THE ECONOMIC TIMES, DECEMBER 11, 2017

A Welcome MAT for SEZs in Works

To boost Make in India, framework for SEZs set for a complete makeover

RUNUP TO THE BUDGET

Deepshikha.Sikarwar
@timesgroup.com

New Delhi: India is eyeing a revamp of its framework for special economic zones (SEZs) to boost manufacturing, including the exemption of factories located in them from minimum alternate tax (MAT), seen as a key factor that has stunted the zones.

Other ideas include slashing the category of deemed exports besides reducing minimum area requirement for smaller and special category states. The proposals are likely to be considered during budget talks, but a final call will be taken keeping in view revenue considerations and government's intent to cut corporate exemptions.

The revamp has been necessitated by the switchover to the goods and services tax (GST), but the government is keen to go beyond this to spur private investments, particularly in manufacturing. GST was implemented across the country on July 1.

Experts Welcome Proposals ▸▸ 14

New Road

- **SEZs will be tuned to** fit into Make in India
- **Incentives to be realigned** to make them manufacturing hubs for exports
- **MAT could be** dropped for SEZs
- **MAT levy in 2012 had** reduced attractiveness of SEZs
- **Proposal could be** included in budget

THE ECONOMIC TIMES, DECEMBER 11, 2017

Experts Welcome Proposals

►► From Page 1

"Imposition of MAT had a huge negative impact on exports from SEZ," said a person aware of the recommendations of a panel set up to draft a plan for the revamp of the zones, conceived as areas of enterprise that would drive jobs and growth as in China.

The SEZ Act of 2005 exempted the zones and units located within them from MAT without any sunset clause. But the government changed the law again to impose MAT on SEZs and their units at the rate of 18.5% from 2012.

Experts welcomed the proposals.

"Focus seems to be on making the entry, exit as well as operations within SEZ easier and incentivising exports by simplifying the procedures and removing operational restrictions such as manufacturing for domestic units," said Pratik Jain, indirect tax leader, PwC.

The ministry of commerce and industry had set up a panel comprising Noida SEZ development commissioner LB Singhal and his counterparts at Kandla SEZ, Santacruz Electronics Export Processing Zone (Seepz) and Madras Export Processing Zone (MEPZ) to suggest changes in the framework to align it with the GST regime.

The panel has also identified access to cheap finance as an issue and sought incentives for setting up overseas banking units in these zones.

It has mooted a reduction in the minimum area needed to 4 hectares from 25 hectares for establishment of sector-specific SEZs such as biotechnology, non-conventional energy equipment, agro-based food processing and services in the North-Eastern states, Goa, Jammu and Kashmir, Uttarakhand and the Union Territories.

"Land requirement has to be tailored in line with the size of the state," an official said.

The move on deemed exports will make it necessary for units to sell goods overseas to get benefits available to them. A long and more flexible list for activities qualifying as deemed exports made it easy for the units as even without actually exporting they could get the benefits.

The panel has also suggested that units of a company within the same SEZ should be allowed to merge subject to conditions. In line with this, net foreign exchange earning computation and income tax exemption of the merged units should be with effect from the date when the first unit commenced operation, according to the report.

The panel has suggested that duty and tax benefits on goods needed for setting up a unit be extended to sub-contractors as well. This is currently limited to contractors. It has suggested that sub-contracting for Domestic Tariff Areas (DTAs) be allowed subject to conditions as well as a change in computation for net foreign exchange earnings. It will be computed on the basis of exports and supply of goods manufactured or services provided in the SEZ but will exclude traded goods.