

Zero Rated GST on Indian SEZs: An Analysis

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Abstract – In excess of 150 countries have executed GST starting at as of late. It is a total tax framework that will subsume all roundabout taxes of states and central governments and joined economy into a solid national market. GST is a victor among the most fundamental tax changes in India which has been long pending in India. It is required to revive existing circuitous tax framework and expect an essential employment being developed of India. This paper presents an outline of SEZ and GST thought, clears up their features and application in India. The examination moreover fights the SEZs' potential in India in pulling in speculation and propelling fares. As the new arrangement of GST for SEZs gives an imperative push to SEZs, the middle is in like manner over to grasp the impact of proposed GST organization over the advancement and enhancement of the country through SEZs. This examination shyly goes for investigating the impact of GST on Special Economic Zones (SEZs).

Keywords: Tax, Goods and Service Tax (GST), SEZ, Zero Rated Supply, India.

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GOODS AND SERVICE TAX (GST)

Goods and Service Tax is a lone tax on the supply of goods and administrations, immaculate from the maker to the purchaser. Credits of data taxes paid at each stage will be open in the resulting time of imperative worth advancement, which makes Goods and Service Tax in a general sense a tax just on respect expansion at each stage. The last purchaser will in this way bear just the Goods and Service Tax charged by the last merchant in the store organize, with set-off great conditions at all the past stages. The upsides of Goods and Service Tax can be combined as under:

FOR BUSINESS AND INDUSTRY

- **Easy consistence:** A great and finish IT framework would be the establishment. Accordingly, all tax payer administrations, for example, enrollments, returns, portions, and whatnot would be available to the taxpayers on the web, which would make consistence fundamental and clear.
- **Gain to makers and exporters:** The subsuming of authentic Central and State taxes in Goods and Service Tax, finish and expansive set-off of information goods and administrations and removing from Central Sales Tax would diminish the expense of secretly made goods and administrations. The consistency in tax rates and logic the

nation over will in like way go far in lessening the consistence cost.

- **Improved force:** Reduction consequently expenses of participating would as time goes on prompt an overhauled forcefulness for the trade and industry.
- **Removal of falling:** An arrangement of unsurprising tax-credits all through the respect chain, and crosswise over purposes of imprisonment of States, would guarantee that there is immaterial falling of taxes. This would diminish took care of expenses of collaborating.
- **Uniformity of tax rates and structures:** Goods and Service Tax will guarantee that circuitous tax rates and structures are common the nation over. Everything considered, Goods and Service Tax would make coordinating in the nation tax fair, free of the decision of place of collaborating.

FOR CENTRAL AND STATE GOVERNMENTS

- **Better controls on spillage:** Goods and Service Tax will result in better tax consistence because of a great IT structure. Because of the relentless exchange of data tax recognize starting for one phase then onto the accompanying in the

chain of significant worth advancement, there is an in-gathered part in the course of action of Goods and Service Tax that would bolster tax consistence by merchants.

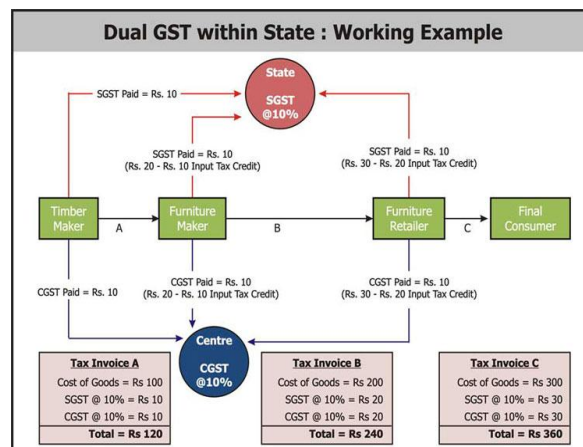
- Higher pay practicality: Goods and Service Tax is relied on to reduce the expense of accumulation of tax wages of the Government, and will along these lines.
- Kept up with a generous end-to-end IT framework, Goods and Service Tax would be less multifaceted and less asking for to regulate than all other circuitous taxes of the Center and State got together until this point.

FOR THE CLIENT

- Relief in a terrible position: Because of productivity increases and killing movement of spillages, the general tax stack on most items will dive, which will profit purchasers.
- Due to unusual indirect taxes living being asked used for through the Center and State, with separated or no data tax credits accessible at dynamic times of tremendous worth improvement, the expense of most goods and administrations in the nation today are stacked down with many secured taxes. Under Goods and Service Tax, there would be just a singular tax from the maker to the purchaser, impelling straightforwardness of taxes paid to the last customer.

CENTRAL GST AND STATE GST

The Central GST and the State GST would be assembled meanwhile on each exchange of supply of goods and administrations adjacent to on exempted goods and administrations, goods which are outside the space of Goods and Service Tax and the exchanges which are underneath the recommended edge limits. Further, both would be asked for on a near cost or respect not in the scarcest degree like State VAT which is requested on the estimation of the goods careful of Central Excise.

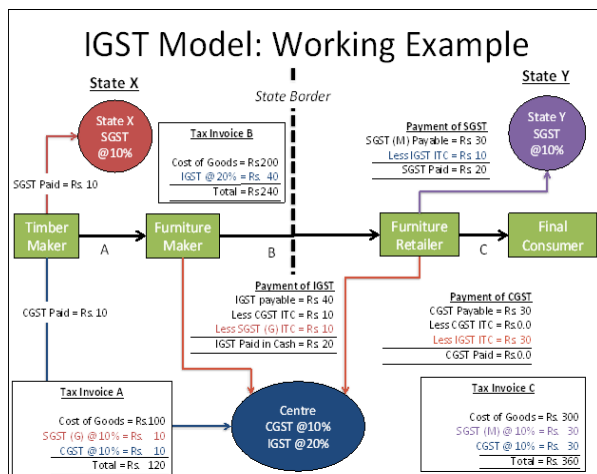


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Cross usage of credit of Central GST among goods and administrations would be permitted. In like way, the working environment of cross utilization of credit will be accessible if there should rise an occasion of State GST. In spite of, the irritated use of Central GST and State GST would not be permitted aside from as a result of between State supply of goods and administrations under the Integrated GST show which is revealed in reply to the going with demand.

INTER STATE ACTIVITY OF GST UNDER GST TO THE DEGREE INTEGRATED GST TECHNIQUE

If there should be an occasion of between State exchanges. The Integrated GST would generally be proportionate to Central GST despite State GST. The Integrated GST instrument has been wanted to guarantee unsurprising stream of data tax recognize starting for one State then onto the accompanying. The between State trader would pay Integrated GST on the offer of his goods to the Central Government in the wake of changing credit of Integrated GST, Central GST and State GST on his buys (in a specific demand). The passing on State will exchange to the Center the credit of State GST utilized in part of Integrated GST. The getting shipper will guarantee credit of Integrated GST while releasing his yield tax danger in his very own exceptional State. The Center will exchange to the getting State the credit of Integrated GST utilized in bit of State GST. Since Goods and Service Tax is a target based tax, all State GST on the exact opposite thing will generally store up to the devouring State.



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SPECIAL ECONOMIC ZONE (SEZ)

A special economic zone (SEZ) is a devoted zone wherein businesses appreciate less complex tax and lawful compliance. SEZs are situated inside a country's national fringes; notwithstanding, they are treated as a remote domain from taxability point of view. A portion of their key destinations include:

- Better Infrastructure Facilities
- Domestic Job creation and;
- Effective Administration and Compliance Procedures.
- Increase in Foreign Trade by advancement of exports of goods and services
- Increased Foreign Investment

To elevate business visionaries to set up units in these Economic Zone, different alluring money related arrangements have been built up. These strategies incorporate special offers and effortlessness in contributing, taxation, exchanging, shares, customs and work directions. In addition, units set up in these zones are offered special tax occasions. The term special economic zone can additionally include:

- Bonded coordinations parks (BLP)
- Export preparing zones (EPZ)
- Free ports
- Free trade zones (FTZ)
- Free zones/Free economic zones (FZ/FEZ)
- Industrial parks/mechanical estates (IE)
- Urban venture zones

As indicated by the legal definition. Inside SEZs, a unit may be set-up for the manufacture of goods and diverse activities including taking care of, gathering, trading, repairing, reconditioning, production of gold/silver, platinum diamonds et cetera. SEZ units are seen as outside the traditions locale of India. All provisions made to a unit working in SEZ are considered as Export out of India. Goods and services rendered from SEZ to standard area are considered as Import of such goods or services.

Government Advantages under a Special Economic Zones group

The motivating forces and offices offered to the units in SEZs for drawing in investments into the SEZs, including outside investment include:

- 100% Income Tax exclusion on fare income for SEZ units under Section 10AA of the Income Tax Act for initial 5 years, half for next 5 years from that point and half of the furrowed back fare benefit for next 5 years.
- As per GST Law 2017, no IGST is payable on imports by a SEZ unit or SEZ engineer for approved activities.
- Duty free import/local obtainment of goods for advancement, activity and support of SEZ units
- Exemption from Central Sales Tax (CST).
- Exemption from Central Sales Tax.
- Exemption from customs/excise obligations for improvement of SEZs for approved activities affirmed by the BOA.
- Income Tax exception on income got from the business of improvement of the SEZ in a square of 10 years in 15 years under Section 80-IAB of the Income Tax Act.
- SEZ units or SEZ designer are exempted from IGST on imports for approved individual.
- Single window freedom for Central and State level endorsements.
- The significant motivations and offices accessible to SEZ engineers incorporate:-

A SEZ region is viewed as an outside region for trade tasks and obligations and is fundamentally set up for advancing exports. Exports from SEZs developed by around 12% to Rs 5.24 lakh crore in 2016-17. The shipments from these zones in 2015 - 16 were totaled at Rs 4.68 lakh crore. The

government had affirmed upwards of 421 zones, of which 218 are operational.

RESEARCH METHODOLOGY

The present examination depends on secondary data. The wellsprings of gathered secondary data were different Journals, Periodicals, News Papers and reports of the related SEZs and GST. The investigation was basically founded on data assembled from the Annual Report of the related Institutions, Government Offices and Agencies, Special Economic Zones and CBEC. The present research clarifies and surveys the GST approaches, endorsed government and private SEZs. In the main stage, the data and data about the Government polices, special economic zones, send out handling zones, trade situated zones and considerably more were gathered through different books, journals, magazines, newspapers and websites. The data and material gathered were investigated and broke down. By examining all raw numbers, the discoveries of the examination were deciphered in a systematic way which helped in bringing different particulars into light.

EFFECT OF GST ON SPECIAL ECONOMIC ZONE

Expectations from over 10 years were put to lay on July 1st 2017 when India's greatest tax change since freedom, "Goods and Services Tax"(GST) was propelled. With the presentation of GST, huge number of taxes have now been subsumed into one single tax, which won't just give a lift to the economy yet will likewise achieve straightforwardness and make self-trained tax ecosystem. With plan to offer stimulus to forex stores of the country, Government has been managing the fare import policy and has presented different plans for advancing exports of the two goods and services. Special Economic Zones (SEZ) and Export Oriented Units (EOUs) plans are in like manner part of this toll headway technique.

Immediately compliances managed by the SEZ Act, 2005, for instance, settlement of periodical headway reports and besides, compliances required to be endeavored similar to indirect tax laws. While the previous are probably going to proceed with no significant changes, the last would now be adjusted in accordance with the GST law. Till now GST administration has been a blended pack for SEZ part. On one hand, under GST administration, enrollment rules have commanded SEZ to take separate enlistment, since it is considered as a different business vertical. Obviously, this will result into expanded compliance and record support trouble on parts having different SEZ units. Then again, industry has invited GST legislator's choice to keep every one of the supplies made to a SEZ as "zero rated".

This time, a great many units are working from these SEZs crosswise over India. These units are presently set to confront new difficulties with the presentation of GST. While these units are getting a charge out of exclusion from Services Tax, Central Sales Tax and now and again Value Added Tax (VAT), this may not be the situation under GST administration. As of now, all Goods and Services gave from a unit working from SEZ to a business in Domestic Tariff Area (DTA) is considered as an import. In like manner, Basic Customs Duty (BCD) and Countervailing Duty (CVD) are required on such deal from a SEZ to DTA. GST is now set to subsume CVD and SAD, in this manner going ahead BCD and Integrated Goods and Services Tax (IGST) will be charged on such supplies produced using SEZ. Likewise, the purchaser will have the credit of IGST accessible to set off against the obligation of CGST and SGST subject to endorsed conditions.

Offering helping to SEZs, the administration has exempted goods imported by units or designers of unique monetary zones from the coordinated goods and administrations tax (IGST). The Finance Ministry has exempted the goods and administrations imported by a unit or an organizer of an extraordinary financial zone (SEZ) from power of incorporated goods and administrations tax (iGST). While all entry of goods/administrations and supplies of goods/administrations made to a SEZ are chargeable to IGST, notwithstanding, these arrangements will be treated as zero-assessed supplies under GST. Resultantly, the providers making any supply to SEZ will have two choices, either, not charge any Integrated GST (IGST) to SEZ and supply under a front of security/letter of undertaking and document discount guarantee of comparing Input Tax Credit (ITC/BSE - 1.11 %); or charge IGST on its supply, pay it and afterward guarantee discount. Likewise, in contrast to past administration, the onus of documenting discount has been moved from SEZ units to the providers. Accordingly, the SEZ units would not be required to experience the problems of asserting discount for supplies which did not appreciate forthright exclusion. Be that as it may, there is no clearness for invert charge exchanges wherein, the risk to pay GST would be on the service beneficiary. In such case, it should be found out whether the SEZ unit is required to make good on government obligation and afterward guarantee discount. Further, any acquisition (of crude material, goods or services) made by SEZ from outside India for its approved tasks have been exempted from Essential Customs Duty.

As to outward supply made by a Special Economic Zones gathering, if a Special Economic Zones assemble makes any adjacent clearances, the customer will be required to record a bill of segment (BoE), pay BCD and Integrated GST on the trade and report it as a bit of his interior supply as imports. On the other hand, if SEZ make

residential clearances without the front of BoE, such exchanges will be required to be accounted for by SEZ as its outward supply. In connection to the EOUs, all imports and residential acquirements are sans duty. Under GST administration likewise it has been elucidated that EOUs are permitted to import goods for the approved activities without paying BCD. Yet, such goods would endure IGST and relevant cesses. In regard of indigenous acquisitions, the taxes so paid will be accessible as input tax credit (ITC) to EOUs and discount of the equivalent can be guaranteed after exports. Besides, to make a level playing field for residential players, if an EOU makes household clearances, they should pay measure of BCD exception advantage profited on imported inputs which were utilized in such local clearances. It is thusly clear that SEZ units would to a great extent appreciate an existing conditions in GST to the extent the different exceptions and advantages are concerned.

Benefits and exemptions that SEZ operators are eying from GST¹ are:

- "In occurrence of physical passage or anybody providing goods to SEZ a comparable strategy applies. They can do it either under security and not follow through on government cost or they can pay IGST and take rebate".
- "Same treatment for any supply made to SEZ as it is advanced with regards to trades. So zero rating will be the identical".
- Earlier it was expressed that the SEZ players will at first need to follow through on the administration cost and a short time later the SEZ unit will get markdown.
- Easy Refund Procedure of information GST paid on securing of Goods and Services expecting any.
- Export Promotion Council for SEZ and EoUs (EPCES) found prior the supply of goods or administrations, to a SEZ originator and SEZ units were depicted as 'zero evaluated supply' under IGST, and it directed the architects and units getting such supplies were required to take rebate of the IGST.
- Exports from SEZs and toll orchestrated units (EOUs) part contributed around 33 percent in the nation's total shipments.
- Minimalistic Compliance Requirement and Return Filing Procedure

- Paying the commitments first and a short time later search for markdown would provoke hardship to the SEZ section as their monster proportion of working capital would have been dashed for some period.
- Supplies into SEZ to be barred from GST and be treated as charge outside India
- The Export Promotion Council for SEZ and EoUs has regarded the GST Council's decision to treat supplies to unique financial zones at standard with fares.
- The taxes were required to be paid at the lead position and after that take markdown.
- With regard of taxation of SEZ under the GST organization, the expert said it would be "zero evaluated at standard with fares".

GST on imports by EOUs and SEZs

EOUs/EHTPs/STPs will be allowed to import goods without portion of essential traditions obligation (BCD) too additional commitments. GST would be liveable on the import of data goods or administrations or both utilized in the fabricate by EOUs which can be acknowledged as data tax certification (ITC). In the GST organization, elbowroom of goods in DTA will pull in GST other than portion of aggregate equal to BCD special case benefitted on data sources used in such finished goods. DTA clearances of goods, which are not under GST, would pull in Central Excise commitments as already.

Zero appraised GST on supply of administrations to SEZ

The presentation of GST arrangement of taxation changes every last divisions of Indian economy. As appeared by GST Law, supply of administrations to SEZ is treated as zero evaluated supply. According to segment 16 of the IGST Act, 2017, the zero assessed supply proposes any of the running with arrangements of goods or administrations or both.

Part 16 of the IGST Act obliges extraordinary treatment to Special Economic Zone Developer or a Special Economic Zone unit. Supply of goods or administrations or both to a Special Economic Zone plan or a Special Economic Zone unit is treated as Zero evaluated supply. Providers of goods and administrations to these beneficiaries can profit of one of the running with:

- a) Make their arrangements under bond or LUT without part of IGST and accreditation credit of ITCs; or

¹¹ Source: http://www.business-standard.com/article/pti-stories/trade-body-hails-gst-council-decision-on-sezs-117031601394_1.html

- b) May supplies on bit of IGST and confirmation discount of taxes paid.

Key acknowledgment identified with supply of administrations to SEZ are as indicated by the going with:

- Supplies made to a SEZ unit or SEZ engineers are zero evaluated. The arrangements made to a SEZ unit or a SEZ engineer can be made in indistinct course from arrangements made for toll.
- Supplies to SEZ unit or SEZ fabricate have been agreed the status of between State supplies under the IGST Act. Under the GST Law, any provider making between State supplies needs to essentially get enlisted under GST. Therefore anybody making a supply to a SEZ unit or SEZ maker needs to on an extremely fundamental level get GST selection.
- Prior to first July 2017, applications for obsession of brand rate for arrangements to SEZ units and SEZ Developers used to be recorded with the Central Excise juridical Commissioner of. With impact from first July 2017, applications for obsession of brand rate will be required to be chronicled with the Commissioner of Customs having space over the basic place of business of the DTA provider. This will be essential notwithstanding for fares made going before first July 2017 for which application for obsession of brand rate is yet to be chronicled.

Zero Rated Supply

Zero assessed supply proposes any of the running with taxable supply of goods and also benefits, to be specific

- a. Export of goods and moreover benefits; or
- b. Supply of goods and moreover administrations to a SEZ fashioner or a SEZ unit.

It is furthermore given that the credit of info tax may be profited for making zero evaluated supplies in spite of that such supply may be a barred supply. It is furthermore given that a selected taxable individual exchanging goods or administrations will be met all requirements to ensure rebate under one of the going with two decisions:-

- I. An enrolled taxable individual may exchange goods or administrations under security, subject to such conditions, assurances and strategy endorsed without part of Integrated

Goods and Service Tax and approval reduction of unutilized input tax credit as indicated by approaches of zone 48 of the Central GST Act.

- II. A preferred taxable individual may switch over goods or administrations subject to such conditions, shields and framework as may be supported with portion of IGST and certification rebate of IGST paid on goods and administrations conveyed according to courses of action of section 48 of the CGST Act.

At long last, it is given that the SEZ specialist or SEZ unit getting zero-evaluated supply will be met all requirements for case rebate of IGST paid by enlisted taxable individual on such supply.

Zero Rated Supply: EOU

As EOU are not anchored under zero-appraised supplies, the markdown of unutilized Cenvat credit won't be permissible to the provisions made to EOU. The markdown of assembled credit isn't reasonable to EOU yet is open for clearances made to SEZ in light of the way that the courses of action of SEZ Act have superseding effect and supplies to SEZ are to be considered as charge. It gives that the present arrangement is passed on forward in the GST organization too.

Zero Rated Supply: Deemed Export

Seen sends out as instructed by the Central/State Government on the recommendation of the Council, infer those exchanges which the goods gave don't leave India and portion for such supplies is gotten either in Indian rupees or in convertible remote exchange. It is furthermore significant to indicate that markdown under territory 48 of the GST Act, 2016 fuses rebate of tax on supply of goods saw as respected fares. Subsequently, it may be possible that provisions to EOU are made on portion of tax anyway rebate of the said tax is admissible to the supplier. This is takeoff from the present arrangement under Central Excise Laws wherein clearances to EOU are made without bit of concentrate commitment.

FINDINGS AND CONCLUSION:

SEZ is a foreordained depicted sans obligation area, which with the true objective of exchange exercises is respected to be considered outside the traditions locale of India. Set up in a general sense to propel sends out, even GST organization continues to help SEZ units by extending due points of interest for their affirmed errands. The legislature had attested 421 zones till date, out of which 218 are operational in India. Fares from SEZs created by Rs 5.24 lakh crore in 2016-17 and

hence Government of India exempts all goods imported by a unit or an originator in the Special Economic Zone (SEZ) for affirmed assignments. On keeping an eye on the previously mentioned, following implications may be drawn:-

- The significance of zero-appraised supply is particularly limited and compelled to average fares and supply to SEZ or SEZ design.
- The supplies made to EOUs, EHTP, STP et cetera are not anchored under zero-evaluated supply.
- The trade without bit of commitment and supply to SEZ will be considered as zero assessed supply and credit will be accessible.
- There won't be need to transform credit despite when the provisions are made without portion of obligation in occasions of fares and supply made to SEZ.
- Easy Refund Procedure of info GST paid on securing of Goods and Services expecting any.
- Exports from SEZs and admission masterminded units (EOUs) portion contributed around 33 percent in the nation's total shipments.
- With concession of taxation of SEZ under the GST association, the pro said it would be "zero evaluated at standard with fares".

This overview helped in recognizing that the Zero GST on SEZ impelled all SEZs towards more prominent speculation, more fares and improvement in SEZs.

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