D1 Paper II

Topic - Special economic zones

Introduction - With a view to overcome the shortcomings experienced on account of multiplicity of controls and clearances, absence of world class infrastructure and an unstable fiscal regime and with a view to attract large foreign direct investment in India the special economic zones policy was announced in 2000.

This policy intended to make SEZs an engine for economic growth supported by quality infrastructure complemented by an attractive fiscal package both at centre and state level with the minimum possible regulations. SEZs act was passed in 2005.

Objectives of SEZ Act are :-

i) Generation of additional economic activity.

ii) Promotion of exports of goods & services

iii) Promotion of investment from domestic & foreign sources.

iv) Creation of employment opportunities

(v) Development of infrastructure facilities.
It is expected that this will trigger a large flow of foreign and domestic investment in SEZs leading to creation of economic activity and creation of employment opportunities.

The salient features of SEZs Act:-

i) Exemption from custom duty, excise duty etc.

ii) 100% income tax exemption for 5 years 50% for next 5 years

iii) Exemption from capital gains transfer.

iv) Exemption from dividend distribution tax to SEZ developers.

v) 100% income tax exemption for 5 years and 50% for next 5 years for off shore banking units located in SEZ.

vi) Exemption to SEZ developer unit from minimum alternate tax.

vii) Establishment of designated courts and a single enforcement agency to ensure speedy trial and investigation of offences commited in SEZs.

viii) Encouragement to state govts to liberalise state laws and to delegate their powers to SEZs to facilitate single window clearance.