

Special Economic Zones (SEZs)

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Special Economic Zones Latest News

The government recently relaxed key rules related to Special Economic Zones (SEZs) to further encourage the domestic manufacture of semiconductors and electronics.

About Special Economic Zones

- SEZs are **special areas** within a country that **offer incentives to business and trade** regulations operating in those areas.
- SEZs typically offer **competitive infrastructure, duty-free exports, tax incentives**, and other measures designed to make it easier to conduct business.
- The main **objectives** of the SEZ are **generating additional economic activity, promoting exports** of goods and services from the country, **promoting foreign and domestic investment**, and **creating more employment** opportunities besides the **development of infrastructure** facilities.
- The category 'SEZ' **covers a broad range** of zone types, few of which are **free zones (FZs), industrial estates (IEs), free ports, free trade zones (FTZs), and export processing zones (EPZs)**.

SEZs in India

- **Asia's first EPZ** was set up in **Kandla, Gujarat, in 1965**, followed by seven more EPZs in the country.
- The **SEZ policy** was introduced in **April 2000**, and it is envisioned to make SEZs a driver for economic growth supported by quality infrastructure and accompanied by an attractive incentives package, at the centre and state levels in the country.
- The **eight pre-existing EPZs** located at Kandla and Surat (Gujarat), Mumbai (Maharashtra), Cochin (Kerala), Chennai (Tamil Nadu), Visakhapatnam (Andhra Pradesh), Falta (West Bengal), and Noida (Uttar Pradesh) were **converted into SEZs under this scheme**.
- Later, the **SEZ Act, 2005** was passed by the Indian Parliament in May 2005, and the act, **supported by SEZ Rules**, came into effect on February 10, **2006**.
- As of March 31, 2024, there are 280 operational SEZs in India.

Rules Pertaining to SEZs in India

- A designated **duty-free enclave** is **considered as a territory outside the customs jurisdiction of India for authorized operations within the Special Economic Zone (SEZ)**.
- **Duty free import and domestic procurement of goods** for the development, operation, and maintenance of your company/SEZ unit.
- **No import license is necessary**, and both **manufacturing and service activities are permitted**.
- **100 percent income tax exemption on export income** for SEZ units under Section 10AA of the Income Tax Act for the **first five years, 50 percent for the next five years thereafter** and **50 percent of the ploughed back export profit for the next five years**.
- **Exemption from the Goods and Service Tax (GST) and levies imposed by the state government (supplies to SEZs are zero rated under the IGST Act, 2017, meaning they are not taxed)**.
- Units within the SEZ **must demonstrate Positive Net Foreign Exchange over a cumulative period of five years** from the start of production.
- **Domestic sales** are **subject to full customs duty** and adhere to the current import policy.
- **Minimum Alternate Tax (MAT) must be paid by SEZ units**.
- **Single window clearances** for all state and federal government approvals.
- SEZ units have the **liberty to engage in subcontracting**.
- **Routine inspections of export/import cargo** by customs authorities are **not required**.
- **SEZ Developers/Co-Developers and Units** are entitled to **direct and indirect tax benefits** as stipulated in the SEZs Act of 2005.
- On June 9, **2025**, India announced a series of **regulatory amendments** aimed at promoting SEZs focused on **semiconductor and electronic component manufacturing**.
 - One of the major revisions is the amendment to Rule 5 of SEZ Rules, 2006, which **reduces the minimum land requirement for SEZs dedicated exclusively to semiconductors or electronic components from 50 hectares to 10 hectares**.
 - Additionally, Rule 18 has been amended to **allow these SEZ units to sell their products in the domestic market**, subject to payment of applicable duties.

- Further, an amendment to Rule 7 empowers the **SEZ Board of Approval to waive the requirement for land to be encumbrance-free in specific cases.** This provision **applies when the land is mortgaged or leased to central or state governments or their authorized agencies,** offering greater flexibility in land acquisition and development.

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