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Tax code proposals could mean death knell for SEZs: Industry

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NEW DELHI: Fate of 469 approved Special Economic Zones, which are yet to become operational, hangs in balance with the proposed Direct Tax Code denying tax exemptions to new units in the SEZs.

According to the revised DTC draft, the tax exemptions for the SEZs have been provided only for the existing units. "...profit-linked deductions of units already operating in SEZs for the unexpired period (of 15 years) will be incorporated," the new draft said.

This provision would mean end of new investment by promoters, who have received formal approvals from the Commerce Ministry after acquiring land for their projects, Director General of the Export Promotion Council for EoUs and SEZs (EPCES) L B Singhal said.

"It really amounts to closing down a scheme, which has given exports of Rs 2,20,000 crore, investment of Rs 1,50,000 crore and employment of 500,000," Singhal said.

He said anxious investors have been calling him for the last two days, stating they had planned investment based on the promises of Parliament since the tax sops provided in the SEZ Act had the legislative approval.

"This morning I got a call from Sri Lanka-based Brandix Apparels, the promoter of a textile SEZ in Andhra Pradesh. He has told me that the investments were pumped in based on the promises given by Parliament," Singhal said.

The uncertainty will affect even the operational SEZs because not all of them have been occupied by units.

At present, SEZ units get 100 per cent income tax exemption on export income for the first five years, 50 per cent for the next five years. They also get exemption on 50 per cent of the ploughed back export profit for the next five years after the first 10 years.

"SEZ policy was made to promote exports in the country... but withdrawal of tax benefits, supposed in draft DTC, will affect the export growth as well as development of self-sustainable industrial clusters," Vice President of Raheja Developers Ltd Manoj Goyal said.

After enactment of a standalone law in 2005, which came into operation in 2006, the Commerce Ministry has given approval to about 580 SEZs of which 111 are operational.