

The following Act of Parliament received the assent of the President on the 23rd June, 2005, and it hereby published for general information: -

The Special Economic Zones Act, 2005

Act No. 28 of 2005

[23rd June 2005]

.....
An Act to provide for the establishment, development and management of the Special Economic Zones for the promotion of exports and for matters connected therewith or incidental thereto.

BE it enacted by Parliament in the Fifty-sixth year of the Republic of India as follows: -

THE SECOND SCHEDULE

(See section 27)

MODIFICATIONS TO THE INCOME-TAX ACT, 1961.

(43 of 1961)

(a) in section 10,-

(A) in clause (15), after sub-clause (vii), the following clause shall be inserted at the end, namely: -

"(viii) any income by way of interest received by a non-resident or a person who is not ordinarily resident, in India on a deposit made on or after the 1st day of April, 2005 in an Offshore Banking Unit referred to in clause (u) of section 2 of the Special Economic Zones Act, 2005;"

(B) in clause (23G), after the words, brackets, figures and letters "sub-section (4) of section 80-IA", the words bracket, figures and letters "or sub -section (3) of section 80- IAB." shall be inserted;

[xxx]³

(b) in section 10A, after sub-section (7A), the following subsection shall be inserted, namely: -

"(7B) The provisions of this section shall not apply to any undertaking, being a Unit referred to in clause (zc) of section 2 of the Special Economic Zones Act, 2005, which has begun or begins to manufacture or produce articles or things or computer software during the previous year relevant to the assessment year commencing on or after the 1st day of April, 2006 in any Special Economic Zone.";

³ Omitted vide Finance Act, 2011, w.e.f. 1.6.2011

Special provisions in respect of newly established Units in Special Economic Zones

(c) after section 10A, the following section shall be inserted, namely: -

10AA. (1) Subject to the provisions of this section, in computing the total income of an assessee, being an entrepreneur as referred to in clause (j) of section (2) of the Special Economic Zones Act, 2005, from his Unit, who begins to manufacture or produce articles or things or provide any services during the previous year relevant to any assessment year commencing on or after the 1st day of April, 2006 ⁴(but before the first day of April, 2021), a deduction of -

- (i) hundred per cent. of profits and gains derived from the export, of such articles or things or from services for a period of five consecutive assessment years beginning with the assessment year relevant to the previous year in which the Unit begins to manufacture or produce such articles or things or provide services, as the case may be, and fifty per cent. of such profits and gains for further five assessment years and thereafter;
- (ii) for the next five consecutive assessment years, so much of the amount not exceeding fifty per cent. of the profit as is debited to the profit and loss account of the previous year in respect of which the deduction is to be allowed and credited to a reserve account (to be called the "Special Economic Zone Re-investment Reserve Account") to be created and utilised for the purposes of the business of the assessee in the manner laid down in sub-section (2).

(2) The deduction under clause (ii) of sub-section (1) shall be allowed only if the following conditions are fulfilled, namely:-

- (a) the amount credited to the Special Economic Zone Reinvestment Reserve Account is to be utilised-
 - (i) for the purposes of acquiring machinery or plant which is first put to use before the expiry of a period of three years following the previous year in which the reserve was created; and
 - (ii) until the acquisition of the machinery or plant as aforesaid, for the purposes of the business of the undertaking other than for distribution by way of dividends or profits or for remittance outside India as profits or for the creation of any asset outside India;
- (b) the particulars, as may be specified by the Central Board of Direct Taxes in this behalf, under clause (b) of subsection (1B) of section 10A have been furnished by the assessee in respect of machinery or plant along with the return of income for the assessment year relevant to the previous year in which such plant or machinery was first put to use.

⁴ Sunset clause introduced by Finance Act 2016 for restricting exemption for unit operational upto 31st March 2020 and further Extended to March 21, 2021 if Letter of Approval was received on or before March 31, 2020 as per the amendment through The Taxation And Other Laws (relaxation and amendment of certain provisions) Bill, 2020

(3) Where any amount credited to the Special Economic Zone Re-investment Reserve Account under clause (ii) of subsection (1),-

(a) has been utilised for any purpose other than those referred to in sub-section (2), the amount so utilised; or

(b) has not been utilised before the expiry of the period specified in sub-clause (i) of clause (a) of sub-section (2), the amount not so utilised, shall be deemed to be the profits, -

(i) in a case referred to in clause (a), in the year in which the amount was so utilised; or

(ii) in a case referred to in clause (b), in the year immediately following the period of three years specified in sub-clause (i) of clause (a) of sub-section (2), and shall be charged to tax accordingly:

Provided that where in computing the total income of the Unit for any assessment year, its profits and gains had not been included by application of the provisions of sub-section (7B) of section 10A, the undertaking being the Unit shall be entitled to deduction referred to in this sub-section only for the unexpired period of ten consecutive assessment years and thereafter it shall be eligible for deduction from income as provided in clause (ii) of sub-section (1):

Explanation.- For the removal of doubts, it is hereby declared that an undertaking being the Unit, which had already availed before the commencement of the Special Economic Zone Act, 2005, the deductions referred to in section 10A for ten consecutive assessment years, such Unit shall not be eligible for deduction from income under this section.

Provided further that where a Unit initially located in any free trade zone or export processing zone is subsequently located in a Special Economic Zone by reason of conversion of such free trade zone or export processing zone into a Special Economic Zone, the period of ten consecutive assessment years referred to above shall be reckoned from the assessment year relevant to the previous year in which the Unit began to manufacture, or produce or process such articles or things or services in such free trade zone or export processing zone:

Provided also that where a Unit initially located in any free trade zone or export processing zone is subsequently located in a Special Economic Zone by reason of conversion of such free trade zone or export processing zone into a Special Economic Zone and has completed the period of ten consecutive assessment years referred to above, it shall not be eligible for deduction from income as provided in clause (ii) of sub-section (1) with effect from the 1st day of April, 2006.

4) This section applies to any undertaking being the Unit, which has begun or begins to manufacture or produce articles or things or services during the previous year relevant to the assessment year commencing on or after the 1st day of April, 2006, in any Special Economic Zone;

(5) Where any undertaking being the Unit which is entitled to the deduction under this section is transferred, before the expiry of the period specified in this section, to another undertaking, being the Unit in a scheme of amalgamation or demerger,-

- (a) no deduction shall be admissible under this section to the amalgamating or the demerged Unit, being the company for the previous year in which the amalgamation or the demerger takes place; and
- (b) the provisions of this section shall, as they would have applied to the amalgamating or the demerged Unit being the company as if the amalgamation or demerger had not taken place.

(6) Loss referred to in sub-section (1) of section 72 or subsection (1) or sub-section (3) of section 74, in so far as such loss relates to the business of the undertaking, being the Unit shall be allowed to be carried forward or set off.

(7) For the purposes of sub-section (1), the profits derived from the export of articles or things or services (including computer software) shall be the amount which bears to the profits of the business of the undertaking, being the Unit, the same proportion as the export turnover in respect of such articles or things or services bears to the total turnover of the business carried on by the assessee.

(8) The provisions of sub-sections (5) and (6) of section 10A shall apply to the articles or things or services referred to in sub-section (1) as if -

- (a) for the figures, letters and word “1st April, 2001”, the figures, letters and word “1st April, 2006” had been substituted;
- (b) for the word “undertaking”, the words “undertaking, being the Unit” had been substituted.

(9) The provisions of sub-section (8) and sub-section (10) of section 80-IA shall, so far as may be, apply in relation to the undertaking referred to in this section as they apply for the purposes of the undertaking referred to in section 80-IA.

Explanation 1.- For the purposes of this section,-

- (i) “**export turnover**” means the consideration in respect of export by the undertaking, being the Unit of articles or things or services received in, or brought into, India by the assessee but does not include freight, telecommunication charges or insurance attributable to the delivery of the articles or things outside India or expenses, if any, incurred in foreign exchange in rendering of services (including computer software) outside India;
- (ii) “**export**” in relation to the Special Economic Zones means taking goods or providing services out of India from a Special Economic Zone by land, sea, air, or by any other mode whether physical or otherwise;
- (iii) “**manufacture**” shall have the same meaning as assigned to it in clause (r) of section 2 of the Special Economic Zones Act, 2005;
- (iv) “**relevant assessment year**” means any assessment year falling within a period of fifteen consecutive assessment years referred to in this section;
- (v) “**Special Economic Zone**” and “Unit” shall have the same meanings as assigned to them under clause (za) and (zc) of section 2 of the Special Economic Zones Act, 2005.

Explanation 2. - For the removal of doubts, it is hereby declared that the profits and gains derived from on site development of computer software (including services for development of software) outside India shall be deemed to be the profits and gains derived from the export of computer software outside India;

(d) after section 54G, the following section shall be inserted, namely:-

Exemption of capital gains on transfer of assets in cases of shifting of industrial undertaking from urban area to any Special Economic Zone.

"54GA. (1) Notwithstanding anything contained in section 54G, where the capital gain arises from the transfer of a capital asset, being machinery or plant or building or land or any rights in building or land used for the purposes of the business of an industrial undertaking situate in an urban area, effected in the course of, or in consequence of the shifting of such industrial undertaking to any Special Economic Zone, whether developed in any urban area or any other area and the assessee has within a period of one year before or three years after the date on which the transfer took place, -

- (a) purchased machinery or plant for the purposes of business of the industrial undertaking in the Special Economic Zone to which the said undertaking is shifted;
- (b) acquired building or land or constructed building for the purposes of his business in the Special Economic Zone;
- (c) shifted the original asset and transferred the establishment of such undertaking to the Special Economic Zone; and
- (d) incurred expenses on such other purposes as may be specified in a scheme framed by the Central Government for the purposes of this section, then, instead of the capital gain being charged to income-tax as income of the previous year in which the transfer took place, it shall, subject to the provisions of sub-section (2), be dealt with in accordance with the following provisions of this section, that is to say, -
 - (i) if the amount of the capital gain is greater than the cost and expenses incurred in relation to all or any of the purposes mentioned in clauses (a) to (d) (such cost and expenses being hereafter in this section referred to as the new asset), the difference between the amount of the capital gain and the cost of the new asset shall be charged under section 45 as the income of the previous year; and for the purpose of computing in respect of the new asset any capital gain arising from its transfer within a period of three years of its being purchased, acquired, constructed or transferred, as the case may be, the cost shall be nil; or
 - (ii) if the amount of the capital gain is equal to, or less than, the cost of the new asset, the capital gain shall not be charged under section 45; and for the purpose of computing in respect of the new asset any capital gain arising from its transfer within a period of three years of its being purchased, acquired, constructed or transferred, as the case may be, the cost shall be reduced by the amount of the capital gain.

Explanation.- In this sub-section,-

- (a) “Special Economic Zone” shall have the meaning assigned to it in clause (za) of the Special Economic Zones Act, 2005;
- (b) “urban area” means any such area within the limits of a municipal corporation or municipality as the Central Government may, having regard to the population, concentration of industries, need for proper planning of the area and other relevant factors, by general or special order, declare to be an urban area for the purposes of this sub-section.

(2) The amount of capital gain which is not appropriated by the assessee towards the cost and expenses incurred in relation to all or any of the purposes mentioned in clauses (a) to (d) of sub-section (1) within one year before the date on which the transfer of the original asset took place, or which is not utilised by him for all or any of the purposes aforesaid before the date of furnishing the return of income under section 139, shall be deposited by him before furnishing such return [such deposit being made in any case not later than the due date applicable in the case of the assessee for furnishing the return of income under sub-section (1) of section 139] in an account in any such bank or institution as may be specified in, and utilised in accordance with, any scheme which the Central Government may, by notification, frame in this behalf and such return shall be accompanied by proof of such deposit; and, for the purposes of sub-section (1), the amount, if any, already utilised by the assessee for all or any of the aforesaid purposes together with the amount so deposited shall be deemed to be the cost of the new asset:

Provided that if the amount deposited under this subsection is not utilised wholly or partly for all or any of the purposes mentioned in clauses (a) to (d) of sub-section (1) within the period specified in that sub-section, then, - (i) the amount not so utilised shall be charged under section 45 as the income of the previous year in which the period of three years from the date of the transfer of the original asset expires; and

- (ii) the assessee shall be entitled to withdraw such amount in accordance with the scheme aforesaid.”;
- (e) in section 80-IA, after sub-section (12), the following section shall be inserted, namely: -
“(13) nothing contained in this section shall apply to any Special Economic Zones notified on or after the 1st day of April, 2005 in accordance with the scheme referred to in subclause (iii) of clause (c) of sub-section (4)”.

Deductions in respect of profits and gains by an undertaking or enterprise engaged in development of Special Economic Zone

“80-I AB. (1) Where the gross total income of an assessee, respect of profits and gains by an undertaking or enterprise engaged in development of Special Economic Zone being a Developer, includes any profits and gains derived by an undertaking or an enterprise from any business of developing a Special Economic Zone, notified on or after the 1st day of

April, 2005 under the Special Economic Zone Act, 2005, there shall, in accordance with and subject to the provisions of this section, be allowed, in computing the total income of the assessee, a deduction of an amount equal to one hundred per cent. of the profits and gains derived from such business for ten consecutive assessment years.

⁵[Provided that the provisions of this section shall not apply to an assessee, being a developer, where the development of Special Economic Zone begins on or after the 1st day of April, 2017.]

(2) The deduction specified in sub-section (1) may, at the option of the assessee, be claimed by him for any ten consecutive assessment years out of fifteen years beginning from the year in which a Special Economic Zone has been notified by the Central Government:

Provided that where in computing the total income of any undertaking, being a Developer for any assessment year, its profits and gains had not been included by application of the provisions of sub-section (13) of section 80-1A, the undertaking being the Developer shall be entitled to deduction referred to in this section only for the unexpired period of ten consecutive assessment years and thereafter it shall be eligible for deduction from income as provided in sub-section (1) or sub-section (2) as the case may be:

Provided further that in a case where an undertaking, being a Developer who develops a Special Economic Zone on or after the 1st day of April, 2005 and transfers the operation and maintenance of such Special Economic Zone to another Developer (hereafter in this section referred to as the transferee Developer), the deduction under sub-section (1) shall be allowed to such transferee Developer for the remaining period in the ten consecutive assessment years as if the operation and maintenance were not so transferred to the transferee Developer.

(3) The provisions of sub-sections (5) and sub-sections (7) to (12) of section 80-IA shall apply to the Special Economic Zones for the purpose of allowing deductions under sub-section (1).

Explanation. - For the purposes of this section, "Developer" and "Special Economic Zone" shall have the same meanings respectively as assigned to them in clauses (g) and (za) of section 2 of the Special Economic Zones Act, 2005";

(g) for section 80LA, the following section shall be substituted, namely: -

**Deductions in respect of certain incomes of Offshore
Banking Units and International financial Services Centre**

80LA. (1) Where the gross total income of an assessee,—

- (i) being a scheduled bank, or, any bank incorporated by or under the laws of a country outside India; and having an Offshore Banking Unit in a Special Economic Zone; or
- (ii) being a Unit of an International Financial Services Centre, includes any income referred to in sub-section (2), there shall be allowed, in accordance with and subject to the provisions of this section, a deduction from such income, of an amount equal to—

⁵ Inserted by Finance Act 2016 28 of 2016), s. 41 (w.e.f. 1-4-2017).

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a) one hundred per cent of such income for five consecutive assessment years beginning with the assessment year relevant to the previous year in which the permission, under clause (a) of sub-section (1) of section 23 of the Banking Regulation Act, 1949 or permission or registration under the Securities and Exchange Board of India Act, 1992 or any other relevant law was obtained, and thereafter;

(b) fifty per cent. of such income for five consecutive assessment years.

(2) The income referred to in sub-section (1) shall be the income —

(a) from an Offshore Banking Unit in a Special Economic Zone; or

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(b) from the business referred to in sub-section (1) of section 6 of the Banking Regulation Act, 1949 with an undertaking located in a Special Economic Zone or any other undertaking which develops, develops and operates or develops, operates and maintains a Special Economic Zone; or

(c) from any Unit of the International Financial Services Centre from its business for which it has been approved for setting up in such a Centre in a Special Economic Zone.

(3) No deduction under this section shall be allowed unless the assessee furnishes along with the return of income,—

(i) the report, in the form specified by the Central Board of Direct Taxes under clause (i) of sub-section (2) of section 80LA, as it stood immediately before its substitution by this section, of an accountant as defined in the Explanation below sub-section (2) of section 288, certifying that the deduction has been correctly claimed in accordance with the provisions of this section; and

(ii) a copy of the permission obtained under clause (a) of sub-section (1) of section 23 of the Banking Regulation Act, 1949.

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Explanation.— For the purposes of this section,—

(a) "International Financial Services Centre" shall have the same meaning as assigned to it in clause (q) of section 2 of the Special Economic Zones Act, 2005;

(b) "scheduled bank" shall have the same meaning as assigned to it in clause (e) of section 2 of the Reserve Bank of India Act, 1934;

(c) "Special Economic Zone" shall have the same meaning as assigned to it in clause (za) of section 2 of the Special Economic Zones Act, 2005;

(d) "Unit" shall have the same meaning as assigned to it in clause (zc) of section (2) of the Special Economic Zones Act, 2005;

[xxxx]⁶

[xxxx]⁷

(j) in section 197A, after sub-section (1C), the following subsection shall be inserted, namely: -

'(1D) Notwithstanding anything contained in this section, no deduction of tax shall be made by the Offshore banking Unit from the interest paid-

- (a) on deposit made on or after the 1st day of April, 2005, by a non-resident or a person not ordinarily resident in India; or
- (b) on borrowings, on or after the 1st day of April, 2005, from a non-resident or a person not ordinarily resident in India.

Explanation.- For the purposes of this sub-section "Offshore Banking Unit" shall have the same meaning as assigned to it in clause (u) of section 2 of the Special Economic Zones Act, 2005'

⁶ Omitted vide Finance Act, 2011, w.ef. 1.4.2012

⁷ Omitted vide Finance Act, 2011, w.ef. 1.6.2011