

Future of SEZ after **2020**

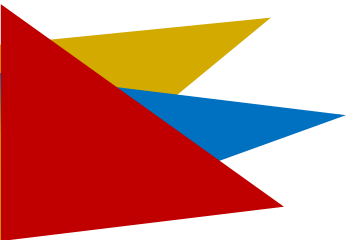
Lets Discuss, Decide & Implement

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Director & CEO

MOON Group of Companies



About SEZ



Overview of SEZ

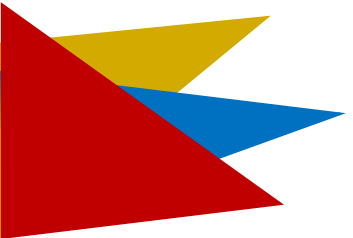
1. Duty free enclave deemed to be a foreign territory for the purpose of trade operations, duties and tariffs.
2. Economic laws more liberal than rest of the country's general economic laws.
3. To attract foreign investments into India, encourage exports from India to bring in more and more foreign exchange into India.
4. All Goods and services supplied from Domestic Tariff Area (DTA) to SEZ are treated as deemed exports and all Goods and services supplied by SEZ units to Domestic Tariff Area (DTA) are treated as imports into India and subject to all procedures and rules applicable in case of normal imports into India.
5. SEZ's are deemed to be a airport, port, Land Custom stations, and Inland container depot under the Customs Act.
6. Fiscal/Non Fiscal incentives and benefits.



Tax Rates in India

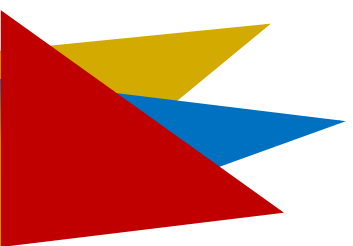
Type of Indirect Tax	Central/State Authority	Levied upon	Prevailing peak rate
Income Tax	Central Government	Net Income	15% to 30% (Excluding Surcharge & Cess)
Customs Duty (Combined of BCD + IGST + Cess)	Central Government	Import of Goods from outside India	18% to 45% (Depending on HS Code)
Goods & Service Tax	Central + State Government	Supply of goods or services within India/Outside India or Import into India	0% to 28% (Depending of HSN Code)
Stamp Duty Exemption	State Government	On Lease deed registration/Sale/Purchase of any property	5% to 7% depending on Type of Property & Location
Electricity Duty Exemption	State Government	On monthly Electricity Bill amount	9% to 21% depending on Type of Connection

*Comparison
between SEZ,
STPI & DTA*



Comparison between SEZ, STPI/EOU and Domestic Exporters

Comparison Points	SEZ	STPI/EOU	Domestic Exporter
Income Tax	No deduction is available under Income Tax for those units who will obtain approval post 01.04.2020	No deduction is available under Income tax	No deduction is available under Income tax
Minimum Alternate Tax	MAT is applicable @ 15% (However since entire Income is taxable, hence there will be no effect of MAT)	MAT is applicable @ 15% (However since entire Income is taxable, hence there will be no effect of MAT)	MAT is applicable @ 15% (However since entire Income is taxable, hence there will be no effect of MAT)



Comparison between SEZ, STPI/EOU and Domestic Exporters

Comparison Points	SEZ	STPI/EOU	Domestic Exporter
Goods and Service Tax on Domestic Procurement	Upfront Exemption from payment of GST on all types of goods or services required for Authorized Operations by SEZ Units or Developers	No upfront exemption is available. However STPI/EOU units are eligible for refund of GST paid only on Plant & Machinery, Raw materials, consumables or any connected services. However, no refund is available on capital goods, fitout related material etc u/s 17(5) of CGST Act, 2017	No upfront exemption is available. However Domestic Exporters are eligible for refund of GST paid only on Plant & Machinery, Raw materials, consumables or any connected services. However, no refund is available on capital goods, fitout related material etc u/s 17(5) of CGST Act, 2017

Comparison between SEZ, STPI/EOU and Domestic Exporters

Comparison Points	SEZ	STPI/EOU	Domestic Exporter
Custom Duty	Upfront Exemption from Custom Duty on all types of goods required for Authorized operations by SEZ Units or Developers	Upfront Exemption from Custom Duty on mainly goods directly connected to Authorized operations as approved by STPI/EOU officials and subject to fulfilment of IGCRD Certificate formalities	No Exemption is available, however Domestic Exporter can apply for refund of IGST portion out of Total Custom Duty paid later on
DTA Sale of goods or services	There is no restriction on DTA sale of goods or services (Only in Foreign Exchange) subject to achievement of positive Net Foreign Exchange earnings	DTA Sale is allowed only to the tune of 50% of previous year FOB value of exports	Not applicable

Comparison between SEZ, STPI/EOU and Domestic Exporters

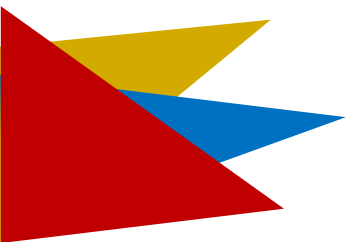
Comparison Points	SEZ	STPI/EOU	Domestic Exporter
Minimum Investment Conditions	No minimum investment or area requirement for SEZ units	Minimum investment requirement of Rs. 1 Crores	No minimum investment criteria
Compliance Requirement	Periodic Compliances such as: (i) MPR (Monthly Progress Report) (ii) SERF (Software Exports Reporting Form) (iii) Softex (For Exports of IT/ITES Services) as per FEMA norms (iv) APR (Annual Performance Report)	Periodic Compliances such as: (i) MPR (Monthly Progress Report) (ii) QPR (Quarterly Progress Report) (iii) SERF (iv) Softex (v) APR (Annual Performance Report)	All domestic Exporters of IT/ITES also needs to register themselves as Non-STPI Unit with STPI Director for the purpose of filing Softex forms and follow all regular compliances
Service Charges	No charges by Authorities	Annual services charges are levied by STPI	Annual service charges are levied by STPI

Comparison between SEZ, STPI/EOU and Domestic Exporters

Comparison Points	SEZ	STPI/EOU	Domestic Exporter
Custom Clearance	<p>Single window clearance & BOE assessment happens at SEZ Only, no EDI BOE filing and both SEZ Online system as well as EDI system are integrated.</p> <p>SEZ Cargos are not allowed to be opened at Port.</p>	<p>Two authorities are required to be approached for Import, STPI for Import Certificate and then IGCRD certificate formalities</p> <p>STPI/EOU Cargos are opened up at port of landing</p>	<p>Direct Filing of BOE at Port of landing through EDI system</p> <p>STPI/EOU Cargos are opened up at port of landing</p>
Penalty for Late filing of BOE	No penalty is levied by Port customs for late filing of BOE	Per day penalty is levied which is Rs. 10,000/- after 3 days	Per day penalty is levied which is Rs. 10,000/- after 3 days
Documents filing	Entire documentation filing is online and both EDI & SEZ Online are interlinked	IC & IGCRD procedure is manual then BOE is filed online using EDI	Online through EDI system

Comparison between SEZ, STPI/EOU and Domestic Exporters

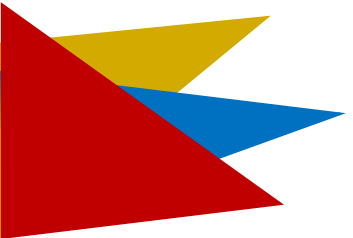
Comparison Points	SEZ	STPI/EOU	Domestic Exporter
Stamp Duty Exemption	Available as per respective State Government Policy	Available as per respective State Government Policy	Available as per respective State Government Policy
Electricity Duty Exemption	Exemption available on Lifetime basis in certain states	Exemption available on Lifetime basis in certain states	Exemption available on Lifetime basis in certain states
Ease of operations from Rules perspective	Single window approval mechanism for SEZ and custom clearance as every SEZ has custom officer sitting near to SEZ gate only	Multiple departments involvement for approvals and clearance of goods	Only custom department involvement is there



Comparison between SEZ, STPI/EOU and Domestic Exporters

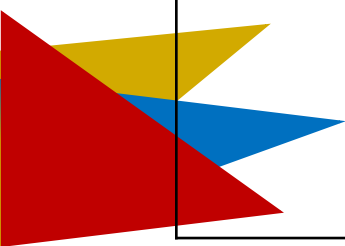
Comparison Points	SEZ	STPI/EOU	Domestic Exporter
Foreign Trade Policy Incentives such as MEIS and SEIS	<p>SEZ units are eligible for MEIS (Merchandise Exports from India Scheme) and SEIS (Service Exports From India Scheme) benefits under Foreign Trade Policy 2015-20.</p> <p>This is a huge benefit which is available over and above other fiscal benefits. However now w.e.f. 01.01.2021 MEIS benefits are withdrawn and there is no clarity on 2019-20 SEIS benefits and continuity of the same beyond 01.04.2020.</p>	<p>STPI Units/service EOU units are not eligible for SEIS benefits.</p> <p>Whereas manufacturing EOU units are eligible for MEIS benefits. However now w.e.f. 01.01.2021 MEIS benefits are withdrawn and there is no clarity on 2019-20 SEIS benefits and continuity of the same beyond 01.04.2020.</p>	<p>Eligible for MEIS and SEIS benefits.</p> <p>However now w.e.f. 01.01.2021 MEIS benefits are withdrawn and there is no clarity on 2019-20 SEIS benefits and continuity of the same beyond 01.04.2020.</p>

*Points for
decision
making*



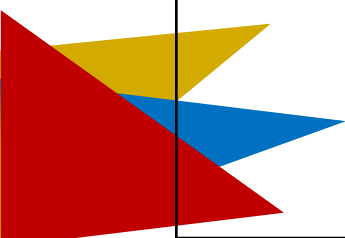
Important Points to be considered by SEZ unit(s) keeping in mind Sunset date of 31.03.2020

Issues/Myths	Details	Probable Action Points
<p>What is actually the fact about Sunset clause of SEZ i.e. deadline of March 2020</p>	<p>In Union Budget of 2016-17, Government has amended section 10AA of Income tax to provide for a sunset date of 31.03.2020 for obtaining all approvals & “Commencement of activity of manufacture or production of any article or thing or providing service by a unit located in a SEZ” upto 31.03.2021 (As per amended Guidelines)</p> <p>This means that a Unit in SEZ will be eligible for Income Tax benefit/deduction u/s 10AA for a period of 15 years (5 + 5 +5) only if approvals are obtained prior to 31.03.2020 & operations started from that SEZ Unit before 31.03.2021.</p>	<p>As per SEZ Rules, commencement of operations means commencing the approved authorized operations as per Letter of Approval from that particular SEZ unit i.e. raising first export invoice from SEZ Unit (Each Letter of Approval is defined as one unit).</p> <p>Key Things for start of operations for IT/ITES Units:</p> <ul style="list-style-type: none"> (i) Contract with customer; (ii) Separate Internet lines up and live; (iii) Employees on board (iv) Assets procured under SEZ unit which are required for operations.



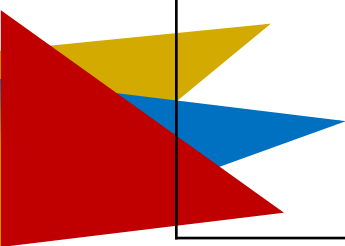
Important Points to be considered by SEZ unit(s) keeping in mind Sunset date of 31.03.2020

Issues/Myths	Details	Probable Action Points
<p>Whether STPI/EOU unit can shift to SEZ?</p>	<p>Benefit under Income Tax Section 10AA was available to following SEZ Units provided all approvals are obtained upto 31.03.2020 & operations are started before 31.03.2021:</p> <ul style="list-style-type: none"> (a) A unit in SEZ is not formed by the splitting up, or the reconstruction, of existing business; (b) Transfer of old plant and machinery in excess of 20% of new value of Installed P&M; (c) Transfer of old employees in excess of 50% of Total Technical Manpower as on the last date of first financial year. 	<p>It is important to note here that Formative year is very crucial in SEZ from Income Tax benefit point of view. No prohibition under SEZ law.</p> <p>In order to gain that benefit, existing STPI/Domestic IT/ITES Exporter can chose following options:</p> <ol style="list-style-type: none"> 1. Set up new Unit altogether in SEZ with new business from new client/additional business from existing client, new employees (Certain employees may be transferred but this will be a subjective issue); 2. Create two SEZ units at the same time, one without Income tax benefit and another with Income Tax benefit.



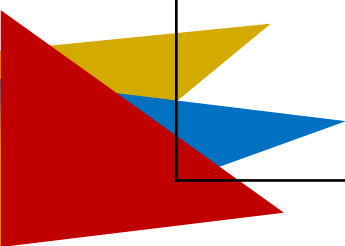
Important Points to be considered by SEZ unit(s) keeping in mind Sunset date of 31.03.2020

Issues/Myths	Details	Probable Action Points
Whether IT/ITES Units should still move to SEZ or continue with existing operations?	<p>For IT/ITES Exporters, there is a common point of discussion that why one should move to SEZs, when they are eligible for refund of GST paid on goods or services and for SEZs there are additional compliances and restriction for movement of goods.</p> <p>With above in mind, there is a misconception that SEZ set up will not result into additional tax benefits.</p>	<p>In this regard, it is important to note that SEZs units are eligible for upfront exemption from Customs duties (On imports) and GST (On Indigenous) procurement of goods or services for Authorized operations. Whereas STPI/Exporters are required to pay GST first and then claim refund which is available only for operating expenses and Plant and machinery & refund blocks funds.</p> <p>However no refund/input is allowed on capital goods other than plant and machinery as per section 17(5) of CGST Act, 2017.</p> <p>Additionally, every unit is required to register themselves as Non-STP unit as per RBI guidelines so compliances are same.</p>



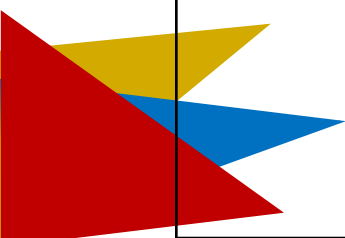
Important Points to be considered by SEZ unit(s) keeping in mind Sunset date of 31.03.2020

Issues/Myths	Details	Probable Action Points
Whether it is mandatory to register as a Non-STP Unit, if not registered as STPI Unit?	<p>Very few units are aware about the fact that as per RBI Guidelines published in 2016, it is mandatory for all IT/ITES Units to register themselves as Non-STP unit with STPI Director for the purpose of filing the softex forms as FEMA norms if they are not registered as STPI unit.</p> <p>With registration as Non-STP unit there are few compliances on the similar lines of STPI such as MPR, SERF, Softex etc.</p>	<p>IT/ITES Units needs to apply for registration with STPI Director as a Non-STP unit, subsequent upon which they will be able to file softex forms with STPI offices against exports made from Non-STP unit.</p> <p>Failing to file softex may lead to compliance issues as per FEMA norms.</p>



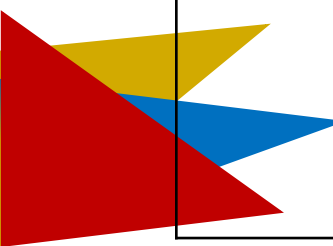
Important Points to be considered by SEZ unit(s) keeping in mind Sunset date of 31.03.2020

Issues/Myths	Details	Probable Action Points
<p>Whether Separate Internet Lines are required including separate IT and other infrastructure in case of multiple units</p>	<p>Since many of the companies set up multiple units within same or different SEZs from the perspective of:</p> <ol style="list-style-type: none"> 1. Income Tax benefit as the start date would be different; 2. Client requirement of separate ODCs; 3. Separate business vertical/segment <p>Now the question is whether each of the unit requires dedicated infrastructure in terms of Internet lines, server, IT and other Infrastructures or not?</p>	<p>Yes following are the requirements as per various provisions of SEZ Act and Rules including clarification issued by MoC&I;</p> <ol style="list-style-type: none"> 1. Separate Internet Lines and IT infrastructure is required for each SEZ Unit as each unit enjoys tax exemptions based on their start of commercial operations dates; 2. Further, there is a requirement that resultant exports should happen from SEZ unit premises only therefore in case of IT/ITES Units, data links are the only medium to prove exports. <p>In case there is a common infrastructure, then permission is required for sharing of the same from UAC under Rule 27(5) of SEZ Rules, 2006</p>



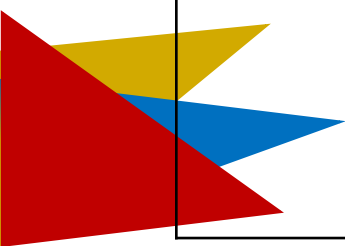
Important Points to be considered by SEZ unit(s) keeping in mind Sunset date of 31.03.2020

Issues/Myths	Details	Probable Action Points
Is work from Home allowed to employees in SEZ?	<p>There are always discussion around the fact whether SEZ unit employees can work from home or not?</p> <p>If yes, how much percentage of employees can work from home and what are the compliance requirements?</p>	<p>In this regard, MoC has issued amended SEZ Rules dated: 07.03.2019 which prescribes as follows: “It shall be allowed only to employees of IT/ITES Unit, employees temporarily in-capacitated, employees travelling and offsite employees subject to following conditions:</p> <ul style="list-style-type: none">(a) An employee should be a regular employee of SEZ unit with ID card;(b) The work should be related to SEZ unit contract;(c) An employee should use laptop/desktop issued by SEZ Unit and use secured connectivity such as VPN/VDI to connect to the project infrastructure;(d) Resultant exports should be booked in SEZ unit. <p>Further, there is no minimum or maximum limit of employees working from home however conditions are prescribed and it should not happen that all employees or maximum employees are working from home.</p>



Important Points to be considered by SEZ unit(s) keeping in mind Sunset date of 31.03.2020

Issues/Myths	Details	Probable Action Points
Creation of DR/BCP Site	<p>This is very common phenomenon in SEZ unit or every IT/ITES Unit for that purpose that in order to have safety and security of data or seamless continuity of operations in the event of any type of disaster, every company seeks to establish DR/BCP site.</p> <p>However, very few knows that it requires separate permission from DC office/STPI director and certain compliances.</p>	<p>In this regard, MoC has issued a circular wherein it is clarified that a separate permission is required from respective SEZ/STPI Director to create DR/BCP.</p> <p>Further, it is also clarified that SEZ DR/BCP site can be created only in custom bonded locations i.e. either in another SEZ unit/developer location, STPI, Private custom bonded warehouse facility.</p> <p>However DR/BCP of SEZ cannot be created outside Custom Bonded location and each instance of DR is required to be reported to SEZ Customs.</p>



Thank You

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