

Special Economic Zones (SEZs)

UNITS SET UP IN SEZs (SECTION 10AA) –

With effect from the assessment year 2006-07, undertakings set up in SEZs are eligible for income-tax holiday for 10 years (100 per cent exemption for first 5 years and 50 per cent exemption for the next 5 years), on the profits derived from exports from the year in which such undertaking begins manufacturing or commences its business activities. Further, a deduction of 50 per cent of profits is available for another 5 consecutive years, i.e., from eleventh assessment year to fifteenth assessment year, provided an equivalent amount is debited to the profit and loss account of the previous year and credited to Special Economic Zone Re-investment Allowance Reserve Account and further on fulfilment of certain conditions.

Offshore Banking Units (OBUs) set up in SEZs (Section 80LA).

Banking units in SEZ are entitled to a tax holiday of 100 per cent for first 5 years and 50 per cent for next 5 years. Similar deduction is available to units of International Financial Services Centre.

'Offshore Banking Unit' means a branch of a bank located in a SEZ and which has obtained the permission under section 23(1)(a) of the Banking Regulation Act, 1949.

Minimum Alternate Tax (MAT) provisions not to apply to units in or developers of SEZs [Section 115JB(6)] –

Sub-section (6) has been inserted to provide that the provisions of MAT contained in section 115JB would not apply to the following income accruing or arising on or after April 1, 2005 –

- (i) income from any business carried on by an entrepreneur in a SEZ;
- (ii) income from services rendered by an entrepreneur from a unit in a SEZ;
- (iii) income of a developer from the development of a SEZ.

No tax on dividends distributed, declared or paid on or after April 1, 2005 by the developer of a SEZ or the enterprise developing a SEZ [Section 115-O(6)]—

(i) Sub-section (6) has been inserted to provide that no tax on dividends would be chargeable in respect of the total income of an undertaking or enterprise engaged in –

- (a) developing a SEZ; or
- (b) developing and operating a SEZ; or
- (c) developing, operating and maintaining a SEZ

if such dividend, whether interim or final, is declared, distributed or paid by such developer or enterprise –

on or after April 1, 2005, out of its current income.

(ii) It is to be noted that such dividend does not attract tax neither in the hands of the developer or the enterprise nor in the hands of the person receiving such dividend [not falling under section 10(23G)].

- (iv) Consequential amendment has been made in section 10(34) by inserting an Explanation to provide that the dividend referred to in section 115-O shall not be included in the total income of the assessee, being a developer or entrepreneur.

EXPORT ORIENTED UNITS [SECTION 10B] –

As per Circular No. 01/2005F.No.149/194/2004-TPL, deduction is available under section 10B of the Income-tax Act which provides for 100 per cent deduction of profits derived by a hundred per cent Export Oriented Undertaking, from export of articles or things or computer software manufactured or produced by it. The deduction is available for a period of ten consecutive assessment years beginning with the assessment year relevant to the previous year in which the undertaking begins to manufacture or produce articles or things or computer software. However, no deduction under section 10B is available after assessment year 2009-10.