



## SPECIAL ECONOMIC ZONE DEVELOPERS BREATHE A SIGH OF RELIEF

May 2009

Superseding the previous notification granting partial relief in service tax, the Ministry of Finance, issued another notification (*No. 15/2009 – Service tax, dated May 20, 2009*) providing unconditional exemption from service tax to developers and units for services that are consumed within the Special Economic Zone (“SEZ”).

The earlier notification (*No. 9/2009 – Service Tax, dated March 03, 2009*) provided that SEZ developers can claim refund for the service tax paid with respect to all authorized input services, irrespective of whether these services were consumed inside or outside the SEZ, as long as these services were used in relation to the authorized operations in the SEZ. This implied that all developers and units in the SEZ had to pay tax on the services consumed by them and thereafter apply for a refund from the tax authorities.

The Finance Ministry has now taken a decision to restore upfront service tax exemption on services consumed within the zone. The latest notification of May 20, 2009 now provides for an absolute exemption for services consumed within the SEZ, eliminating the previous route of first depositing the tax and thereafter seeking its refund. This is a positive step in protecting the interest of SEZ developers as now they can dispose off the increased transaction cost and the increase in the cash outflow by depositing service tax and then claiming a refund.

However, this notification is only limited to situations when any taxable service is consumed entirely in the SEZ. In case any taxable service is provided, which is consumed partially or wholly outside the SEZ, exemption by way of refund may be allowed upon the satisfaction of the concerned Assistant/Deputy Commissioner and filing of a refund claim accompanied by a list of specified services required in relation to the authorized operations in the SEZ, documents evidencing payment of service tax and in some special cases, where the refund claimed is high, the concerned Assistant/Deputy Commissioner may verify the end-use of services consumed for which refund is filed.

This notification is a positive step towards promoting duty-free enclaves whereby the developers and units in the SEZ do not have to hassle themselves about paying service tax for services consumed entirely within the SEZ. With a clear exemption to pay tax, it reduces outflow of cash, which in today’s recessionary environment is the key to growth.

**Dhruv Suri**

**E-mail – [d.suri@psalegal.com](mailto:d.suri@psalegal.com)**



[SITEMAP](#) | [CONTACT US](#)

PSA © 2021 | Developed by [iNFOTYKE](#)