Baba Kalyani led committee

June 24, 2019

Baba Kalyani led committee *to study the existing SEZ policy of India*

- In June 2018, the committee was tasked **to make special economic zone (SEZ) policy compatible with World Trade Organisation (WTO) rules** after the US challenged India's export subsidy programme at the multilateral trade body.
- India's SEZ Policy was implemented from April 1, 2000. Subsequently, the Special Economic Zones Act, 2005 was enacted.
- The commerce ministry has been consistently lobbying with the finance ministry to exempt units in the SEZs from the minimum alternate tax (MAT), imposed on them in 2011.

Key objectives of the committee included:

- **To evaluate the SEZ policy** and make it WTO compatible.
- **To suggest measures** for maximising utilisation of vacant land in SEZs.
- **To suggest changes in the SEZ policy** based on international experience.
- **To merge the SEZ policy with other Government schemes** such as coastal economic zones, Delhi-Mumbai industrial corridor, national industrial manufacturing zones and food and textiles parks.

Special Economic Zones in India

- They are certain localities **which offer tax and other incentives to their resident businesses.** Until 2000, India did not have SEZs, and instead had a number of export processing zones (EPZs), which, although similar in structure to the modern SEZ, failed to attract many firms to India.

- India was one of the first in Asia to recognize the effectiveness of the Export Processing Zone (EPZ) model in promoting exports, with Asia's first EPZ set up in Kandla in 1965.
- The government, accordingly, introduced the SEZ. Structured closely on the already successful model of China, they are designed to help stimulate both foreign and domestic investment, boost India's exports, and create new employment opportunities.
- India's Special Economic Zone Act, 2005 further amended the country's foreign investment policy and converted its EPZs to SEZs, with notable zones including Santa Cruz (Maharashtra state), Cochin (Kerala state), Kandla and Surat (Gujarat state), and more.
- The SEZ Rules, 2006 lay down the complete procedure to develop a proposed SEZ or establish a unit in an SEZ.

India's SEZ Policy

- The main objectives of the Special Economic Zones Act, 2005 are:
    - generation of additional **economic activity**
    - **promotion of exports** of goods and services
    - **promotion of investment** from domestic and foreign sources
    - **creation of employment opportunities**
    - **development of infrastructure facilities**
- The **SEZ Rules** 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.

Advantages/Incentives for setting up a Unit in an Indian SEZ

- Duty free import and domestic procurement of goods for the development, operation, and maintenance of the company.
- 100 percent income tax exemption on export income for first five years, 50 percent for five years thereafter, and 50 percent of the export profit reinvested in the business for the next five years. These incentives will be withdrawn from April 1, 2020 (Sunset Clause), pending an extension, which is currently under discussion.
- Exemption from the Goods and Services Tax (GST) and levies imposed by state government. Supplies to SEZs are zero rated under the IGST Act, 2017, meaning they are not taxed.
- External commercial borrowing (ECB) is allowed up to US$500 million a year without restriction. For developers of an SEZ, the ECB channel may be availed after receiving government approval, and only for providing infrastructure facilities in the zone. However, ECB will not be permissible for development of integrated township and commercial real estate within the SEZ.
- Permission to manufacture products directly, as long as the goods companies are producing fall within a sector which allows 100% FDI.