Overview on Procedure for Setting up a Unit in Special Economic Zone (SEZ)

I. Background:

India was one among the foremost Asian countries who have considered the idea of setting up an Export Processing Zone (EPZ) model to promote country's exports in early 1970's. In order to attract more foreign investment and provide an internationally competitive and hassle-free environment for export promotion in India, the concept of Special Economic Zone (SEZ) was introduced to replace EPZ.

In the year 2000, the SEZ policy was initially introduced under Foreign Trade Policy 2000. The policy was implemented through piecemeal and ad hoc amendments to different laws, besides executive orders from time to time. In order to overcome these drawbacks and to give a stable long-term policy framework with minimum regulation, the Special Economic Zone Act, 2005 (hereby referred to be" Act") was introduced. The Act provided broad legal framework, covering all important legal and regulatory aspects of SEZ development as well as for Units operating in SEZs.

SEZ is a specific duty-free enclave and shall be deemed to be foreign territory for the purposes of trade operations, duties and tariffs. In other words, SEZ is a geographical region that has economic laws different from the country's economic laws.

II. Comparison between SEZ and SEZ Unit:

In general, the terms SEZ and SEZ Unit (herewith referred as "Unit") are considered to be similar, but these are actually two different terms which altogether has two different parameters to be dealt with. SEZ is a specifically delineated duty-free area / zone and as mentioned, shall be deemed to be foreign territory for the purposes of trade operations and duties and tariffs which can set up either jointly or severally by Central Government, State Government or by any Person; whereas Unit is an area that can be set up in the processing area / zone of SEZ by any Person.

III. Scope of the Article:

This Article will help to understand the procedure for setting up a Unit in SEZ.

IV. General Terms:

(a) Person: Person includes

- **An Individual, whether resident in India or outside India;**
- **A Hindu Undivided Family;**
- **Co-operative society;**
- **A company, whether incorporated in India or outside India;**
- **A firm;**
- **Proprietary concern;**
- **An Association of Persons/Body of Individuals, whether incorporated or not;**
- **Local authority and**
- **Any agency, office or branch owned or controlled by such Individual, Hindu Undivided Family, Co-operative Society, Association, Body, Authority or Company but doesn't include Firm and Proprietary Concern.**

(b) Developer: Developer means a person who or a State Government which, has been granted by the Central Government, a letter of Approval (LOA) for setting up an SEZ and carrying on the authorized operations, against the proposal made by applicant (i.e., person or State Government).

(c) Entrepreneur: Entrepreneur means a person who, has been granted by the Development Commissioner of concerned SEZ, a letter of Approval (LOA) for setting up a Unit in SEZ and carrying on the authorized operations, against the proposal made by person.

V. Procedure for setting up of Unit in SEZ:

An applicant planning to setup Unit in a specific SEZ needs to make a physical application (refer point 4 below) to the respective Development Commissioner's Office of SEZ. Before filing an application, the applicant needs to obtain a valid consent letter providing provisional offer of space to

the applicant, from the concerned SEZ developer where it intends to set up the SEZ unit.

For the purpose of setting up of Unit in SEZ, an applicant needs to follow the following procedure:

(1) Creating user ID : This is the initial stage for setting up a SEZ unit. Applicant need to visit

https://www.sezonline-ndml.com (henceforth referred as SEZ Online) and is required to

create User ID and password under New Unit Registration (NUR) category. While creating the User ID, the applicant should provide basic details such as Name, Phone no, Email ID, User category (Unit/Developer).

(2) Raising a Demand Draft: A Demand Draft of ₹10,000/- needs to be drawn in favour of “Pay & Accounts Officer, Ministry of Commerce & Industry, Department of Commerce, payable at New Delhi” and a Banker certificate is to be obtained in respect of designated account that is being maintained for SEZ unit.

(3) Filing Application in SEZ Online: Applicant needs to fill and submit the Application in Form F through online mode (real time only) in the SEZ Online. Relevant details that the application requires, is mentioned below, of which applicant is required to fill the details as applicable to it:

(i) Basic details such as Applicant name, Demand draft details, Director details etc;

(ii) Activity to be carried out in SEZ unit as to manufacture of goods / provision of service;

(iii) Details of source of finance as to Internal finance or Equity issue etc;

(iv) Pattern of shareholding in the paid-up capital by foreign equity and resident holding;

(v) Details of Foreign exchange outflow and inflow;

(vi) Details of Letter of Approvals/Letter of Intents issued to applicant under

SEZ/EOU/STP/EHTP scheme.

(vii) Requirement of infrastructure in respect of Land, built-up area, water, power etc;

(viii) Value of investments in plant and machinery by way of indigenous or import mode;

(ix) Value of procurement of capital goods and materials in respect of import or indigenous mode;

(x) Details as to involvement of foreign collaborator in respect of foreign technology agreement;

(4) Physical Application: Once the application is filed SEZ Online, the applicant needs to submit the print out of application filled online along with annexures (in hard copy) to the

concerned Development Commissioner of concerned SEZ. Among all annexures, relevant and pertinent annexures are as follows:

(i) Copy of incorporation certificate, Articles and Memorandum of Association of the company

(ii) Copy of Registered Partnership deed in case of partnership firm/LLP

(iii) Copy of Board Resolution of authorised director/person in case of company

(iv) Copy of power of attorney/authority in case of partnership firms

(v) In case of companies - Copies of residential address proof (Passport/Ration Card/Voter ID/Driving Licence) of Directors, PAN Card and IT returns (for last three years - along with annexures/computation sheet) of Company.

(vi) In case of partnership firm/LLP/sole proprietary - Copies of residential address proof (Passport/Ration Card/Voter ID/Driving Licence), PAN Card and IT returns (for last three years - along with annexures/computation sheet) in respect of partners/Proprietor.

(vii) Detailed project report that includes detailed description of the business which is intended to carry on, projections relating to foreign exchange earnings, manpower and financials for the first five years;

(viii) Consent letter from the SEZ developer that it intends to lease the premises;

(ix) Copy of affidavit stating that the details submitted are true and correct;

(x) No Objection Certificate from pollution board (if applicable);

(xi) Copy of draft export contract or Master Service agreement;

(xii) Banker certificate for the purpose of opening separate account;

(xiii) Copy of audited financials (for past years);

(xiv) Copy of IEC, if already obtained;

The list of the documents mentioned above is an indicative list and the applicant needs to submit only those documents that are applicable to him which may differ depending on thetype and nature of Unit that the applicant intends to set up.

(5) Verification of Application: Applications received will be verified by Development Commissioner (DC) and makes a note of the details before

forwarding it to Unit Approval Committee (UAC) for consideration. If the DC is not satisfied with the submitted documents, he may raise a demand for additional documents and applicant shall submit those documents within the stipulated time period as prescribed in the demand.**

(6) Attending for Personal Hearing: Applicant needs to attend the UAC meeting as notified in the SEZ Online.

****The UAC comprises of panel of authorities of various statutory department such as Income Tax, Goods and Services Tax, Customs, State authorities etc. before whom the applicant shall explain as to why they shall be issued a letter of Approval.**

(7) Scrutiny of Application and issue of LOA: The UAC shall scrutinize the application in terms of validity of the application, viability of the project, status of the applicant in terms of achievement of positive Foreign Exchange earnings, compliance of provisions of SEZ Act and Rules etc.

If the UAC is satisfied that the applicant will comply with the above terms, they may issue Letter of Approval (LOA) for carrying out the authorized operations by SEZ unit and an email will be sent to applicant on the registered e-mail.

In case the UAC disapproves the application, the applicant can challenge the rejection before the Board of Approval (BOA) within 30 days from the date of receipt of order of UAC, which may be extended to 45 days depending upon the facts of the case (BOA consists of various authorities of Central Government including nominee from State Government and other members)

payment of registration

fee will be enabled in the SEZ Online. On payment of fee, NSDL Database Management Ltd (NDML) representative will verify receipt of payment after enquiring the details of the payment and will authorize the payment upon verification of valid payment entry in SEZ

online system. Upon authorization of payment, applicant can create administrator and operational user IDs in SEZ Online which shall be used as a source of submission of various required documents in future time period.

(8) Post approval procedures: Upon obtaining the LOA, the applicant needs to follow further

approval procedures such as: -

(i) Execution of Bond-cum-Legal Undertaking (BLUT) in Form-H : For implementation of the LOA, the Unit has to execute Bond cum legal undertaking in form-H of SEZ Rules on a non-judicial stamp paper of Rs. 100/- of the respective state where the Unit is located and get the same notarized by a Notary Public registered from the same state.

(ii) Acceptance of LOA : On receipt of the LOA, the unit has to accept and comply the terms and conditions of the LOA within the stipulated time and

take further action as per terms & conditions mentioned in the said LOA for implementation of the project.

(iii) Lease deed (for space): On receipt of the LOA, Unit must execute a lease deed with the SEZ Developer and submit copy of registered lease deed to the concerned DC within 6 months from issuance of LOA.

(iv) Intimation of Commencement: Unit shall commence the production / provision of service within one year from the date of LOA and is required to intimate the date of such commencement to DC in SEZ online.

(v) Periodical reports: Unit has to submit periodical performance reports as to foreign exchange earnings, manpower etc from the financial year of commencement of production / provision of service in SEZ Online.

VI. Validity / Extension of Letter of Approval:

(1) Validity for commencement of authorized operations:

The Letter of Approval shall be valid for 1 year within which period the Unit shall commence production, service, trading or Free Trade and Warehousing activity.

The validity of the Letter of Approval may be extended for further 2 years by the Development Commissioner for valid reasons to be recorded in writing.

A further extension of 1 year may be granted by the Development Commissioner, provided

that two-thirds of activities including construction, is complete, for which the entrepreneur must submit a chartered engineer's certificate.

(2) Validity after commencement of authorized operations:

The Letter of Approval shall be valid for 5 years from the date of commencement of production or service activity which will also serve as a license for authorized operations.

However, after the completion of 5 years, the Development Commissioner may, at the request of the Unit, extend the validity for a further period of 5 years, at a time.

VII. Cancellation of letter of Approval:

The UAC may cancel the Letter of Approval if the entrepreneur persistently contravenes any of the terms and conditions or its obligations subject to which he had been granted the Letter of Approval. However, the entrepreneur shall be given a reasonable opportunity of being heard, prior to such cancellation.

VIII. Conclusion:

Government of India has come up with certain comprehensive guidelines on how to apply for setting up of SEZ/SEZ Unit through the SEZ Act and Rules.

Though the procedure appears to be complex, but it is a very interesting arena to explore. The procedure outlined above gives you an

overview in understanding the process to be followed for setting up of SEZ Unit. Needless to say, this write up is intended to provide an insight on procedural aspects to set up an SEZ unit and not intended to be a professional advice and should not be relied upon unless based on expert advice.

Salient features and procedure for setting up of SEZ Units, Benefits available

Salient Features

Government of India announced the Special Economic Zones (SEZs) Policy in April 2000 with a view to create world-class infrastructure and ease out multiplicity of controls and clearances and provide stable fiscal policy regime to attract larger foreign investments in India.

Subsequently, in order to in still confidence in investors and signal the Government's commitment to a stable SEZ policy regime and thereby generating greater economic activity and employment through the establishment of new SEZs, a comprehensive legislation i.e., the Special Economic Zones Act, 2005, was passed by Parliament in May, 2005 and received Presidential assent on the 23rd of June, 2005. This act was followed by adoption of SEZ Rules, which came into effect on 10th February, 2006. The Act and Rules provided the basic framework of establishment and management of SEZs in India with drastic simplification of procedures and for single window clearance on matters relating to central as well as state governments.

The new legislative and policy framework aims at generation of additional economic activity by attracting investment from domestic and foreign sources and promote exports of goods and services from India leading to creation of employment opportunities and development of infrastructure facilities. The new SEZ Policy also envisages key role for the State Governments in Export Promotion and creation of related infrastructure.

The new SEZ framework provide for:

Simplified procedures for development, operation, and maintenance of the Special Economic Zones and for setting up units and conducting business in SEZs;

Single window clearance for setting up of an SEZ;

Single window clearance for setting up a unit in a Special Economic Zone;

Single Window clearance on matters relating to Central as well as State Governments;

Simplified compliance procedures and documentation with an emphasis on self-certification.

i. Permissible Activities in SEZ units

SEZ Units can be set up for Manufacture of export goods, rendering Services & Trading of goods.

Manufacture means: to make, produce, fabricate, assemble process or bring into existence by hand or by machine, a new product having a distinctive name, character or use and shall include processes such as refrigeration, cutting, polishing, blending, repair, re-making, re-engineering and includes agriculture, aquaculture, animal husbandry, floriculture, horticulture, pisciculture, poultry, sericulture, viticulture & mining.

Services permitted in SEZ include: Trading, warehousing, research and development services, computer software services, including information enabled services such as back-office operations, call centers, content development or animation, data processing, engineering and design, graphic information system services, human resources services, insurance claim processing, legal data bases, medical transcription, payroll, remote maintenance, revenue accounting, support centers and web-site services, off-shore banking services, professional services (excluding legal services and accounting) rental/leasing services without operators, other business services, courier services, audio-visual services, construction and related services, distribution services (excluding retail services), educational services, environmental services, financial services, hospital services, other human health services, tourism and travel related services, recreational, cultural and sporting services, entertainment services, transport services, services auxiliary to all modes of transport, pipelines transport.

"Trading", for the purposes of the Second Schedule of the SEZ Act, shall mean import for the purposes of re-export."

ii. Investment Limits

No Minimum investment condition in Plant and Machinery for setting up units in SEZs.

iii. Easy Foreign Direct Investment Norms

100% FDI through automatic approval route for setting up units in SEZ, except for arms and ammunition, explosives, atomic substances, narcotics and hazardous chemicals, distillation and brewing of alcoholic drinks and cigarettes, cigars and manufactured tobacco substitutes.

Shifting of SEZ Unit from one SEZ to another SEZ allowed.

iv. Relaxed Labour Laws

The Unit enjoy public utility status, which protects the interests of the units preventing sudden disruption of work (flash strikes) etc. Several States are amending labour laws by providing exemptions to SEZs from contract labour, industrial disputes Act and other Acts.

v. Export Performance and NFE conditions

There is no condition for minimum export performance. However, the units will have to achieve positive Net Foreign Exchange, which shall be calculated cumulatively for a period of 5 years from the date of commencement of production. Following supplies are considered towards achievement of Net foreign exchange earnings:

Direct Exports

Exports through Third Parties

Exports to Nepal & Bhutan against freely convertible currency.

Following DTA Supplies are also be counted for fulfillment of positive NFE as amended from time to time through Foreign Trade Policy of the Govt. of India:

Supplies effected in DTA to holders of Advance Authorization / DFIA under Duty Exemption / Remission Scheme / EPCG scheme.

Supplies to Projects Financed by Multi-lateral or Bi-lateral Agencies or Funds as notified by the Department of Economic Affairs, Ministry of Finance, under ICB where Tender Evaluation is without Customs Duty.

Supply of capital goods, including those in unassembled or disassembled condition as well as plants, machinery, accessories, tools, dies and such goods which are used for installation purposes till the stage of production and spares to the extent of ten per cent. of the free on rail value to Fertilizer Plants

Supply of goods to any project or purpose in respect of which the Ministry of Finance, by a notification, permits the import of such goods at zero customs duty.

Supply of goods to the power projects and refineries not covered in above.

Supply to projects funded by United Nations Agencies

Supply of goods to Nuclear Power Projects through competitive bidding as opposed to International Competitive Bidding.

Supply made to Bonded Warehouses / Free Trade and Warehousing Zones (FTWZ), where payment is received in foreign exchange;

Supply against Special Entitlements of duty free import of goods under the Foreign Trade Policy.

Export of services by services units including services rendered within SEZ or services rendered in the DTA and paid for in free foreign exchange or such services rendered in Indian Rupees which are otherwise considered as having been paid for in free foreign exchange by the Reserve Bank of India;

Supply of ITA Items and notified zero duty telecom or electronic items.

Supplies to SEZ Unit / SEZ Developer / Co-developer / EOU / HTP / EHTP / STP / BTP.

Supply of goods to Domestic Tariff Area against payment in foreign exchange from EEFC or Free Foreign Exchange received from overseas.

Supply of goods against free foreign exchange by a Free Trade and Warehousing Zone Unit (FTWZ).

NFE Calculation method

Net Foreign Exchange Earning shall be calculated cumulatively for a period of 5 years from the commencement of production.

Positive NFE = A – B >0, where

NFE is Net Foreign Exchange Earning,

A-is the FOB Value of Exports by the SEZ Unit; and

B- is the sum total of the (i) CIF Value of all imported inputs, the CIF value of all imported capital goods, and the value of all payments made in foreign exchange by way of commission, royalty, fees, dividends, interest on external borrowings during the first five years period or any other charges (ii) value of goods procured from EOU / EHTP / HTP / STP / BTP / Bonded Warehouse / international exhibition held in India (iii) CIF value of goods & services imported duty free or on lease or free of cost or on loan basis.

For annual calculation of NFE, the value of imported capital goods and lump-sum payment of foreign technical knowhow fee shall be amortised @ 10% for each of the 10 years.

Procedure for setting up a SEZ Unit

SEZ Act and Rules made thereunder provides the power of approval of units to be set up in the SEZ to the Unit Approval Committee (UAC) headed by the Development Commissioner of the Zone. The following steps are broadly involved in the approval process:

Obtain the Consent Letter from the SEZ Developer for allotment of land in SEZ.

Application to be made to the Development Commissioner of the Zone for approval in the prescribed formats & along with detailed project report and financial statements.

Presentation before the Unit Approval Committee, if required.

Obtaining the Letter of Approval from the Development Commissioner.

Acceptance of Terms and Conditions of Letter of Approval.

Execution of Legal Undertaking with the Development Commissioner

Application for Approval of Services, if any, other than the Standard Approved List of Services.

Online Registration at NSDL

GST Registration.

Execution of Bond with Specified Officer

Facilities/Benefits available to SEZ units at a glance

DTA Sales Facilities

DTA sale allowed without any limit right from first year. However, such sales are subjected to applicable customs duty, safeguard duty and anti-dumping duty, as may be applicable. Further, NFE earning has to be positive within a period

DTA Sale against exemption scheme / remission scheme is allowed subject to submission of licence / certificate.

Surplus power can be transferred to DTA on payment of duty on consumables & raw material used for generation of power.

Valuation of goods & services as per Customs Act & Customs Valuation Rules. Assessment to be done by authorised Officer.

Clearance on Bill of Entry for home consumption has to be filed.

Goods supplied to DTA may be brought back within 6 months for the purpose of repair & replacement.

Goods procured from DTA & supplied back without processing shall be treated as re-imports & all export benefits will have to be refunded back, subject to establishment of identification of same goods.

Banking Facilities

RBI to allow Bank to open branches in SEZs as OBUs. OBUs can conduct transactions in dollars for the SEZ units. Bank may enjoy greater freedom, lower their cost and pass on this benefit to the exports. No reserve requirement for banks in the SEZs, once the Off-shore Banking Services are available.

Plug and Play Facilities for IT & ITES Units

A new, dynamic concept of Plug and Play facility is built in, where the entities can start their activities from day one, allowing them to focus on their core competencies.

Bonding and De-bonding facility

Perpetual bonding without a need for periodic renewal requirement;

De-bonding allowed and Unit/Developer may remove capital goods to Domestic Tariff Area after use in Special Economic Zone on payment of duty on depreciated value

Single window clearance facility

All proposals for setting up of units in the SEZ are approved by the Approval Committee consisting of Development Commissioner, Customs Authorities and representatives of State Government. This acts as a single window for setting up of a unit in SEZ.

Many State Governments have delegated their statutory powers under various State Laws such as environmental clearance, labour laws etc. to the Development Commissioner of the Zone as a single window for all such clearances.

Movement of goods and Services

Zone to Zone Transfer- i.e., transfer of goods to other SEZ Units or Developer permitted;

Intra SEZ transfer- i.e. transfer within same SEZ permitted;

Temporary removal, removal for sub-contracting part of the production process, and removal of material procured on returnable basis allowed.

Fast Track Procedure

SEZ is notified as a port and Customs examination is done at the SEZ itself. No Physical Control / No Cost Recovery or MOT charges.

Scrap sale

Removal of scrap to DTA for destruction allowed on payment of applicable customs duties on the transaction value.

Removal of electronic Scrap through Authorized recyclers.

Sub-Contracting

SEZ Units may sub-contract part of their production or production process through Units in the DTA or through other EOU / SEZ Units, with prior permission of the Development Commissioner/Specified Officer. Value of sub-contracted production shall not exceed value of goods produced in preceding

Financial Year. Sub-contracting in DTA by SEZ Unit engaged in Trading & Warehousing not allowed;

SEZ Units may also sub-contract work from the DTA exporters with annual permission from Specified Officer, and export from the SEZ;

Sub-contracting of part of the production process abroad or to provide manufacturing services to overseas entities, subject to certain conditions with permission from the Development Commissioner.

Exit Mechanism

The SEZ Unit may opt out of an SEZ with the approval of the Development Commissioner subject to the payment of applicable duties and taxes on the imported or indigenous capital goods, raw materials, components, consumables, spares and finished goods in stock.

If the SEZ Unit has not achieved positive NFE, the exit shall be subject to penalty.

Duty Exemptions to SEZ units

No Customs Duty on any imported capital goods (new or second hand, even on lease), raw materials, components, consumables etc., required for construction and erection of factory/plant, production of goods and services;

No Excise Duty/GST on procurement of any indigenous capital goods (new or second hand, even on lease) raw materials, components, consumables etc., required for construction and erection of factory/plant, production of goods and services;

Benefits of Advance Authorization, EPCG, Duty Draw-Back under the Foreign Trade Policy is available on the supplies to SEZ Units from DTA.

Credit / Refund / Exemption of GST as per respective GST Acts & Rules.

Exemption or Refund of GST on Services to the SEZ.

Electricity Duty Exemption (varies from State to State)

Benefits/exemptions under FEMA

100% Foreign Direct Investment (FDI) through automatic route - barring few sectors.

Facility to retain 100% foreign exchange receipts in EEFC Account.

Facility to realize and repatriate export proceeds within 12 months.

Overseas investment by SEZ units allowed from EEFC/FCA account through automatic route.

Release of foreign exchange of DTA units allowed to buy goods to units in SEZ’s from FCA Account.

Profits allowed to be repatriated freely without any dividend balancing requirement.

Facility to setup branches of overseas banking units

Off-shore Banking Unit can be set-up in SEZ

Direct Tax benefits to the Units in SEZ

Income Tax Exemption under Section 10-AA for a period of 15 years on Export Income as follows:

100% IT exemption for first 5 years

50% IT exemption for next 5 years

50% IT exemption if export profit is ploughed back for next 5 years (the amount credited to Special Economic Zone Re-investment Reserve Account for business purpose)

Subject to the following conditions:

The unit has commenced manufacturing on or after 1st April 2006 in SEZ

The unit is not formed by splitting-up or reconstruction of a business already in existence.

The unit is not formed by transfer to a new business of machinery or plant previously used for any purpose (20:80) (Now relaxed up to 50%).

Exemption & Benefits to the Contractors of SEZ Unit

Exemption of Customs Duty on Imported Goods.

Exemption of Excise Duty/GST on Indigenous Goods.

Exports Benefits of Advance Authorization / Duty Draw Back provided proper documentations are made & payment is made in Foreign Currency.

Exemption of GST on services provided to SEZ Unit.

EPCG benefit for Capital Goods imported.

Duty Drawback benefit on supplies made, subject to payment being made in FCC from FCA (Rupee Payment for Developer / Co-developer).

Advance Authorization / Duty Free Import Authorization benefit for raw materials and consumables.

Merchandise Export from India Scrip benefit under FTP

Obligations of SEZ Units

SEZ Units shall be required to achieve positive Net Foreign Exchange Earning. For this purpose, a legal undertaking is required to be executed by the Unit with the Development Commissioner.

The Unit is required to provide periodic reports to the Development Commissioner and Zone Customs and submit such information as may be called for as and when required.

The Unit is required to maintain proper accounts and furnish details regarding the value of imports, exports, etc. to the Development Commissioner on a quarterly basis

The Unit is also required to execute a bond with the Zone Customs for its operations in the SEZ

Any individual, partnership firm, company or co-operative society can apply for setting up of Special Economic Zone. Special Economic Zone can be established jointly or severally by Central Government, State Government or any person for manufacture of goods or for rendering of services or for both or as a Free Trade and Warehousing Zone. Procedure for setting up of Special Economic Zone (SEZ) are provided under section 3 of the Special Economic Zone Act, 2005.

Procedure for Obtaining SEZ Approval

Following is the procedure to be followed for setting up of SEZ in India:

Any person willing to set up a Special Economic Zone has to make a proposal to the State Government. The application for proposal for setting up of Special Economic Zone is to be made in form A. The proposal can be made only after identifying the area for setting up of SEZ. Proposal for setting up of SEZ can even directly be made before the Board.

In case, proposal is directly made against Board, the person, after getting approval from the Board, is required to obtain the concurrence of the State Government.

On receipt of the proposal, the State Government needs to forward the same to the Board along with its recommendation.

The Central Government has right to prescribe various requirement for setting up of Special Economic Zone. Minimum area of land required for setting up of business, terms and conditions for various authorized operations are some of the examples of various requirements which can be prescribed by Central Government.

Currently the minimum area requirement for setting up of Special Economic Zone is as under:

Particulars Area Requirement

Multi sector SEZ 1000 hectares

Sector Specific SEZ 100 hectares

FTWZ 40 hectares

IT/ITES/handicrafts SEZ Bio-technology/

non-conventional energy/gems and

jewellery Sector 10 hectares

6. The Board, on receipt of proposal, may either approve the proposal subject to such terms and conditions as it may deem fit or may even modify or reject the proposal.

Final Action of Board on receipt of proposal:

When Board approves the proposal without any modification:

In such case, the Board is required to communicate the approval to the Central Government.

When Board approves the proposal with modification:

In such case, the Board is required to communicate the modification to the person or the State Government of the concerned person. Further, if the modification as proposed by the Board is accepted by the person or the State Government, the Board is required to communicate the same to the Central Government.

When Board rejects the proposal –

In such case, the Board is required to record the reason for rejection and communicate the same to Central Government. The Central Government in turn would intimate the same to the person or the State Government.

If everything goes well, the Central Government on receipt of communication would issue a letter of approval on such terms and conditions and obligations and entitlements as may be approved by the Board, to the Developer, being the person or the State Government concerned.

Documents Required

Proposal for setting up of Special Economic Zone is to be made in form A along with required undertaking and affidavit. Project report is also required to be submitted.

Name of the Applicant.

Proposed Area of Special Economic Zone.

Status of recommendation of proposal by the State Government, if available.

Whether proposal is for formal approval or in-principle approval?

Whether it is multi-product SEZ?

Whether it is sector specific SEZ? If yes, the details of sector thereon.

Projected investment in project.

Projected export from the project.

Projected employment generation from the project.

Source of fund of project.

Net worth of the Applicant.

Extent of FDI, if any.

Source of FDI.

Form A – SEZ Application

Various schemes have been introduced by the Government from time to time to encourage exports, viz, Special Economic Zones (SEZs), Export-oriented Units (EOUs), Software Technology Parks (STPs), Electronics Hardware Technology Parks (EHTPs), Biotechnology Parks (BTPs), etc.

Special Economic Zones

With a view to providing an internationally competitive environment for exports, the Government of India announced the SEZ Policy in April 2000. The objectives of the SEZ Policy include making available goods and services free of taxes and duties supported by integrated infrastructure for export production, expeditious and single-window approval mechanism and a package of incentives to attract foreign and domestic investments for promoting export-led growth.

Initially, SEZs in India functioned from 1 November 2000 to 9 February 2006 under the provisions of the Exim Policy/Foreign Trade Policy and fiscal incentives were made available through the provisions of relevant statutes. This system did not lend enough confidence to the investors to commit substantial investment for development of infrastructure and for the setting up of units for export of goods and services.

In order to provide a long-term and stable policy framework with minimum regulatory regime and to provide expeditious and single-window clearance mechanism in line with the international best business practices, a Central Act for Special Economic Zones was therefore found to be necessary. The *Special Economic Zones Act, 2005* (SEZ Act) was enacted by the Government in 2005. Subsequently, the *Special Economic Zones Rules, 2006* (SEZ Rules) were

notified on 10 February 2006. Consequently, the SEZ Act came into operation w.e.f. 10 February 2006.

The SEZ Policy provides for simplified procedures and single-window clearance mechanism to deal with matters under Central/State enactments. For SEZ developers, there are different minimum-land requirements for different classes of SEZs. Every SEZ is divided into a processing area, within which only the SEZ units would come up, and the non-processing area, where the supporting infrastructure is to be created.

The salient features of the SEZ Policy are as follows:

- Simplified procedures for development, operation, and maintenance of the SEZs and for setting up units and conducting business in SEZs;
- Single-window clearance for setting up of SEZ;
- Single-window clearance for setting up units in SEZ;
- Single-window clearance on matters relating to Central as well as State Governments; and
- Simplified compliance procedures and documentation with an emphasis on self certification.

Administrative Set-up

- The administrative set-up for functioning of SEZs is as under:

Board of Approval
↓
Zonal Development Commissioner(s)
↓
Unit Approval Committee(s)
↓
Development Commissioner(s)

- The Board of Approval (BoA) is the apex body and is headed by the Secretary, Department of Commerce, Ministry of Commerce and Industry, Government of India.
- The Unit Approval Committee (UAC) at the Zonal level deals with approval of units in the SEZs and other related issues.
- Each SEZ is headed by a Development Commissioner, who is *ex officio* chairperson of the UAC.
- Once an SEZ has been approved by the BOA and Central Government has notified the area of the SEZ, units are allowed to be set up in that SEZ. All the proposals for setting up of units in the SEZ are approved at the Zonal level by the UAC consisting of Development Commissioner, Customs Authorities and representatives of the State Government.

'Ease of Doing Business in India' initiative-Online Filing Facility for SEZ Proposals

Ministry of Commerce and Industry vide Notification No. D.12/25/2012-SEZ (Pt.) dated June 30, 2015[1] provides for digitization of application/ permissions by SEZ Units/Developers (Phase-II).

The Department of Commerce, Ministry of Commerce and Industry (MoCI), had announced the online filing of SEZ proposals *vide Circular F. No. D.12/13/2008-SEZ*, *dated 21 October 2008*. The following online services were being offered through the SEZ online link on the website http://www.sezindia.nic.in/:

- **Filing of application (Form A) for setting up SEZ.**
- **Filing of other requests, viz, Application for authorised operations, addition of co-developer, application for conversion of in-principle approval to formal approval, application for validity extension of approvals, change in developing entity, change in sector, change in area/location, land details.**
- **Inbuilt e-mail box for each developer/co-developer to enable them to communicate with the Department.**
- **Online status of requests.**

For filing of new applications, a physical copy of the complete application form after due signatures and authentication has to be submitted along with necessary enclosures.

In addition to the various applications digitized *vide* Department's aforesaid circular of 28 October, 2014, as a part of "Ease of Doing Business" initiative of Department of Commerce, the following additional transactions are identified by Department of Commerce as important applications made by SEZ units and Developers to Development Commissioner's office and Department of Commerce for various approvals/ intimations/ reporting.

Accordingly, with effect from 1 July 2015, online submission process for the following transactions has been made part of the SEZ Online System:

For SEZ Developers:

1. **Application for change of sector of SEZ (Form C3)**
2. **Application for addition of land in notified SEZ (Form C4)**
3. **Application for deletion of land in notified SEZ (Form C5)**
4. **Application for De-notification of Notified SEZ (Form C6)**
5. **Application for Form I for CST Exemption**
6. **Application to lease out space for canteen facilities etc. in processing area**
7. **Application for approval of list of materials and Services to carry on authorized operation in SEZ.**
8. **Receipt & examination of the proposal by DC Office for setting up of SEZ, Processing the proposal along with site inspection report to DOC for consideration by Board of Approval (BoA).**

For SEZ Units:

9. **Application for Issuance of Importer Exporter Code.**

10. **Application for Issuance of Registration-Cum-Membership Certificate.**
11. **Application for issuance of Form-I for CST Exemption**

Further, no manual interface is to be allowed with effect from 1 July 2015 w.r.t. applications already identified and conveyed *vide* aforementioned circular of even number dated 28 October 2014 (Phase-I).

Minimum Investment/Net-Worth Criteria for setting up SE

The minimum investment or net-worth of the promoters, all group companies, and flagship companies, should be as under:

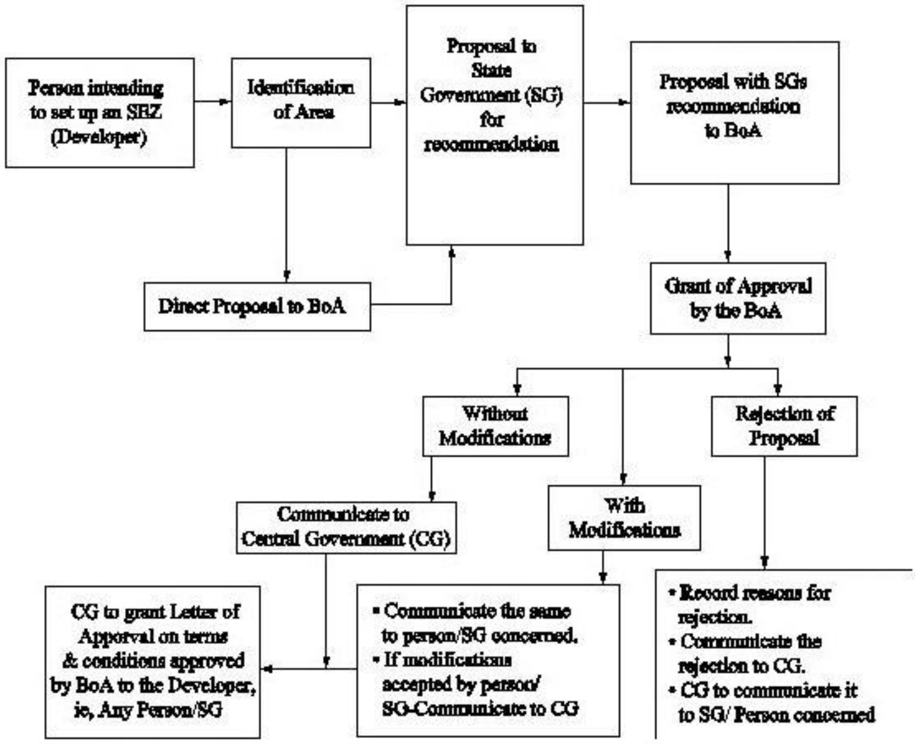
- ***Multi-Product SEZs* - Minimum investment of Rs 1,000 crore (Rs 10 billion) or net-worth of Rs 250 crore (Rs 2.5 billion)**
- ***Sector-specific SEZs* - Minimum investment of Rs 250 crore (Rs 2.5 billion) or net-worth of Rs 50 crore (Rs 0.5 billion)**

Process of setting up of SEZ

Setting up of a Special Economic Zone

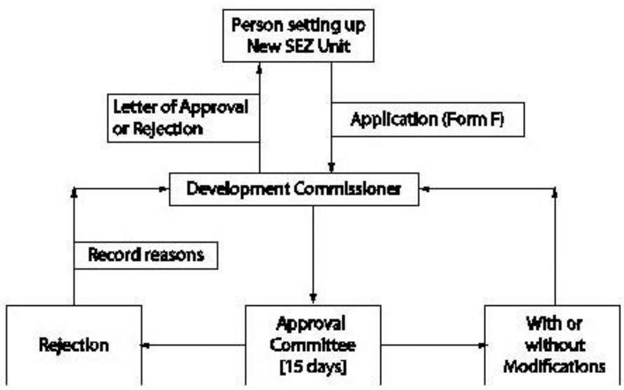
(a)

Mahasamvit International Ltd.



(b)

Mahasamvit International Ltd.



Incentives to the SEZs

SEZs are deemed to be a foreign territory within the country. The SEZs are specifically treated as duty-free enclaves for the purposes of trade operations, duties and tariffs. SEZs enjoy a host of exemptions from income tax, customs duties, excise duties, central sales tax (CST), service tax and state levies.

Major incentives to SEZ developers

The major incentives and facilities available to SEZ Developers include:

(i) *Direct taxes*

- **100% income tax deduction, allowed to the Developer under s 80-IAB of the Income Tax Act for any consecutive 10 years out of the first 15 years from the date of notification of the SEZ.**
- **Exemption from minimum alternate tax (MAT) under s 115JB of the Income-tax Act. However, with effect from the assessment year 2012-2013, MAT at the rate of18.5% has been imposed on SEZ Developers.**
- **Exemption from dividend distribution tax (DDT) under s 115-O of the Income-tax Act to the SEZ Developers. However, with effect from 1 June 2011, DDT has been imposed at the rate of 15% on the dividend distributed by the SEZ Developers.**

(ii) Indirect Taxes

- **Duty-free import/domestic procurement of goods for development, operation and maintenance of SEZs**
- **Exemption from Central Sales Tax (CST)**
- **Exemption from Service Tax**

(iii) FEMA/ FDI/ECB

- **100% Foreign Direct Investment permitted for setting up of SEZ with approval of the BOA.**
- **SEZ developers can avail of ECBs for providing infrastructure facilities within SEZ. For ("infrastructure sector", please refer para I(A)(v)(a) of the RBI Master Circular No. 12/ 2015-16 dated July 1, 2015).**

(iv) Miscellaneous

- **Full freedom in the allocation of space and built-up area to approved SEZ units on commercial basis.**
- **Authorisation to provide utilities and maintenance services, viz, water, electricity, security, restaurants and recreation centers on a commercial basis.**
- **Generation, transmission and distribution of power in SEZ.**

Major incentives to SEZ units

The major incentives and facilities available to SEZ Units include:

(i) Direct taxes

15 years tax holiday in a phased manner, subject to certain conditions. 100% income tax exemption under s 10AA of the Income Tax Act, 1961 for the first 5 years, 50% for

the next 5 years and thereafter 50% of the ploughed back export profits for the next 5 years. Exemption from minimum alternate tax (MAT) under s 115JB of the Income Tax Act was earlier available to the SEZ Units. However, with effect from the assessment year 2012-2013, MAT at the rate 18.5% has been imposed on SEZ units.

(ii) Indirect taxes

- **Duty-free import/procurement from domestic sources for all their requirement of capital goods, raw materials, office equipment, DG sets, etc, for implementation of their project in the SEZ, without any license**
- **Exemption from CST**
- **Exemption/refund from Service Tax**

(iii) FEMA/FDI related

- **100% FDI allowed through automatic route for all manufacturing activities in the Special Economic Zone, except for the following activities:**

    - **Arms and ammunition, explosive and allied items of defence equipment, defence aircraft and warship,**
    - **Automatic substances,**
    - **Narcotics and psychotropic substances and hazardous chemicals,**
    - **Distillation and brewing of alcoholic drinks, and**
    - **Cigarettes/cigars and manufactured tobacco substitutes.**

- **Sectoral norms, as notified by the Government, applies to foreign investment in services. The cases not covered by automatic route to be considered and approved by the BOA.**
- **Units in SEZs are permitted to issue equity shares to non-residents against import of capital goods subject to valuation done by a Committee consisting of Development Commissioner and appropriate Customs officials.**
- **Units in Special Economic Zones (SEZs) are allowed to raise ECB for their own requirement. However, they cannot transfer or on-lend ECB funds to sister concerns or any unit in the Domestic Tariff Area (DTA).**
- **The period of realisation and repatriation of export proceeds shall be nine months from the date of export for SEZ units.2**
- **SEZ unit may open, hold and maintain a Foreign Currency Account with an AD Category – I bank in India subject to conditions stipulated in Regulation 6(A) of Notification No. FEMA 10/2000-RB dated May 3, 2000 and as amended from time to time.**
- **SEZ Units are permitted to undertake job work abroad and export goods from that country itself subject to the conditions that:**

    - **Processing/manufacturing charges are suitably loaded in the export price and are borne by the ultimate buyer.**

- ❖ **The exporter has made satisfactory arrangements for realization of full export proceeds subject to the usual EDF procedure.**

AD Category – I banks may permit units in DTAs to purchase foreign exchange for making payment for goods supplied to them by units in SEZs.

- **Export of Services by Special Economic Zones (SEZs) to DTA Unit: Authorised Dealer Banks are permitted to sell foreign exchange to a unit in the DTA for making payment in foreign exchange to a unit in the SEZ for the services rendered by it (ie SEZ Unit) to a DTA Unit.**
- **"Netting off" of export receivables against import payments by SEZ Units: AD Category-I banks may allow requests received from exporters for "netting off" of export receivables against import payments for SEZ Units subject to the condition that the "netting off" of export receivables against import payments is in respect of the same Indian entity and the overseas buyer/supplier (bilateral netting) and the netting may be done as on the date of balance sheet of the unit in SEZ.**
- **Enhanced limit of Rs 24,000,000 (Indian Rupees Twenty-four million) per annum allowed as managerial remuneration under the Companies Act, 2013.**

Obligations of SEZ Units

- **To achieve positive Net Foreign Exchange (NFE), in accordance with the formula provided under r 53 of SEZ Rules, 2006.**
- **To execute Bond-cum-Legal Undertaking and submit to the Development Commissioner in the prescribed Form-H under SEZ Rules, 2006.**
- **To submit Annual Performance Report to the Development Commissioner, in the prescribed Form-I under SEZ Rules, 2006.**
- **To abide by local laws, rules, regulations or bye-laws with regard to the area planning, sewerage disposal, pollution control and the like.**
- **To comply with Industrial and Labour Laws, as are applicable locally. It may be noted that the labour laws will apply to all the units inside the SEZs. However, the respective State Government may declare units within the SEZ as public utilities and may delegate the powers of Labour Commissioner to the Development Commissioner of the SEZs.**

Conclusion

The SEZ scheme has generated tremendous response amongst investors, both in India and abroad. As on July 9, 2015, there were 416 SEZs which have been formally approved, out of which 330 SEZs have been notified. Further, out of 330 notified SEZs, 202 SEZs are were operational as on March 31, 2015. Nearly 3,900 units/ companies have set up their operations in these operational SEZs by making cumulative investment of Rs 2,88,477 crore. During the financial year 2013-2014, the exports from the operational SEZs stood at Rs 4,94,077 crore, which constituted nearly 30% of India's total exports.

The facts suggest that the SEZ scheme has generated a large flow of foreign and domestic investment in the development of SEZs.

Export-oriented units

The export-oriented unit (EOU) Scheme was introduced in 1980 and is covered under Chapter 6 of the Foreign Trade Policy. Establishment of units and their performance is

monitored by the jurisdictional Development Commissioner under the Foreign Trade Policy provisions.

The purpose of the scheme was to boost exports by creating additional production capacity. Under this scheme, units undertaking to export their entire production of goods are allowed to be set up as an EOU. These units may be engaged in manufacturing, services, development of software, trading, repairing, remaking, reconditioning, re-engineering including making of gold/silver/platinum jewellery and articles thereof, agriculture including agro-processing, aquaculture, animal husbandry, bio-technology, floriculture, horticulture, pisci-culture, viticulture, poultry, sericulture and granites. EOUs can export all products except prohibited items of exports in ITC (HS) without payment of duty. However, permissions required for import under other laws shall be applicable.

A minimum investment of Rs 10 million in plant and machinery is required before commencement of commercial production in an EOU. Applications for setting up of units under EOU scheme, other than proposals for setting up of units in the services sector (except R&D, software and IT-enabled services or any other service activity, as may be delegated by the BOA), is approved or rejected by the Unit Approval Committee.

EOUs may import, without payment of duty, all types of goods, including capital goods, as defined in the Policy, required by it for its activities or in connection therewith, provided they are not prohibited items of imports in the ITC (HS). The units are also permitted to import goods required for the approved activity, including capital goods, free of cost or on loan from clients.

EOU units are exempted from central excise duty in procurement of goods manufactured in India, procured from DTA and from customs duty on import of capital goods, raw materials, consumables, spares, etc. Such units are further entitled to reimbursement of CST paid on purchases.

Supplies from Domestic Tariff Area (DTA) to EOUs are considered deemed exports and Indian suppliers can claim benefits of deemed exports. In addition, foreign investment up to 100% is allowed, subject to sectoral norms.

Software technology parks

The Software Technology Parks (STP) Scheme is covered under Chapter 6 of the Foreign Trade Policy. The STP Scheme is a 100% export-oriented scheme for the development and export of computer software and services using data communication links or in the form of physical media including the export of professional services. The major attraction of this scheme is a single-point contact service to the STP units.

For implementing the STP scheme, the Ministry of Communications and Information Technology formed the Software Technology Park of India (STPI) in 1991. STPI is an autonomous body for the management and regulation of IT Parks or STPs in India. The main aim of STPI is to develop India into an IT giant and one of the leading generators and exporters of IT and software within the coming few years. STP scheme approvals are given under a single-window clearance mechanism.

An STP unit can be located in areas designated as STP complexes or at any place where EOUs can be set up. Such a unit is a duty-free custom bonded area and is entitled to refund of CST paid on purchases. STP units are allowed to import all types of goods (except prohibited goods, namely capital goods, raw materials, consumables, office equipment, etc) for the purpose of manufacture/production of export products and export thereof, without payment of duties. Units can export software through data communication channel or through physical transport.

For the STP units, the period of realisation and repatriation of export proceeds shall be nine months from the date of export.

Further, foreign investment up to 100% is allowed, subject to sectoral norms.

Electronics hardware technology parks

The Electronics Hardware Technology Parks (EHTPs) Scheme is covered under Chapter 6 of the Foreign Trade Policy. The EHTP Scheme is administered by the Ministry of Communications and Information Technology. Under the EHTP Scheme, an EHTP can be set up by the Central Government, State Government, public or private sector undertaking or any combination of them.

An EHTP unit can be located in areas designated as EHTP complex or at any place where EOUs can be set up. Such a unit is a duty-free custom-bonded area and is entitled to refund of CST paid on purchases. EHTP units are allowed to import all types of goods (except prohibited goods, namely capital goods, raw materials, consumables, office equipment, etc) for the purpose of manufacture/production of export products and export thereof, without payment of duty. Units can export software through data communication channel or through physical transport.

For EHTP units, the period of realisation and repatriation of export proceeds shall be nine months from the date of export. Further, foreign investment up to 100% is allowed, subject to sectoral norms.

Biotechnology parks

The Biotechnology Parks (BTPs) Scheme is covered under Chapter 6 of the Foreign Trade Policy. The BTP units can export all products, except prohibited items of exports in ITC (HS) without payment of duty. Units may import, without payment of duty, all types of goods, including capital goods, as defined in the Foreign Trade Policy, required by it for its activities or in connection therewith, provided they are not prohibited items of imports in the ITC (HS).

BTP units are entitled to refund of CST paid on purchases and exempted from payment of Central Excise Duty on goods manufactured in India procured from DTA.

For BTP units, the period of realisation and repatriation of export proceeds shall be nine months from the date of export.

Export Oriented Units (EOU) Scheme

Export-Oriented-Unit-(EOU)

The Export Oriented Units (EOU) scheme was introduced to boost exports, increase foreign earnings and created employment in India. The EOU scheme is complementary to the scheme for Free Trade Zone, Export Processing Zone. Units that are undertaking to export their entire production of goods are allowed to set up as an EOU. In this article, we look at the Export Oriented Units scheme in detail.

Know more about the applicability of GST on Export Oriented Units.

Export Oriented Units

Export-oriented units are units undertaking to export their entire production of goods. EOUs can engage in manufacturing, services, development of software, repair, remaking, reconditioning, re-engineering including making of gold/silver/platinum jewellery and articles. Further, units involved in agriculture, agro-processing, aquaculture, animal husbandry, biotechnology, floriculture, horticulture, pisciculture, viticulture, poultry, sericulture and granites can also obtain the status of EOU.

Benefits of Export Oriented Units

The Export Oriented Units enjoys the below following benefits

EOUs has a permit to procure raw material or capital goods duty-free, either through import or through domestic sources;

EOUs are eligible for reimbursement of GST;

EOUs are eligible for reimbursement of duty paid on fuels procured from domestic oil companies;

EOUs are eligible for claiming input tax credit on the goods and services and refund thereof;

Fast track clearance facilities;

Exemption from industrial licensing for the manufacture of items reserved for SSI sector.

Eligibility Criteria for EOU

For the status of EOU, the project must have a minimum investment of Rs.1 crore in plant and machinery. This condition does not apply for software technology parts,

electronics hardware technology parks and biotechnology parks. Further, EOU involved in handicrafts, agriculture, animal husbandry, information technology, services, brass hardware and handmade jewellery does not have any minimum investment criteria.

Obtaining EOU Status

To obtain EOU status, application for setting up of unit under EOU scheme must be made to the Board of Approval. In the case of approving, they provide validity of Letter of Permission for setting up EOU. The Letter of Permission will have an initial validity of 2 years to enable the unit to construct the plant and install the machinery. Further, a person can obtain an extension for a period of upto one year. On starting operation, in a period of 5 years, the EOU will have to achieve positive net foreign exchange earning cumulatively.

Application and Approval

Applications for setting up of units under the EOU scheme, other than proposals for setting up of units in the services sector (except for R&D, software and IT-enabled services, or any other service activity delegated by BoA), shall be approved or rejected by the Units Approval Committee within 15 days as per criteria.

Exit from EOU Scheme

With the approval of DC, an EOU may opt-out of the scheme. These exits shall subject to a penalty of Excise and Customs duties and industrial policy in force. In case the unit has not achieved obligations, it shall be taxable to a penalty at the time of exit.

In case of gems and jewellery unit ceasing its operation, the gold and other precious metals, gems, alloys and other materials available for the manufacture of jewellery, is given to an agency specified by DoC, at a price to be determined by that agency.

EPZs, EOUs, TPs and SEZs Introduction: -

The Special Economic Zones (SEZ) programme is augmented by the Export Oriented Units(EOUs) programme, which was initiated in the beginning of 1981. The same mode of production is applied, but different sites can be chosen for production depending on a number of factors, including the accessibility of raw materials, ports for export, hinterland

infrastructure, technological know-how, the existence of an industrial base, and the necessity of a larger tract of land for the project. The distinction between an Export-Oriented Unit and a Special Economic Zone is the primary topic of discussion throughout this article. In addition to this, the article will provide an overview of information regarding the Meaning of the Export Oriented Unit Scheme, the Advantages of EOU, the Meaning of SEZ (Special Economic Zone), and the Benefits of SEZ. What is EPZ :-The term "Export Processing Zone," more commonly abbreviated as "EPZ," refers to a unique economic zone in which the export and import of products are permitted without any restrictions. EPZ provides export-import oriented entities with a wide variety of facilities and incentives with the goal of increasing exports from the country. 1980 was the year that the Export Processing Zones Authority Regulation was passed, which led to the establishment of the organisation. History of EPZs :-The Export Processing Zone, also known as an EPZ, is a special economic zone that has been established by the government of a country in order to encourage businesses that are focused on exporting. The acronym EPZ stands for "Export Processing Zone" in its full version. In 1959, the government of Ireland established the first Export Processing Zone (EPZ) in Shannon, Ireland. Export promotion was the impetus behind the establishment of the senones, which came about as a reaction to the requirements of businesses for specialised economic conditions and infrastructure.In the years that followed, Economic Free Zones were established in a number of other countries, including the United States of America and Japan. In 1965, the Export Processing Zone of Kandla in the state of Gujarat became the first of its kind to be established in Asia.

It has been argued that economic free zones have a detrimental impact on the surrounding populations wherever they are established. The argument that the zones give preferential treatment to foreign businesses, which results in a loss of jobs for local employees, is one that is put forward by those who are opposed to them. EPZs are still an essential component of the economy of the entire world, and it is very possible that their significance will continue to expand in the years to come. It is important for companies that are interested in making use of the advantages provided by EPZs to be familiar with the complete meaning of EPZ as well as the various advantages provided by EPZs. The management system of EPZ :-The EPZ utilises a management method that is entirely distinct from that used throughout the rest of the country. In an Export Processing Zone, businesses are developed specifically for the function of exporting their products. In order to encourage exports, these businesses are granted specialised tax holidays and other forms of financial assistance. In another effort on the part of the government to entice foreign investment, export processing zones have been established. The majority of the time, export processing zones will be situated in regions that are home to a dense population of export-oriented units. The Export Processing Zone Authority is the government organisation in charge of overseeing the operation of export processing zones. Export Oriented Units is what "EOU" stands for in its full version. The programme was established in 1981 with the objective of boosting India's exports in order to increase the country's earnings in foreign currency and to generate more jobs. This scheme works well in conjunction with other schemes already in place in India, such as the Free Trade Zone (FTZ)and the Export Processing Zone (EPZ). EOU, as well as Electronics Hardware Technology Parks (EHTPs), Software Technology Parks (STPs), and Bio-Technology Parks, are all subject to the regulations outlined in Chapter 6 of the Foreign Trade Policy. These regulations also apply to the procedures outlined in that chapter (BTPs). EOU, STP, EHTP, and BTP are all collectively referred to as the EOU scheme in general parlance. Unless they offer a portion of their goods to a Domestic Tariff Area, units that are registered under the EOU scheme are obligated to export one hundred

percent of their products (DTA).1. Objectives of the EOU scheme: -The EOU plan creates a natural environment that is beneficial to the groups participating init. They are eligible for a variety of exemptions and preferences in matters of taxation and regulatory conformance, which makes it simpler for them to conduct business. The nation's economic situation can be improved as a result of the increase in the amount of foreign currency that is brought in as a result of the nation's exports. The programme intends to generate additional employment opportunities within the export sector, and one of the ways it plans to do this is by providing incentives to businesses with an export focus. It was also anticipated that EOUs would make improvements to the supply chain, beginning with the

acquisition of raw materials and continuing with the delivery of completed products to theDTA. Because exporting also entails gradually improving one's product's quality as well as their level of service, it was anticipated that the EOU programme would motivated chnological innovation and the growth of one's skill set within the country.2. Benefits of Export Oriented Units :-They are exempt from paying any duty on the acquisition of raw materials, capital products, or both, whether they obtain these items from domestic sources or import them. They can claim reimbursement on GST amounts they pay. In the event that they have already paid duty on the purchase of fuel from domestic oil businesses, they are eligible to receive a refund for that duty.EOUs are permitted to make a claim for a tax credit on the purchase of products and services. EOUs are afforded clearance capabilities on a priority basis. EOUs are exempt from the requirement that they acquire the industrial authorization that is necessary for the production of goods that are set aside for the SSI sector.3. Important facts to remember while setting up an EOU :-Putting up an EOU An application to establish an EOU must first be submitted to the Board of Approval. If the application is accepted by the Board of Approval, a Letter of Permission to establish the EOU will be issued. This letter grants you an extension of one more year, bringing the total amount of time you have to construct the factory and install the machinery to a total of two years. The EOU is required to have positive foreign exchange within five years of the start of activities, once operations have begun. Minimal Investment It is required that an expenditure of at least one crore (minimum) be made into plant and machinery in order to obtain the status of an EOU. In the case of software technology parks, electronics hardware technology parks, and biotechnology parks, this criterion is not appropriate. In addition, there is no requirement for a minimum expenditure in the case of EOUs that are engaged in activities such as agriculture, animal husbandry, handicrafts, information technology, brass hardware, services, and handmade jewellery. Location Unless it is established in an industrial area or engages in a product or service that does not contribute to pollution, the location of an EOU ought to be at least 25 kilometres away from the typical limits of an urban arear eou formation rates in various industries In the beginning, most EOUs focused on businesses such as textiles, food processing, electronics, chemicals, plastics, and minerals as their primary areas of concentration. But over the course of the years, EOUs have been established for a variety of different industries, including manufacturing, engineering, precious metals, agribusiness and allied sectors, services, software, trading, etc.

Special Authorization For industries such as weaponry and defence equipment, atomic, narcotics, and psychotropic substances, as well as certain alcoholic and tobacco-related products, the establishment of an EOU requires a special licence,

which is obtained by submitting an application to the Development Commissioner. Nurturing Period EOUs are granted licences that allow them to manufacture products and export them within a five-year bonded period. This time frame may be extended by the Development Commissioner for an additional five years, and an additional five years may be added if the EOU makes a formal proposal to the Commissioner or Chief Commissioner ofCustoms.4. Difference between EOU and SEZ :-There are distinctions between EOUs and SEZs, despite the fact that both were established with the intention of increasing exports. If it satisfies the requirements of the programme, anEOU can be established virtually anywhere in the country. On the other hand, a Special Economic Zone (SEZ) is a specifically demarcated enclave that is regarded as falling outside the jurisdiction of Customs and is therefore considered to be a foreign territory. Therefore, any sale that is made from within a SEZ to a DTA is considered to be an export, while anysale that is made by an EOU to a DTA is considered to be an export. The selling of goods from SEZs to DTAs occurs more frequently than the sale of goods from EOUs to DTAs.There is substantial control over the physical movement of goods to and from SEZs due to the fact that they are plainly demarcated areas; however, the same cannot be said for EOUs because they are not subject to the same restrictions. An establishment located in a Special Economic Zone (SEZ) is exempt from paying tax, whereas an enterprise operating within its own borders (EOU) is required to pay tax but is then eligible for a reimbursement of thatpayment.5. GST in Export Oriented Units :-When supplying goods to an EOU, a provider is required to charge GST on those goods. As for the EOU, it has two options: it can either make a claim for a refund of the GST or request for an input tax credit on the GST it paid when it was providing supplies to the DTA. On admissible sales made to DTAs, EOUs are obligated to pay GST, unless the sale in questionis one of zero-rated supplies, in which case the EOU is exempt from paying GST on the transaction. Because a transaction of this kind is regarded as a regular sale for the purposes of the GST legislation, it is important to note that GST is applicable even in situations where goods are being sold from one EOU to another. It is important to note that an EOU does not have to pay the principal customs duty in the event of imports.6. Impact of EOUs on Exports:-In the first two decades of the EOU scheme's existence, before the introduction of the SEZ scheme, its beneficial impact was felt to a greater extent than at any other time. After a further decade had passed, its proportion of total exports had decreased, changing into a

negative value. This occurred in the 2011–2012 fiscal year, around the time when the tax advantages provided by the Income Tax Act were discontinued. EOUs provided exporters with the flexibility to establish an export business in any location of their choosing, in contrast to Free Trade Zones and Export Processing Zones, both of which imposed stringent locational requirements on export businesses. In addition to this, it has provided exporters with a diverse selection of industrial fields from which to select when establishing export-oriented businesses.

Conclusion: -There are distinctions to be made between SEZs and EOUs despite the fact that both were established with the intention of boosting exports. An EOU can be established in any state or territory across the country. On the other hand, a Special Economic Zone (SEZ) is a specifically designated region that is regarded as falling outside of the purview of Customs. Because of this, any sale that is made from within a SEZ to a DTA (Domestic Tariff Area) is considered to be an export; on the other hand, any sale that is made by an EOU to a DTA is considered to be an export. The frequency of sales from SEZs to DTAs is significantly higher than that of sales from EOUs to DTAs.The Export Processing Zone is a significant component of the

economy of the entire world and provides numerous possibilities for the success of local businesses. An EPZ might be a good choice for you if you want to launch a new company or increase the size of the one you already have. We sincerely hope that this article has provided you with the answers to all of the questions you had regarding Export Processing Zones (EPZs) as well as a greater understanding of what EPZs are and how they function

Our special services will be EOU AND SEZ establishment for clients and also we will establish our own EOU and SEZ projects.

THANK YOU

MAHASAMVIT GROUP