



SEZ – EFFECT ON REVENUE OR LOSS FOR GOVERNMENT

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Abstract: In the era of globalization to compete in the global market, the Government of India (GOI) has planned to set up SEZ with liberalized export policies, licensing of technology and tax reforms providing various incentives. A Special Economic Zone (SEZ) is a geographical region that has economic laws that are more liberal than a country's typical economic laws. Usually the goal is to increase the foreign investment. This paper describes about how effectively SEZ helped in the development of infrastructure, employment to people, increase in exports, earning foreign currency etc. In India SEZ's main purpose was to develop the underdeveloped regions of India. But the land for SEZ utilised from rural areas. So, there is snatching of cultivated land or buying land at much discounted rates from farmers or poor people and then selling it to corporates at exorbitant prices. So ultimately one side there is profit & revenue generation from SEZ but other side it leads to loss of revenue for the govt.

Keywords: FDI, Employment generation, Foreign exchange, Tax implication

Introduction:

SEZs are virtually industrial townships that provide infrastructure such as housing, roads, hospitals, hotels, educational institutions, leisure and entertainment units, residential/industrial/commercial complexes, water supply sanitation and sewerage system and any other facility required for development of the zone.

Objectives:

- Understand SEZ's contribution in Employment To generation in India.
- To understand the SEZ's policy whether it generates revenue or loss
- To evaluate the contribution of SEZ in the development of rural sector of India.

Limitations:

This research is based on findings of the research which may not be generalized. Also this study may not applicable to all over India because of small sample size used.

Why there was need for SEZ:

In India there is a lot of area wise irregularity about industries.

Where some states has more and more industries and other underdeveloped state have low industrial growth. So SEZ are created here to remove this type of dissimilarity.

SEZ generates employment, raises the standard of living. It provides more employment opportunities to the people who are below poverty line.

But study reveals that SEZs were working as real-estate ventures rather than

production and export zones. For the rules require that only 35 per cent of the area in a SEZ be devoted to productive activity and a developer can use the rest of the land to build apartments, hotels and commercial offices.

The objectives of the SEZ policy are:

- Attract Foreign Direct Investment (FDI)
- Foreign exchange rate stability
- Develop rural sector
- Generate employment
- Adoption of new skills and expertise to local human resources
- Boost the export sector
- Introduce new technology in INDIA

Brief History of SEZ:

- SEZ's are created for boosting the trade and rapid economic growth it is the tool by the government to give tax and business incentives to an specific area
- In 2000 the Government of India formulated the SEZ policy
- In 2005 the SEZ Act was made
- February 10, 2006 : It came into force
- The enormous subsidies given to corporations are creating an impact on the economy of the country.
- Tax exemption is the most attractive feature of SEZ
- Current Situation:
- The Finance Ministry has estimated that SEZs could run up a revenue loss of Rs.1, 75, 000 corer in direct taxes, custom and excise duties over the next five years

- According to the Parliamentary Standing Committee's 83rd report, presented in the Rajya Sabha in June 2007, the Ministry of Finance estimated a revenue loss of Rs 175,487 crore from tax holidays granted to SEZs, for the period 2004-05 to 2009-10

Figures & Facts

- Thousands of crores of revenue have been forgone due to tax holidays granted to SEZs.
- The CAG threw light on the absence of enabling provisions, resulting in Rs 1,724.67 crore of revenue foregone, or irrecoverable
- More recently, in January 2010, the Central Board of Excise and Customs (CBEC) recommended an overhaul of the Special Economic Zone (SEZ) Act 2005, saying it had detected gross violations of duty and tax concessions causing it to suffer a revenue loss of Rs 175,000 crore to date.

Benefits of SEZ to investors:-

There are several benefits to the investors who invest in Special economic zone and establish a manufacturing unit. The benefits are as under:-

- 1) No direct tax:- under the Special Economic Zone policy, the investor working under SEZ needn't pay any income tax as well as surcharges thereon.
- 2) No indirect taxes:- investors also needn't pay any excise duty, custom duty as well as education cess and surcharges. The sales tax however is not exempted fully (area to area) but the rate of sales tax is low than other places.
- 3) Subsidy:- government also gives subsidy to different machines as well as power equipments such as generators.
- 4) Power:- power has a big role in industries. In SEZ there is complete concentrate on giving full time power as well as power on reduced rates.
- 5) Manufacturing, Trading as well as service activities are allowed in Special economic zone.

So as taxes are the main source of revenue earner for the government, SEZ are free from these implications.

Loss to the Farmers:

Poor farmers have to fight against gigantic and powerful companies, for instance 'No less than 14,000 hectares of land have been given to Reliance for developing a SEZ in Raigarh near Mumbai. This will displace people of 45 villages and no one is talking about their rehabilitation.

They realize that the Company has enormous sway over the political, bureaucratic establishment and the media. This company has been given the largest SEZ in the 42 villages in Pen-Panvel-Uran area, in the name of the activities like manufacturing, trading, services, processing, logistics, repackaging, warehousing etc.

In India the system of creating SEZ is government acquires the land and gives it to the private sector.

So there are many drawback of SEZ.

1-Special Economic Zone reduces the agriculture land and makes more pressure on land to fertilize.

2-SEZ also attracts the builders to acquire the land and it will cost displacement of farmers.

3-It can create food security.

4-The industries which are not in SEZ have serious harm to fight competition.

5-It can create uneven growth in the country.

As the agricultural land is used for industrialization, there are problems like:

1. soil erosion due to deforestation
2. lack of micro-credit to farmers,
3. the specter of urbanization again rises, and with it, the need to create jobs for farmers who have no skills other than farming and very little formal education, provide water, civic facilities, housing, health facilities, schools, etc., which is far beyond the capacity of governments and municipal bodies.

Research purpose:

Since the purpose of the study is to understand the SEZ policies for the betterment of government & common man, the data can be used or found more. The research can be considered as exploratory and descriptive because we may get more information and we can describe events more specifically.

Data collection:

Secondary data collection was done for the collection of data in the present study.

Conclusions:

- 1) In India SEZ are made for 5-6 years after which the companies need to pay taxes as in other places. So if the SEZ are created wisely and not on agriculture land, it will benefit to every person and the economy of India.
- 2) The study indicates that government should revise the rules & regulation for Tax purpose, so that it can get revenue from SEZ.
- 3) It is observed that SEZ contributes in the development of country due to industrialization, but fails to achieve the targeted growth.

Suggestions:

- 1) Government should think about the benefit of common man (farmers), while forming the policies for SEZ.
- 2) The government should work effectively to make SEZ successful in India as in other countries it is more successful.

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