

## **A COMPARATIVE STUDY OF MONETARY AND FISCAL BURDENS ON SEZ UNITS, EOUs, AND DTA ENTITIES IN INDIA FOR DTA SALE OF MANUFACTURED GOODS.**

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### **Abstract :**

*This study conducts a comparative analysis of the monetary and fiscal burden on Special Economic Zone (SEZ) units, Export Oriented Units (EOUs), and Domestic Tariff Area (DTA) entities in India concerning the sale of manufactured goods in the DTA market. While SEZs and EOUs are primarily designed to promote exports through tax incentives and policy benefits, their operations often include a portion of sales within the domestic economy, subjecting them to varying fiscal implications. This research examines the monetary and fiscal burden, compliance and regulatory requirements imposed on these entities when selling in the domestic territory. The study identifies disparities in taxation, duty structures, and procedural obligations, offering insights into policy-driven incentives and their impact on competitiveness. The findings aim to assist policymakers in refining trade policies and business stakeholders in optimizing their operational strategies.*

**Keywords:** DTA, EOU, SEZ, GST, CVD, BCD, Custom Duty, ITC, Excise Duty.

### **Introduction :**

India has adopted multiple export-promotion strategies to enhance its global trade competitiveness, with Special Economic Zones (SEZs), Export Oriented Units (EOUs), and Domestic Tariff Area (DTA) entities playing crucial roles. SEZs and EOUs are granted fiscal and monetary benefits to encourage exports, whereas DTA entities operate primarily within the domestic economy under standard tax and duty structures. However, when SEZ and EOU units sell manufactured goods within the domestic market, they are subjected to specific levies and compliance requirements, which often alter their cost structures and profitability. This paper aims to critically evaluate the fiscal and monetary burden on SEZs, EOUs, and DTAs regarding the sale of manufactured goods in the domestic market. By analyzing tax obligations, import duty implications, and regulatory constraints, this study will highlight the disparities in treatment among these entities. The research seeks to provide a comprehensive understanding of how these policies influence business decisions and competitiveness, ultimately contributing to discussions on trade policy optimization.



## **Legislative Framework of SEZs, EOUs, and DTAs :**

### **Special Economic Zones (SEZs):**

SEZs in India were established under the SEZ Act, 2005, with the aim of promoting exports, investments, and employment. SEZ units enjoy various tax benefits, including exemptions from customs duties, central excise duties and more. However, when SEZ units sell goods to the DTA, specific duties and taxes become applicable.

### **Export Oriented Units (EOUs):**

EOUs are governed by the EOU Scheme under the Foreign Trade Policy. These units are focused on boosting exports and enjoy benefits like SEZs, including customs duty exemptions on imports. For DTA sales, EOUs are subject to certain duties and taxes.

Domestic Tariff Area (DTA) Entities: DTA entities operate under the general business laws of India. They are subject to customs duties on imports and Goods and Services Tax (GST) on sales within the DTA.

## **Literature Review :**

**Sharma, Soma, & Bose, Shantanu S. (2022)** "An Analysis of Impact on Exports on Account of Tax Relief Measures to SEZ & Export Oriented Units." This research examines the influence of tax relief measures under sections 10A, 10AA, and 10B on exports from SEZs and Export Oriented Units (EOUs), focusing on their effectiveness in boosting exports and implications for India's balance of payments.

**Tantri, Malini L.** "Understanding the Fiscal Implications of SEZs in India: An Exploration in Resource Cost Approach." This paper analyzes the fiscal impact of SEZs on the Indian government exchequer, exploring the costs associated with tax exemptions and subsidies provided to these zones.

**Bhattacharya (2020)** "Tax Structures in SEZs, EOUs, and DTAs: A Comparative Analysis" compared tax structures in SEZs, EOUs, and DTAs, providing an in-depth analysis of their economic impact. The study emphasized the need for tax reforms to enhance ease of doing business.

**Kumar and Singh (2018)** "The Economic Impact of SEZs and Tax Policies on Domestic Sales in India" explored the fiscal impact of SEZ tax policies and how varying duty structures affect the competitiveness of domestic sales by SEZ units.

**Mehta, A. & Kapoor, V. (2022)** "A Critical Review of Indian Taxation Policies for Special Economic Zones and Their Effect on Domestic Trade" This study discussed the need for reform in tax policies governing SEZs to ensure balanced growth between exports and domestic sales.



### **Objectives :**

- To study & compare the monetary and fiscal burdens on SEZ units, EOUs, and DTA entities for DTA sale of manufactured goods.
- To evaluate compliance costs and regulatory constraints faced by SEZs and EOUs in DTA sale of manufactured goods.
- To assess the financial burden and competitive positioning of SEZs, EOUs, and DTA entities in the domestic market

### **Research Methodology :**

The study relies on secondary data obtained from various sources, including legal statutes, industrial policies, foreign trade regulations, books, academic journals, articles, published research papers, reference manuals, and digital platforms such as websites and electronic newsletters.

### **Data Analysis and Interpretation :**

#### **Case No. 1: DTA Sale of Manufactured Goods by SEZ Unit :**

In the given case full rate of basic custom duty + surcharge + IGST payable irrespective whether goods are manufactured completely out of duty-free imported inputs or partially out of duty-free imported inputs and partially out of duty-free or duty paid indigenous inputs or completely out of duty-free or duty paid indigenous inputs, in all the cases, full rate of customs duty (BCD+IGST) is payable on domestic clearance of such manufactured goods.

#### **Case No. 2: DTA Sale of Manufactured Goods by Export Oriented Unit :**

- a. When duty-free imported inputs are used for manufacturing the goods then in that case GST + BCD (basic custom duty) is payable on domestic clearance of such manufactured goods.
- b. When 100% indigenous inputs are used for manufacturing the goods then only GST is payable on domestic clearance of such manufactured goods.
- c. When duty free imported or indigenous inputs are used & customs duty is payable but central excise duty is exempted and when duty-free imported or indigenous inputs are used where both customs duty & central excise duty is exempted in both the cases no GST payable on domestic clearance of such manufactured goods but if imported inputs are utilized proportionate Basic custom duty payable on such imported inputs used for manufacturing such goods.

#### **Case No. 3: DTA Sale of Manufactured Goods by DTA Entities :**

- a. When duty-free imported inputs are used under advance authorization for manufacturing such goods then in that case GST + BCD (basic custom duty) + CVD (countervailing duty) is payable on the portion of duty-free inputs so utilized for manufacturing the goods and cleared into DTA. (CVD paid is allowed as credit).



- b. When 100% indigenous inputs are used for manufacturing the goods then only GST is payable on domestic clearance of such manufactured goods.

### **Conclusion :**

The comparative analysis of the monetary and fiscal burden on SEZ units, EOUs, and DTA entities for the domestic sale of manufactured goods highlights significant variations in tax liabilities based on the type of entity and the source of raw materials used in production. SEZ units face the highest fiscal burden, as they are required to pay the full rate of Basic Customs Duty (BCD) along with Integrated Goods and Services Tax (IGST) on domestic clearances, irrespective of whether the inputs used are duty-free imported, indigenous, or a combination of both. This makes DTA sales less attractive for SEZ manufacturers due to the heavy tax incidence. EOUs, on the other hand, are subject to differentiated tax treatment. When duty-free imported inputs are used in manufacturing, both GST and BCD are applicable upon domestic clearance. However, if 100% indigenous inputs are utilized, only GST is payable. Furthermore, in scenarios where customs duty is paid, but central excise duty is exempted, no GST is levied on domestic clearances. This provides some tax relief to EOUs under certain conditions. DTA entities, which primarily cater to the domestic market, also experience varying tax implications. When duty-free imported inputs are used under an advance authorization scheme, GST, BCD, and Countervailing Duty (CVD) are applicable, with CVD being allowed as a credit. However, if 100% indigenous inputs are used, only GST is payable. This structure places a relatively lower fiscal burden on DTA units when compared to SEZ and EOU units that rely on imported duty-free inputs.

Overall, this study highlights the complexities of India's taxation policies governing domestic clearances. The differential tax treatments create varied fiscal impacts on SEZs, EOUs, and DTA entities, influencing their cost competitiveness and strategic decisions regarding domestic sales. Policymakers may consider these findings to refine tax structures and enhance ease of doing business for manufacturing entities operating under different regulatory frameworks.

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