

---

**INTERNATIONAL JOURNAL OF ADVANCED LEGAL RESEARCH**

---

**HARMONIZING TAX INCENTIVES WITH REVENUE GENERATION  
IN SPECIAL ECONOMIC ZONES: A COMPARATIVE STUDY WITH  
CHINA**- Monica Pradyot<sup>1</sup>**ABSTRACT**

Special Economic Zones (SEZs) are established to attract foreign investment in India and play a vital role in the country's economic development. SEZs are treated as foreign territory for tax purposes and offer several tax benefits and other fiscal incentives (often known as 'tax expenditures') to domestic enterprises to set up a unit in SEZs. To stimulate the economic growth of the country, having a much-touted tax policy has led to a loss of government revenue by 3-5%<sup>2</sup>. From the stakeholder's perspective, such a friendly business climate is usually seen as an expenditure for the development of SEZs, which is a necessary evil. Therefore, it would be imperative to say that tax incentives are a double-edged sword for SEZs. While they act as a magnet for foreign investment but also lead to potential damage to revenue generation. This demands a review of current tax policies to promote economic development while securing government revenue. The paper aims to analyze the fiscal issues and challenges posed to the government. Further, the paper intends to provide a balanced road map between tax expenditures and efficient tax policies, which will entail fiscal sustainability within the country.

Keywords: SEZs, tax incentives, loss of revenue generation, etc.

**I. Introduction:**

---

<sup>1</sup> Assistant Professor, School of Law, UPES Dehradun

<sup>2</sup> Statement of Revenue of Tax incentives under the Central Tax System: Financial years 2020-21 and 2021-22. <https://www.indiabudget.gov.in/doc/rec/annex7.pdf> (last visited on 25th May, 2024)

For general queries or to submit your research for publication, kindly email us at [editorial@ijalr.in](mailto:editorial@ijalr.in)

Special Economic Zones (SEZs) are critical economic development tools to attract foreign investments in India. They are called duty-free enclaves, which are deemed to be foreign territories for trade and business.<sup>3</sup> It has a business-friendly climate with relaxed regulations and provides economic benefits to attract businesses. India has various SEZs focusing on IT, manufacturing, and trade sectors. The goods and services from Domestic Tariff Areas (DTAs) to SEZs are to be treated as exports, and goods and services coming from SEZs into DTA are to be treated as imports.<sup>4</sup> SEZs were set up to promote export-oriented manufacturing, domestic investment, and ease of doing business.<sup>5</sup>

While the exports from SEZ have increased from Rs.22,840 Crores in FY 2005-06 to Rs.9.97 Crores in FY 2023-24<sup>6</sup>, India has also witnessed a rise in investment in SEZs from Rs.40 billion in FY 2005-06 to Rs. 6 trillion in FY 2023-24<sup>7</sup>. It has also generated employment from 0.1 million in FY 2005-06 to 2.9 million in FY 2023-24<sup>8</sup> Due to such tax incentives. Even though these optimistic figures seemed like a success for India, the Indian SEZs lost their competitive advantage influenced by several issues and challenges such as forced land acquisition, infrastructure deficit such as poor connectivity and reliable power supply, unstable economy, inconsistent fiscal policy, etc.

This has affected the success of SEZs in India and has not contributed significantly to generating revenue for the government. Amongst various implementation and policy challenges put forth before the business units, the government, in its reports, has highlighted concerns regarding the tax incentives and its associated loss of revenue. The Department of Revenue, Government of India, after the implementation of the SEZ Act in 2005 in their report, had estimated that the government had faced a revenue loss of Rs. 1,75,847 crores

<sup>3</sup>Mukesh Jagota, *SEZs to get more tax relief under RoDTEP cover*, (February 19, 2024 04:00 PM). <https://www.financialexpress.com/policy/economy-sezs-to-get-more-tax-relief-under-rodtep-cover-3397860/> (last visited on 14<sup>th</sup> May, 2024).

<sup>4</sup> Report of Comptroller and Auditor General of India, Performance of Special Economic Zones (SEZs), Report No. 21 of 2014, Department of Revenue, Government of India [https://cag.gov.in/uploads/download\\_audit\\_report/2014/Union\\_Performance\\_Dept\\_Revenue\\_Indirect\\_Taxes\\_Special\\_Economic\\_Zones\\_SEZs\\_21\\_2014\\_chapter\\_5.pdf](https://cag.gov.in/uploads/download_audit_report/2014/Union_Performance_Dept_Revenue_Indirect_Taxes_Special_Economic_Zones_SEZs_21_2014_chapter_5.pdf) (last visited on 28<sup>th</sup> May 2024)

<sup>5</sup>Akash Podishetti, BUSINESS STANDARD, *Why have Special economic zones (SEZ) not taken off in India?* (July 7, 2022 7:00 AM) [https://www.business-standard.com/podcast/current-affairs/why-have-special-economic-zones-sez-not-taken-off-in-india-122070700036\\_1.html](https://www.business-standard.com/podcast/current-affairs/why-have-special-economic-zones-sez-not-taken-off-in-india-122070700036_1.html) (last visited on 21<sup>st</sup> February, 2024)

<sup>6</sup> Fact Sheet on Special Economic Zones as on 19<sup>th</sup> February 2024; <https://sezindia.nic.in/sites/default/files/65d5d533f23cbFact%20Sheet%20on%20SEZ%2019.02.2024.pdf> (last visited on 4<sup>th</sup> March, 2024)

<sup>7</sup>*Id.*

<sup>8</sup>*Id.*

For general queries or to submit your research for publication, kindly email us at [editorial@ijalr.in](mailto:editorial@ijalr.in)

<https://www.ijalr.in/>

during the five years immediately after the Act 2005<sup>9</sup>. As per the revenue impact report given by the Department of Revenue from FY 2020-21 to FY 2021-22, deductions provided by the units located in SEZ accounted for a significant portion of the total tax incentives.

SEZs offer many fiscal incentives to business units, such as duty-free exports, tax exemptions, and access to improved infrastructure. SEZ units enjoy 100% income tax exemptions on profits from exports for the initial five years and 50% for the next five years.<sup>10</sup> However, the World Trade Organization (WTO) declared that these tax incentives violate its regulations. Countries are prohibited from providing disproportionate tax incentives and subsidizing exports as it affects competition and distorts market prices. As the signatory to WTO, India had to reconsider the SEZ policies, withdraw tax concessions under the sunset clause, and impose Minimum Alternate Tax (MAT) in 2011-12. The amendment has also removed the exemption on Dividend Distribution Tax (DDT), which further made SEZs unattractive and negatively impacted the exporter's morale within SEZ.

Although taxation is a contentious issue, India's inconsistent tax regime has also affected foreign investments. Therefore, the author of this paper aims to study the fiscal problems that have led to the loss of government revenue and the reason for the unsuccessful journey of SEZs toward economic development. The paper is divided into four parts. Part I discusses the legislative framework on SEZs; Part II identifies the issues and challenges posed to the government; Part III analyses the success of SEZs established in China; and Part IV imparts a balanced roadmap to the government towards achieving fiscal sustainability.

## II. Historical Journey of SEZs

- *Export Processing Zones: A forerunner*

The first Export Processing Zone (EPZ) was established in Kandla, Gujarat, in 1965, and the second in Santa Cruz, Maharashtra, in 1973<sup>11</sup>. Later, in the 1980s, the government established

<sup>9</sup> Report of Comptroller and Auditor General of India, Report of the year 2012-13, Performance of Special Economic Zones (SEZs), Department of Revenue, Government of India

[https://cag.gov.in/uploads/download\\_audit\\_report/2014/Union\\_Performance\\_Dept\\_Revenue\\_Indirect\\_Taxes\\_Special\\_Economic\\_Zones\\_SEZs\\_21\\_2014.pdf](https://cag.gov.in/uploads/download_audit_report/2014/Union_Performance_Dept_Revenue_Indirect_Taxes_Special_Economic_Zones_SEZs_21_2014.pdf) (last visited on 18th February 2024)

<sup>10</sup> Section 10AA of the Income Tax Act, 1961.

<sup>11</sup> Aradhna Aggarwal, *Export Processing Zones in India: Analysis of the Export Performance*, INDIAN COUNCIL FOR RESEARCH ON INTERNATIONAL ECONOMIC RELATIONS, November 2004. [https://aradhnaaggarwal.com/wp-content/uploads/2004/11/EPZ\\_exportperf\\_2004.pdf](https://aradhnaaggarwal.com/wp-content/uploads/2004/11/EPZ_exportperf_2004.pdf) (last visited on 6th May, 2024)

For general queries or to submit your research for publication, kindly email us at [editorial@ijalr.in](mailto:editorial@ijalr.in)

<https://www.ijalr.in/>

five more EPZs in other parts of the country (Noida, Falta; Cochin, Chennai, and Vishakhapatnam)<sup>12</sup>. EPZs were set up predominantly as export-promoting tools. However, these seven EPZs did not significantly impact India's economic development. They could not yield the desired outcome because of high tariffs, controlled economy, improper location, and poor business connectivity. Even after the implementation of economic reforms in the early 1990s, no new EPZs were established.

- ***Evolution of SEZs: 2000 onwards***

Influenced by the success of SEZs in China, the Indian government later converted the EPZs into SEZs. To overcome the limitations faced by EPZs and to address the shortcomings, the Indian government introduced the SEZ policy in 2000. The government allowed the private sector to develop SEZs to propel economic growth. Approximately 12 new SEZs were set up, majorly like joint ventures with the government. Before the SEZ Act of 2005 was enacted, 19 SEZs were operationalized and governed under the Foreign Trade Policy. To bring stability to the policy and to boost the economy through SEZ, India launched the SEZs Act, 2005, along with the SEZ rules, 2006, which was introduced on 10<sup>th</sup> February 2006. The Act has provided more straightforward procedures, no minimum export performance requirement, and single window clearance on matters relating to central and state governments. According to the Ministry of Commerce and Industry, 354 were notified SEZs, but only 272 SEZs were operational in India in 2023<sup>13</sup>.

The main objectives of the SEZs Act of 2005 were to (1) generate additional economic activity, (2) promote exports of goods and services, (3) promote investment from domestic and foreign sources, (4) create employment opportunities, and (5) develop infrastructure facilities.<sup>14</sup>

The provision of the SEZ Act of 2005 provided several tax incentives related to direct and indirect tax and other facilities to the SEZ units. Under Section 10AA of the Income Tax Act, 1961, the business units can avail 100% exemption on income derived by export for the

---

<sup>12</sup>*Supra n.9.*

<sup>13</sup>STATISTA, Special Economic Zones in India - statistics & facts, 19<sup>th</sup> December 2023. <https://www.statista.com/topics/11148/sezs-in-india/#topicOverview> (last visited on 8<sup>th</sup> January, 2024)

<sup>14</sup>Ministry of Commerce and Industry, Department of Commerce, Government of India. <https://commerce.gov.in/about-us/subordinate-offices/offices-of-development-commissioners-of-special-economic-zones-sezs/#:~:text=The%20main%20objectives%20of%20the,the%20development%20of%20infrastructure%20facilities>. (last visited on 12<sup>th</sup> April, 2024)

For general queries or to submit your research for publication, kindly email us at [editorial@ijalr.in](mailto:editorial@ijalr.in)

first years, 50% for the next five years, and 50% of plowed back export profit for the next five years. Along with the above relaxation, business developers can avail exemption on income earned from business development in SEZ under Section 80-IAB of the Income Tax Act, 1961, for a block of 10 years in 15 years<sup>15</sup>.

The government has given various relaxations under indirect tax as well, such as duty-free import/domestic procurement of goods for development, operation, and maintenance of SEZ units; exemption from Service Tax under Section 7, 26, and 2<sup>nd</sup> Schedule of the SEZ Act, 2005<sup>16</sup>; exemption from Central Sales Tax; and exemption from state VAT, Stamp Duty, and other taxes as levied by the State Government<sup>17</sup>.

But after the objection raised by WTO and the withdrawal of tax concessions by India under the sunset clause in 2011-12, the business units are levied tax rates as per MAT defined under Section 115JB of the Income Tax Act, 1961<sup>18</sup>. The exemption from DDT under Section 115O of the Income Tax Act, 1961, has also been removed. Currently, custom duties, Integrated Goods and Service Tax (IGST), antidumping, countervailing, and safeguard duties under the Customs Tariff Act, 1975 are also applicable to any export or sales from SEZs to DTAs<sup>19</sup>. The unit established in SEZs argues that the duties on domestic sales should be at par with what exporters from Free Trade Agreement (FTA) Countries pay.

In terms of trade agreements, India has signed FTAs, Comprehensive Economic Partnership Agreements, and Comprehensive Economic Co-operation Agreements with several countries. Under such contracts, India provides preferential tariffs on the specified goods covered. As a part of the sovereign commitment, these tax concessions have consequently impacted the government's revenue.<sup>20</sup>

---

<sup>15</sup>*Supra n. 2*; The Income Tax Act, 1961. [www.incometax.gov.in](http://www.incometax.gov.in) (last visited on 19<sup>th</sup> May, 2024).

<sup>16</sup>*Id.*; Special Economic Zone Act, 2005. <https://liddashboard.legislative.gov.in/actsofparliamentfromtheyear/special-economic-zones-act-2005> (last visited on 24<sup>th</sup> May, 2024)

<sup>17</sup> Holger Gorg, Alina Mulyukova, *Place-based policies and firm performance: Evidence from Special Economic Zones in India*, EUROPEAN ECONOMIC REVIEW, 2024.

<sup>18</sup>*Supra n. 13*.

<sup>19</sup>*Supra n. 3*.

<sup>20</sup>*Supra n. 1*.

For general queries or to submit your research for publication, kindly email us at [editorial@ijalr.in](mailto:editorial@ijalr.in)

Therefore, it is a continuous discussion that revolves around the business units and fiscal viability of the SEZs about the revenue loss and absence of profitable incentives that make the developer relocate<sup>21</sup>.

- ***Recent legislative reforms***

The government of India in January 2021 has taken an initiative to implement a new tax rate under the scheme of Remissions of Duties and Taxes on Export Products (RoDTEP). It covers around 10,610 export items with rates of tax refund ranging from 0.01% to 4.3%<sup>22</sup>. However, exports from SEZs, EOUs, manufacturing, and other activities carried out in advance authorization schemes and bonded warehouses by Customs are not included. The scheme was created to refund federal, state, and local taxes, tariffs, and levies paid during the production and distribution of goods that are exported but not refunded under any other mechanism.

In addition, through the Development Enterprise Services Hub Bill 2022 (DESH), the government is moving away from its original idea of export-oriented production. It has proposed to allow the business units of SEZs to sell in domestic markets to boost domestic manufacturing.<sup>23</sup> This bill aims to make SEZ rules more compliant with WTO. The bill has also proposed setting up an integrated single window clearance mechanism for time-bound approval hubs.<sup>24</sup>

It is pertinent to mention that India needs to implement ease of business in SEZ to utilize available infrastructure optimally. The focus should be on harnessing the competitiveness of Indian exports.

### **III. Issues and Challenges before SEZs**

SEZs have played a significant role across the globe in the promotion of exports and the generation of employment, leading to the overall development of the economy. In India, SEZs were set up to provide a hassle-free environment for exports and to replicate China's

---

<sup>21</sup> Varsha Maheshwari, *The Question of Capital (Incentive) in Special Economic Zones: A Study with Reference to SEZs Act 2005*, Vol. XIX No. 2S, BIHAR JOURNAL OF PUBLIC ADMINISTRATION, ISSN: 0974-2735, (July-Dec 2022); A., Aggarwal, *Special Economic Zones: Revisiting the Policy Debates*, Vol. 41, No. 43-44, pp. 4533-36, ECONOMIC AND POLITICAL WEEKLY, (2006).

<sup>22</sup> *Supra n. 3.*

<sup>23</sup> *Supra n. 4.*

<sup>24</sup> *Id.*

For general queries or to submit your research for publication, kindly email us at [editorial@ijalr.in](mailto:editorial@ijalr.in)

<https://www.ijalr.in/>

SEZs to boost the economy. Despite the laudable objectives of SEZs, its formation and policy implementation have always concerned India.

It has been reported by the Department of Revenue, Government of India, that deduction on export profits of units located in SEZs as per Section 10AA of the Income Tax Act, 1961 has impacted Rs.1411.43 crores in 2021-22. Also, the deduction of profits from undertakings engaged in developing SEZs and industrial parks under Section 80-IA of the Income Tax Act, 1961, has impacted Rs.15.92 crores in the years 2021-22. Whereas deductions on profits of an undertaking engaged in the development of SEZ in pursuance to SEZ Act, 2005 under Section 80-IAD of the Income Tax Act, 1961 has impacted Rs.98.67 crores in the year 2021-22<sup>25</sup>. The said government's report has highlighted the rise in total revenue loss from Rs. 27,973 in FY 2021-22 to Rs. 29,548 in FY 2022-23 and is estimated to rise to Rs. 39,397 in FY 2023-24<sup>26</sup> On account of export promotion schemes within SEZs.

Since the inception of the SEZ Act of 2005, several specific performance-based studies for SEZ have also been conducted, delving into export performance and fiscal viability.<sup>27</sup> The idea of SEZs was to promote exports, attract investment, and build the economy. As a result, SEZs were placed in strategically important places near ports and areas that promoted trade. But over time, Indian SEZs, too, lost some of their competitive advantage. Several business units have also left these zones because they believe the policies are inconsistent. These business units changed course because of the sunset clause, the removal of tax incentives, and the regulatory regulations of other Association of Southeast Asian Nations (ASEAN) nations being relaxed. The vastland areas under SEZs became unutilized or vacant due to sector-specific restrictions.

One of the essential aspects of the SEZ Act was to provide world-class infrastructure. Unfortunately, these SEZs did not get the infrastructure promised due to poor connectivity from these hubs to ports.

---

<sup>25</sup> *Supra n. 1.*

<sup>26</sup> *Id.*

<sup>27</sup> M. L. Tantri, *Import Dependency of Special Economic Zones*, Vol. XLV No. 36, ECONOMIC AND POLITICAL WEEKLY, (2010); M. L. Tantri, *Special Economic Zones in India: Are These Enclaves Efficient?* Working paper- 274, INSTITUTE OF SOCIAL AND ECONOMIC CHANGE, BANGALORE, (2012); M. L. Tantri, *Special Economic Zones in India: Policy, Performance and Prospects*, NEW YORK: CAMBRIDGE UNIVERSITY PRESS, (2016).

For general queries or to submit your research for publication, kindly email us at [editorial@ijalr.in](mailto:editorial@ijalr.in)

The Indian SEZs, a control-free industrial enclave, became the center of corruption and scams. The politicians used to influence the administrative officials at state-owned industrial development corporations to secure land for their gains. It subsequently discourages the growth and development of SEZs.

#### IV. Comparative analysis with China

Compared with other countries like China, the Chinese SEZs have demonstrated remarkable performance worldwide. In 2023-24, the export growth rate of China was 600%<sup>28</sup>. The countries with FTA have chiefly influenced India's exports. India exports Rs.345 crores to UAE, one of the significant contributors to India's economic growth, followed by Thailand with the export of Rs. 20 Crores. Sri Lanka has also contributed up to Rs. 9 Crores towards India's exports. Other countries such as Australia, Myanmar, and Singapore have also played an essential role in India's trade expansion. The first SEZs in Asia were established in India in 1965. At the same time, China began to develop these zones in the late 1970s after the death of Chairman Mao Zedong, when Deng Xiaoping came to power in China. In 1977, Xiaoping launched a program called "Four Modernizations" to rejuvenate the Chinese economy. The primary purpose of this program was to strengthen the four sectors of China, namely, Agriculture, Industry, Defense, and Technology. As a part of these four modernizations, China designated four SEZs- Shenzhen, Zhuhai, Shantou, and Xiamen.<sup>29</sup> This was a turning point for China, and it became the most significant manufacturing hub. The main reasons for such a success were location, area, and infrastructure. In 2021, the Chinese SEZ contributed around 22% of the Chinese GDP and 60% of exports, and the SEZ is estimated to have created three crore jobs in China.<sup>30</sup>

- **Land area:**

From the area perspective, Shenzhen is one of the largest SEZs in China and is spread across 493 sq km (49,300 hectares). In contrast, if we compare the Indian SEZ, which is in Reliance Navi Mumbai and Maha Mumbai, they are pretty small (i.e., 14,000 hectares) compared to Chinese

---

<sup>28</sup>Noida Special Economic Zone, Key Performance Indicators, January 2024. [https://nsez.gov.in/Resources/Announc/SEZ\\_TradeBulletin\\_merged.pdf](https://nsez.gov.in/Resources/Announc/SEZ_TradeBulletin_merged.pdf)(last visited on 23rd March 2024)

<sup>29</sup> Weiping Wu, *The Creation and Evolution of China's Special Economic Zone Policy*, Vol. 6, n. 2, NIVA ECONOMIA, Belo Horizonte, (Nov 1996).

<sup>30</sup>World Bank report on *Experience Gained in the Development of China's Special Economic Zones*, CHINA DEVELOPMENT BANK, (2011); Dream Zhou, *Special Economic Zones of China*, (2022).

For general queries or to submit your research for publication, kindly email us at [editorial@ijalr.in](mailto:editorial@ijalr.in)



SEZ. The average area of Indian SEZ is just one sq km. The government runs Chinese SEZs, whereas the private sector drives Indian SEZs. Acquisition of Land in India is also a problem,

The infrastructure must also be world-class to set up the most significant manufacturing hub. However, in the case of Indian SEZs, they were pretty small and didn't have the proper facilities.

- **Location:**

China chose mostly port regions and preferred locations close to Hong Kong for better import and export facilitation. The first SEZ of India was Kandla, and even though it was located in port regions, the main problem was that it was a closed enclave meant to limit export-oriented production.

- **Labour Laws:**

There is complete relaxation concerning Labour laws in China, but there is no flexibility in India. The employment is contractual, and the companies themselves fix wages.

- **Policy Regime:**

The policies in China are liberal and related to the SEZ, whereas, in the case of India, the policy regime is based on fiscal standards.<sup>31</sup> Tax incentives were not considered and reviewed by the government. Units should not be placed in SEZs to receive incentives.

- **Investors:**

The investors in China are foreign investors, whereas in India, all the investors are from local sources.<sup>32</sup> India has not been able to woo foreign investors like China.

China succeeded in the 1990s, while India announced its SEZ policy in 2000 because of many clearances. The reasons that Indian SEZs have failed were primarily due to strict labor laws, small areas/ enclaves, restrictive policies, inadequate infrastructure, and lengthy procedures.

Comparing Indian SEZ performance with SEZs set up in China, the Chinese government has always focused on the "big and few" model, unlike India, which has adopted

---

<sup>31</sup>*Supra n.* 30.

<sup>32</sup>*Id.*

For general queries or to submit your research for publication, kindly email us at [editorial@ijalr.in](mailto:editorial@ijalr.in)

a policy of “small and many.” However, the Department of Commerce, Government of India, believes that the benefits of SEZs outweigh the expected costs. However, the department’s belief has also faded over the years as India’s SEZs have not been as successful as China and several other countries despite various tax incentives. The business developers/units were established in SEZs to avoid taxes rather than for export purposes.

#### IV: Recommendations and Conclusion

- **Recommendations**

- a) Multi-tiered Tax Incentives:

- i. **Phased-based exemptions:** Provide a tax break structure with tiers. To help with establishment costs, new companies in the SEZ may be eligible for a more extensive tax exemption in the first few years of operation. Over time, this exemption might be gradually reduced, encouraging profit reinvestment within the SEZ.
- ii. **Performance-based incentives:** Link a few tax incentives to performance indicators like creating jobs, the value of exports, or the uptake of new technologies. This encourages companies to make significant contributions to the SEZ's objectives.

- b) Diversified Revenue Streams:

- i. **Levying of indirect taxes:** While the taxes under the Income Tax Act might be reduced, SEZs could focus on levying indirect taxes like VAT on goods produced or services rendered within the zone. This broadens the tax base and generates revenue without discouraging investment.
- ii. **Land lease and user charges:** Implement a system of land lease charges within the SEZ, with rates varying based on the size and location of the plot. Additional user charges could be levied for utilities and infrastructure usage. This creates a sustainable revenue stream for SEZ maintenance and development.

- c) Withdrawal of MAT and DDT exemption: The government should revisit it. Section 115O of the Income Tax Act, 1961 provides any amount declared, distributed, or paid on or after 1<sup>st</sup> June 2011 by domestic companies within SEZ by dividend

For general queries or to submit your research for publication, kindly email us at [editorial@ijalr.in](mailto:editorial@ijalr.in)

<https://www.ijalr.in/>

attracts DDT. Therefore, re-introducing these taxes may incentivize exports from these zones.

d) Sustainability and Green Taxation:

i. **Green Tax Incentives:** Implementation of Tax incentives for companies that adopt sustainable practices and invest in renewable energy within SEZs. This aligns with global trends towards environmental responsibility and carbon neutrality.

ii. **Carbon Taxation:** Introducing carbon taxes in SEZs encourages business units to reduce carbon emissions and invest more in green technologies.

e) Transparency and Accountability: The government should have more precise and well-defined SEZ regulations. This reduces uncertainty for businesses and attracts investment.

f) Base Erosion and Profit Sharing (BEPS) Compliance: Ensuring SEZ tax policies comply with international standards to prevent tax base erosion and profit shifting by multinational corporations.

• **Other recommendations:**

- a) Single window clearance does not exist in most states, and it is imperative to unplug loopholes to catalyze business environments.
- b) The number of Free Trade Agreements also decreases the importance of SEZs.
- c) Developing the infrastructure outside the SEZ to facilitate easy connectivity for import and export.

• **Conclusion**

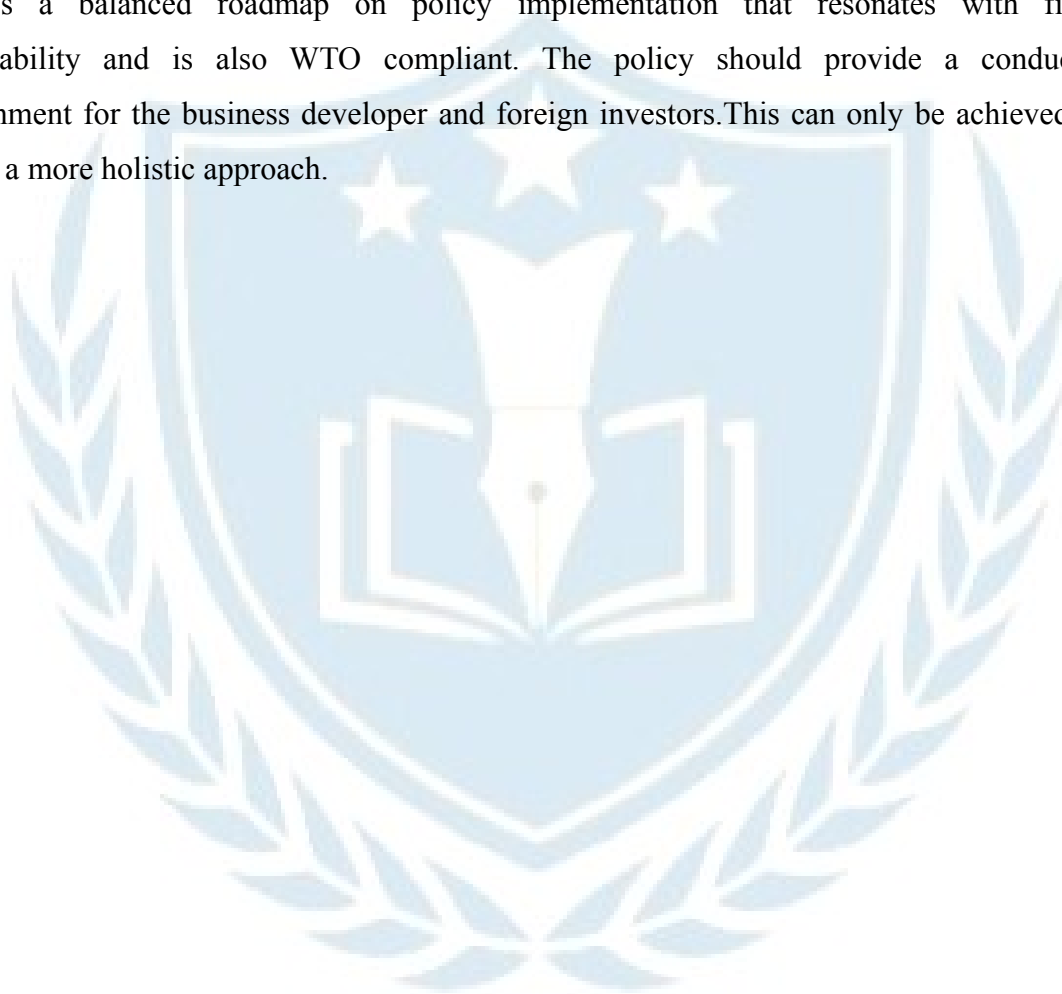
While looking at the journey of the SEZ Act from the prism of a political economy, India did witness an exponential rise in the number of SEZs with the introduction of the SEZ Act. The tax incentives and concessions allowed under the Act have lured foreign investors to invest. However, the manufacturing growth has not increased significantly, even with the Centre and state levels offering over 300 incentives and initiatives to promote manufacturing. Certainly, SEZs in India could not reap the expected benefit, which may be due to the cumbersome land acquisition process, applicable MAT/ DDT, poor connectivity, etc.

For general queries or to submit your research for publication, kindly email us at [editorial@ijalr.in](mailto:editorial@ijalr.in)

<https://www.ijalr.in/>

Optimizing taxation in SEZs requires a delicate balance between providing attractive incentives for investors and ensuring sufficient revenue generation for the government. By adopting a strategic, phased approach to tax incentives, linking benefits to performance metrics, and incorporating robust compliance mechanisms, governments can maximize the economic benefits of SEZs while safeguarding fiscal health.

To conclude, India aims to become an economy of US\$ 5 trillion by 2025, which requires a balanced roadmap on policy implementation that resonates with fiscal sustainability and is also WTO compliant. The policy should provide a conducive environment for the business developer and foreign investors. This can only be achieved by having a more holistic approach.



For general queries or to submit your research for publication, kindly email us at [editorial@ijalr.in](mailto:editorial@ijalr.in)

<https://www.ijalr.in/>