Module 27 · Special Economic Zones P19 · topic 27

SM pp. 1288–1292 (exercise 1293–1294). **An SEZ question in every December paper** (D23 Q8(b) SEZ ITC, D24 Q6(b) SEZ v EOU, D25 Q6(b) key benefits; also J23 Q5(a) approval mechanism) and none in June since; expected ~5 marks. Short module: learn the SM lists in SM order.

Paper	Question
Jun'23	Q5(a) **SEZ approval mechanism**
Dec'23	Q8(b) SEZ unit: ITC and refund on services used for SEZ and DTA
Dec'24	Q6(b) **SEZ v EOU**: are they the same?
Dec'25	Q6(b) **key benefits of SEZs**
PTP · MCQ	PTP Q6(b) SEZ features and benefits · J26 MCQ EOU minimum investment (SEZ has none)

WHAT AN SEZ IS

- A specially demarcated enclave treated as **foreign territory** for duties and tariffs; SEZ Act, 2005 and SEZ Rules, 2006. DTA → SEZ = **export**; SEZ → DTA = **import**. First SEZ near Kandla port. [SM 1288]
- Supplies to an SEZ are **zero-rated** under the IGST Act; the DTA buyer of SEZ goods pays duty as on imports. [SM 1288–1289]
- **Types**: multi-sector, sector-specific, **FTWZ**, IT / ITeS / handicrafts / biotech / non-conventional energy / gems and jewellery, **IFSC**. [SM 1290]
- **Objectives of the Act**: additional economic activity; exports of goods and services; employment; domestic and foreign investment; infrastructure. [SM 1290]

APPROVAL MECHANISM (J23 Q5(a))

- Single window: a **19-member** inter-ministerial **Board of Approval** (chair: Secretary, Department of Commerce; members from CBIC, CBDT, DEA, Home, Law …), decisions by consensus. [SM 1290–1291]
- Developer applies to the State Government, which forwards it with recommendations within **forty-five days** (or applies directly to the BoA); Centre notifies the area; units then approved. [SM 1290–1291]

KEY BENEFITS (D25 Q6(b), PTP Q6(b))

1. **Duty-free** import or domestic procurement of goods for development, operation and maintenance; no licence or specific approval needed for capital goods, raw materials, consumables, spares, packing, office equipment. [SM 1288–1289]
2. Duty-free goods may be used over **five years** from approval. [SM 1289]
3. Income-tax holiday on export income: **100% for 5 years**, 50% for the next 5, 50% of ploughed-back profit for another 5; **no MAT**. [SM 1289]
4. **Zero-rated** GST on supplies to SEZs; single-window clearance (Centre and State); no import licence; **100% FDI** in manufacturing (few exceptions); free repatriation of profit; no separate customs / EXIM documentation; ready plots. [SM 1289]
5. DTA sales of finished goods, by-products, scrap on payment of customs duty; **RoDTEP** for SEZ exports (shipping bills from 1st July 2024). [SM 1289]

⚠ INCOME-TAX HOLIDAY

The 15-year holiday (s.10AA) is only for units that began operating before 1 April 2020 — the SM does not say so (our knowledge). Write it with that rider.

B SEZ v EOU (D24 Q6(b)) and the SEZ ITC case (D23 Q8(b))

SEZ	EOU
Supply to SEZ = **export**; IGST at **zero rate**	Supply to EOU = **deemed export**; GST at the normal rate
No refund arises — no tax suffered	Refund to the supplier **or** the recipient
Customs clearance inside the zone	Fast Track Clearance Scheme for imports
Only at designated sites	Anywhere in India
No minimum investment	**₹1 crore** in plant & machinery (BoA may relax)

[SM 1292]

SEZ RULES — RECENT AMENDMENTS

- Aligned with GST; no minimum land area for health / biotech SEZs; merger of two units of the same entity; certain DTA supplies left out of NFE; rule 21A — international agencies' units in an IFSC. [SM 1291]
- Gems and jewellery sent out for studding must return within **45 days**; rule 43A — up to **50%** staff may work from home. [SM 1292]

D23 Q8(b) CDA LTD. (OUR WORKING, SCRIPT-CHECKED)

- (i) Services exclusively for SEZ authorised operations, received without tax (LUT) → nothing to claim.
- (ii) Common services ₹9,00,000 × 18% = ₹1,62,000 split by turnover 90 : 60 → SEZ share **₹97,200** (refund route; supplies to an SEZ are zero-rated) and DTA share **₹64,800** (ITC of the DTA unit).
- (iii) DTA-only services ₹1,26,000 → ITC of the DTA unit (a separate registration).
- Treat the SEZ unit and the DTA unit as distinct persons; no ICMAI answer exists — state the assumptions.

PRACTISE THESE

J23 Q5(a) · D23 Q8(b) · D24, D25 Q6(b) · PTP Q6(b) · SM M27 exercise (SM 1293–1294) · **ICMAI Practice Workbook**: SEZ net foreign exchange sum in Ch20 illus. 4 (M26) · MCQ bank Q97–Q99. **Hook: "Export to SEZ, deemed export to EOU; SEZ is a place, EOU is a promise."**