.
- Generation, transmission and distribution of power in SEZs allowed
- Full freedom in allocation of space and built up area to approved SEZ units on commercial basis.
- Authorised to provide and maintain service like water, electricity, security, restaurants and recreation centres on commercial lines.

#### **Q. How to set up a unit in SEZ ?**

For setting up a manufacturing, trading or service units in SEZ, 3 copies of project proposal in the format prescribed at Appendix 14-IA of the Handbook of Procedures, Vol.1 to be submitted to the Development Commissioner of the SEZ.

### **Q. What is the approval mechanism for the units ?**

All approvals to be given by the Unit Approval Committee headed by the Development Commissioner. Clearance from the Department of Policy and Promotion/Board of Approvals, wherever required will be obtained by the Development Commissioner, before the Letter of Intent is issued.

### **Q. What is the obligation of the Unit under the Scheme?**

- SEZ units have to achieve positive net foreign exchange earning as per the formula given in paragraph Appendix 14-II (para 12.1) of Handbook of Procedures, Vol.1. For this purpose, a Legal Undertaking is required to be executed by the unit with the Development Commissioner.
- The units have to provide periodic reports to the Development Commissioner and Zone Customs as provided in Appendix 14-I F of the Handbook of Procedures, Vol.1.
- The units are also to execute a bond with the Zone Customs for their operation in the SEZ.
- Any company set up with FDI has to be incorporated under the Indian Companies Act with the Registrar of Companies for undertaking Indian operations

### **Q. What are the incentive/facilities available for SEZ units?**

Following incentive/ facilities to SEZ enterprises:

#### **Customs and Excise :**

- SEZ units may import or procure from the domestic sources, duty free, all their requirements of capital goods, raw materials, consumables, spares, packing materials, office equipment, DG sets etc. for implementation of their project in the Zone without any licence or specific approval.
- Duty free import/domestic procurement of goods for setting up of SEZ units.
- Goods imported/procured locally duty free could be utilised over the approval period of 5 years.
- Domestic sales by SEZ units will now be exempt from SAD.
- Domestic sale of finished products, by-products on payment of applicable Custom duty.
- Domestic sale rejects and waste and scrap on payment of applicable Custom duty on the transaction value .

#### **Income tax**

- Physical export benefit
- 100% IT exemption (10A) for first 5 years and 50% for 2 years thereafter.
- Reinvestment allowance to the extend of 50% of ploughed back profits
- Carry forward of losses

#### **Foreign Direct Investment :**

- 100% foreign direct investment is under the automatic route is allowed in manufacturing sector in SEZ units except arms and ammunition, explosive, atomic substance, narcotics and hazardous chemicals, distillation and brewing of alcoholic drinks and cigarettes , cigars and manufactured tobacco substitutes.
- No cap on foreign investments for SSI reserved items.

#### **Banking / Insurance/External Commercial Borrowings**

- Setting up Off-shore Banking Units allowed in SEZs.  
OBU's allowed 100% Income Tax exemption on profit for 3 years and 50 % for next two years.

- External commercial borrowings by units up to \$ 500 million a year allowed without any maturity restrictions.
- Freedom to bring in export proceeds without any time limit.
- Flexibility to keep 100% of export proceeds in EEFC account. Freedom to make overseas investment from it.
- Commodity hedging permitted.
- Exemption from interest rate surcharge on import finance.
- SEZ units allowed to 'write-off' unrealized export bills.

#### **Central Sales Tax Act :**

- Exemption to sales made from Domestic Tariff Area to SEZ units.  
Income Tax Act:

#### **Service Tax:**

- Exemption from Service Tax to SEZ units

#### **Environment :**

- SEZs permitted to have non-polluting industries in IT and facilities like golf courses, desalination plants, hotels and non-polluting service industries in the Coastal Regulation Zone area
- Exemption from public hearing under Environment Impact Assessment Notification

#### **Companies Act :**

- Enhanced limit of Rs. 2.4 crores per annum allowed for managerial remuneration
- Agreement to opening of Regional office of Registrar of Companies in SEZs.
- Exemption from requirement of domicile in India for 12 months prior to appointment as Director.

#### **Drugs and Cosmetics :**

- Exemption from port restriction under Drugs & Cosmetics Rules.

#### **Sub-Contracting/Contract Farming**

- SEZ units may sub-contract part of production or production process through units in the Domestic Tariff Area or through other EOU/SEZ units
- SEZ units may also sub-contract part of their production process abroad.
- Agriculture/Horticulture processing SEZ units allowed to provide inputs and equipments to contract farmers in DTA to promote production of goods as per the requirement of importing countries.

#### **Q. Whether SEZs have been exempted from Labour laws?**

Normal Labour Laws are applicable to SEZs, which are enforced by the respective state Governments. The state Government have been requested to simplify the procedures/returns and for introduction of a single window clearance mechanism by delegating appropriate powers to Development Commissioners of SEZs.

#### **Q. What are the facilities for Domestic suppliers to Special Economic Zone ?**

Supplies from Domestic Tariff Area (DTA) to SEZ to be treated as physical export. DTA supplier would be entitled to :

- Drawback/DEPB
- CST Exemption
- Exemption from State Levies
- Discharge of EP if any on the suppliers
- Income Tax benefit as applicable to physical export under section 80 HHC of the Income Tax Act.

**Q Who monitor the functioning of the units in SEZ ?**

Performance of the SEZ units monitored by a Unit Approval Committee consisting of Development Commissioner, Custom and representative of State Govt. on annual basis.

**Q. Are SEZ's controlled by Government ?**

In all SEZ's , the statutory functions are controlled by the Government. Government also controls the operation and maintenance function in the 7 Central Government controlled SEZs. In rest of the operation and maintenance are privatised.

**Q. What are the special features if we come to the zone?**

The units would be entitled for a package of Incentives and a simplified operating environment

**Q. What about the Licenses for Imports?**

No License is required for imports, including second hand machineries.

**Q. If one buy goods from DTA should they require to pay State Sales Tax and Excise?**

NO. State has exempted the sales from DTA to SEZ from local levies and taxes.

**Q. What is the practical role of Development Commissioner?**

Development Commissioner is the nodal officer for SEZs and help in resolution of problem, if any, faced by the units / developer.

**Q. Routine examination of goods by customs in the EOU is common.**

Will the same practice continue at the SEZ?

Customs examination is to the bear minimum. SEZ units function on self certification basis.

**Q. What are the provisions relating to External Commercial Borrowing (ECB) in SEZ ?**

External commercial borrowings by units up to \$ 500 million a year allowed without any maturity restrictions For details please see guidelines issued by RBI ([F.No. 4\(2\)/2002-ECB, dated 15.9.2002](#)).

**Q. Will it be possible to supply to other units in SEZ?**

YES. Inter Unit Sales are permitted as per the Policy. Buyer procuring from another unit pays in Foreign Exchange.

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