

## “FISCAL BENEFITS AND CHALLENGES FOR SEZ UNITS AND EOUS IN THE DOMESTIC INDIAN MARKET - A STUDY”

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### **Abstract :**

*Special Economic Zones (SEZs) and Export Oriented Units (EOUs) play a critical role in driving India's economic growth, enhancing exports, and attracting foreign direct investments (FDIs). This paper examines the tax benefits and challenges faced by SEZ units and EOUs in the domestic Indian market. While these entities enjoy various fiscal incentives to promote trade and investment, they also grapple with regulatory complexities and competitive pressures. The study aims to provide a comprehensive analysis of the fiscal incentives, challenges, and potential solutions for optimizing the performance of SEZs and EOUs in India.*

**Keywords:** SEZ, EOU, DTA, FDI, ITC, GST, CUSTOMS DUTIES, EXCISE DUTIES.

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### **Introduction :**

The Government of India introduced SEZs and EOUs as part of its industrial policy to boost exports, generate employment, and facilitate economic development. SEZs are geographically demarcated areas with liberal economic laws compared to the rest of the country, while EOUs are units established with the primary objective of exporting their entire production. Both models benefit from a range of tax incentives, but they face distinct challenges when catering to the domestic market, such as navigating complex compliance requirements, taxation on domestic sales, and competition from non-SEZ/EOU manufacturers. This paper explores these aspects to provide actionable insights for policymakers and businesses.

### **Literature Review :**

**Aggarwal, A. (2006) :** Aggarwal examined the impact of SEZs on India's economic development, focusing on export performance, employment generation, and fiscal incentives. The study identified gaps in policy implementation, particularly around tax exemptions and compliance challenges, highlighting the need for a balanced approach to revenue loss and export promotion.

**Kumar, A., & Pradhan, S. (2007) :** This paper evaluated the fiscal implications of SEZs in India, discussing the trade-off between tax revenue losses and economic benefits like employment and exports. The authors recommended better alignment of SEZ policies with domestic market needs to maximize benefits for the broader economy.



**Mukherjee, S., & Singh, A. (2019) :** Mukherjee and Singh investigated the challenges EOUs and SEZs face under the GST regime, particularly delays in input tax credit refunds and increased compliance requirements. Their analysis emphasized the need for streamlining procedures to maintain competitiveness in the domestic and international markets.

**Rao, P., Patel, R., & Desai, K. (2021) :** This study focused on the competitiveness of EOUs in textiles and pharmaceuticals, analysing the role of tax benefits and infrastructural support. The authors identified operational inefficiencies and inconsistencies in tax policies as critical challenges for EOUs competing with non-SEZ firms.

**Bhattacharyya, S. (2015) :** This research delves into the performance of SEZs, focusing on tax incentives and their role in attracting foreign direct investment (FDI). It also identifies operational and regulatory challenges, including the taxation of domestic sales, as significant barriers to growth.

### **Research Gap :**

The review of literature revealed that some work has been done on the problems and prospects of SEZs & EOUs. However, it has been noted that there is no prior literature on the regulatory and operational challenges of SEZs and EOU when the units operate in a domestic market, so there is a need to examine the regulatory and operational problems of SEZs and EOUs in this regard.

### **Objectives of the Study :**

- To study the benefits and challenges faced by SEZs and EOUs in domestic Indian market.
- To analyse the tax incentives available to SEZs and EOUs under Indian law.
- To identify the challenges faced by SEZs and EOUs in catering to the domestic market.

### **Hypothesis :**

- H<sub>0</sub>: Regulatory and operational challenges have a positive impact on the ability of SEZs and EOUs to compete in the domestic market.
- H<sub>1</sub>: Regulatory and operational challenges have a negative impact on the ability of SEZs and EOUs to compete in the domestic market.

### **Research Methodology :**

The study based on secondary data which will be sourced from a variety of materials such as legal Acts, books, scholarly journals, magazines, articles, research papers, government publications, official reports from the Government of India, reference handbooks, unpublished reports, as well as digital sources, including websites and electronic newsletters.

### **Data Analysis & Interpretation :**

#### **Tax Incentives for SEZ Units :**

- Income Tax Exemptions: Under Section 10AA of the Income Tax Act, SEZ units enjoy

a tax holiday for the first five years of operation, after that a 50% exemption for the next five years. In addition to that a further 50% exemption is available for the subsequent five years, subject to reinvestment of profits.

- Goods and Services Tax (GST): Supplies to SEZ units are treated as zero-rated under the GST regime. SEZ developers and units can claim refunds on GST paid for inputs.
- Customs and Excise Benefits: SEZ units are exempted from customs duties, excise duties, and other indirect taxes on the procurement of goods and services used in the manufacturing process.

#### **Tax Incentives for EOUs :**

- Corporate Tax Concessions: EOUs benefit from deductions under various provisions, including Section 10B of the Income Tax Act, which allows for a 100% tax exemption on export profits for a specified period.
- Indirect Tax Reliefs: EOUs can procure goods without paying central excise duties and have access to duty-free imports of capital goods, raw materials, and consumables.
- GST Refunds: Similar to SEZ units, EOUs can claim input tax credit (ITC) and refunds on taxes paid on inputs used in manufacturing export goods.

#### **Challenges Faced by SEZ Units and EOUs in the Domestic Market :**

##### **Regulatory Hurdles:**

- SEZ units must adhere to stringent compliance requirements, including maintaining separate accounts for domestic and export sales. This increases administrative burdens.
- EOUs face challenges in availing GST exemptions and navigating complex procedures for claiming refunds.

##### **Taxation of Domestic Sales:**

- SEZ and EOU units catering to the domestic market are subject to full customs duties and GST, negating some of the fiscal benefits they enjoy on exports.
- For SEZ units, domestic tariff area (DTA) sales are subject to the same taxes as imports, making their products less competitive compared to non-SEZ manufacturers.

##### **Operational Challenges:**

- Infrastructure bottlenecks, such as inadequate transport and logistics facilities, hinder the seamless operation of SEZs and EOUs.
- Competition from non-SEZ players who benefit from local market synergies adds to the operational pressures.

##### **Impact of Global Trade Policies:**

- Changes in global trade norms, including anti-dumping measures and export restrictions by other countries, affect the viability of SEZs and EOUs.
- Currency fluctuations and geopolitical tensions further exacerbate market risks.

## **Conclusion :**

SEZs and EOUs have emerged as pivotal contributors to India's export growth and economic development by offering businesses a range of fiscal incentives and fostering industrial innovation. This paper has explored the tax benefits extended to SEZ units and EOUs, such as income tax exemptions, zero-rated GST, and customs duty reliefs, which have enabled these entities to compete on a global scale. However, their operations in the domestic market reveal significant challenges. Regulatory hurdles, such as complex compliance requirements and issues with GST refunds, pose barriers to efficiency. The taxation of domestic sales, coupled with sunset clauses that phase out key incentives, undermines the competitive edge of these units. Operational challenges, including infrastructure deficits and competition from non-SEZ manufacturers, further exacerbate their struggles. The analysis has also shed light on policy gaps, highlighting the need for streamlined tax procedures, stable policies, and improved infrastructure to bolster the performance of SEZs and EOUs. Policymakers must focus on balancing export promotion with domestic integration, ensuring these entities remain viable in a dynamic economic landscape. Ultimately, this study underscores the importance of a cohesive and adaptive policy framework that maximizes the potential of SEZs and EOUs while addressing their challenges holistically.

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