



CERTIFICATE COURSE ON INTERNATIONAL TRADE

Today's Content – Incentives under Income Tax Act for Export Promotion

The Indian Income Tax Act provides several **incentives to promote exports**. These incentives aim to make Indian goods and services more competitive in the global market and support foreign exchange earnings.

Here's a concise summary of the key **export-related tax incentives** under the Act:

I. Section 10AA of Income Tax Act

To promote exports and attract foreign investment, the Government of India introduced Section 10AA under the Foreign Policy Act. However, it became fully functional in 2006, after which tax concessions were offered to specific businesses. On fulfilling certain conditions, **Section 10AA of the Income Tax Act** allows new businesses or units offering services in Special Economic Zones (SEZs) to enjoy income tax exemption and holidays. This zone is generally a part of the nation's diverse business and trade legislation and is located within a nation's borders.

Eligibility for Section 10AA Deduction

Entrepreneurs, firms, companies, individuals and other categories of assesseees can claim a deduction under Section 10AA. However, to claim a deduction under this section, SEZ units need to meet the following conditions or criteria:

- The entrepreneur should enroll within the provisions of Section 2(j) of the Special Economic Zone Act, 2005.
- The company should not have been established by relocating previously used plants or machinery. However, in certain cases, SEZ units can use second-hand machinery.
- The SEZ unit must commence its production on or after April 1, 2006.
- The SEZ unit should not be incorporated by reconstructing or splitting an existing business.
- If SEZ businesses have already reaped the deduction benefit under Section 10AA for 10 years, they are ineligible to claim this deduction.

10AA Exemption Limit

The amount of deduction available under this existing section is as follows:

- 100% of the profit coming from export is entitled to a tax deduction for the first 5 consecutive years (1st to 5th year).
- 50% of the export profit is entitled to a deduction for the next 5 years (6th to 10th year).
- 50% of Export Profits (or) the amount credited to the SEZ Reinvestment Allowance reserve, whichever is lower (11th to 15th year)

Section 10AA Limit

Take a look at the following conditions that apply to the exemption amount under this section:

- Business owners of units in SEZs need to create a reserve account (Special Economic Zone Reinvestment Reserve Account) after claiming the deductions for the first 10 years. Businesses can use the amount only for buying new machinery and plants.
- Owners need to use the newly purchased plant or machinery for 3 years from the date of creating their reserve account.

- Owners need to provide the necessary particulars of the purchase of machinery in Form No.56FF for taxable income calculation.

If the amount in the said reserve account is not utilised within 3 years or mis-utilized, then the amount deduction claimed shall be added to the profit of the year after the completion of 3 years or the year in which it is mis-utilized and shall be charged to tax.

Section 10AA Amendment

The existing provision of Section 10AA of the Income Tax provides 15 years of tax benefit to newly established businesses or units located in SEZs. However, the deduction claimed under this section is time-bound. For instance, it is only available if the SEZ unit began operation on or after 1 April 2005 but before 1 April 2021.

Moreover, with the recent amendment, no deduction will be allowed to an assessee who does not file a return of his income on or before the due date as mentioned under section 139(1).

Also, this section did not provide any time limit for timely remittance of the export proceeds from sales of goods or provision of services under Section 10AA. So, it has been amended and a new sub-section (4A) has been introduced to provide tax deduction on the proceeds from sales of goods that are brought into India in convertible foreign exchange within a time of 6 months from the end of the previous year.

Calculation For Section 10AA Deduction Under Income Tax

In order to compute the deduction under Section 10AA, you can use the formula below:

Profit from export = (Profit of the unit's business X Unit's Export Turnover) / Total Turnover of the Business.

Here, export turnover refers to the amount that a business receives for its exports. This turnover does not include insurance expenses, telecommunication charges, etc.

What happens in case of Amalgamation or Merger?

If a unit eligible for deduction under Section 10AA is transferred to another undertaking through a scheme of amalgamation or demerger before the deduction period expires, the following consequence will apply –

- The deduction under Section 10AA will not be available to the amalgamating or demerging unit for the previous year in which the amalgamation or demerger has taken place.
- Furthermore, the provisions of Section 10AA should be applied to the amalgamated or demerged unit as if the amalgamation or demerger had not occurred.

SEZs are eligible to enjoy an income tax advantage and other associated provisions under Section 10AA of the Income Tax Act. However, it should be kept in mind that these provisions are only applicable to companies that operated from April 1, 2006, to April 1, 2021.

II. Section 80LA Deduction - Income Tax

Section 80LA of the Income Tax Act provides the basis for income tax deductions relating to certain incomes of Offshore Banking Units or International Financial Services centers.

Offshore Banking Units

As per the definition given by the RBI, an offshore banking unit is a branch of an Indian bank located in Special Economic Zone (SEZ) with a special set-off rule aimed at facilitating exports from the region. In India, offshore bank unit is a virtual foreign bank branch of an Indian bank but located in India. Offshore banking units are usually involved in international banking business that involves foreign currency denominated assets and liabilities.

International Financial Services Centre

International Financial Services Centres are treated as a non-resident under RBI regulations. International Financial Services Centres are set-up to undertake financial services transactions that are currently carried on outside India by overseas financial institutions and overseas branches/subsidiaries of Indian financial institutions. International Financial Services Centres usually deal with the flow of finance, financial products and services across borders.

Deduction

In accordance with provisions of this section 80LA, an assessee being a scheduled bank or owing an offshore banking will be allowed deduction under Section 80LA. The deduction allowable for such income will be 100% of the income derived for 5 consecutive years beginning with the assessment year relevant to the financial year and 50% of income for next five consecutive assessment years. The eligibility will begin from the date on which the permission was obtained under following Acts:

- Banking Regulation Act, 1949
- Securities & Exchange Board of India Act, 1992
- Any other relevant law

Income under Section 80LA

The deduction will be allowed for the following incomes, to the extent the incomes are included in the gross total income of assessee:

- Income from offshore banking units in a Special Economic Zone
- Income from the business, referred to section 6 (1) of the Banking Regulation Act, 1949
- Income from an undertaking located in a special economic zone
- Income from any other undertaking which develops, operates and maintains a special economic zone
- The income from business of any Unit of the International Financial Services Centre



