



PHARMACEUTICALS EXPORT PROMOTION COUNCIL

(Set up by Ministry of Commerce, Govt. of India)

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Pharmexcil plead centre to continue income tax exemption for SEZs in DTC regime

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<http://www.pharmabiz.com/article/detnews.asp?articleid=56252§ionid=>

The Pharmaceutical Exports Promotion Council (Pharmexcil) has requested the central Finance Ministry to continue the income tax exemption offered through the Special Economic Zone (SEZ) Act, 2005, to all the new SEZ developers and units even after the implementation of the Direct Tax Code (DTC) considering the painstaking efforts the pharmaceutical firms have already put into setting up new units in the SEZs.

Under the proposed DTC, the grandfathering provisions - a clause that allows an old rule to continue to apply to some existing situations when a new rule will apply to all future situations - of income tax exemption have only been provided to the developers of the SEZs and the units which are operational before March 31, 2011. Even this decision has been taken after continued requests from the SEZ community, once the draft discussion paper was published earlier.

With the existing norms in DTC, the benefit will be limited to only a handful of units out of the very large export community proposing to have their units in SEZs in near future, says a letter sent by the council to the Finance Ministry.

The decision would close the door for new investments in the SEZs as no entrepreneur would like to set up a new unit in the SEZ with substantial investment by way of CAPEX and not have any income tax exemption, says the letter. Similarly, the SEZ developers would also be reluctant to develop the SEZ if the new units are not coming forward to set up in the zones.

The government should also consider that setting up a pharmaceutical unit takes a longer time frame compared to other industries, as the minimum required time to set up a facility as per norms alone would take more than two years and another one and a half years to get approval from various regulatory offices in countries like US FDA, EU, MHRA, TGA Australia and MCC-South Africa before commencing operation.

“We earnestly and humbly request to the Ministry of Finance to restore the benefits of Income Tax exemption as per the SEZ Act, 2005 under Revised Discussion paper to those SEZ units and developers who have been granted approval by Board of Approval,” avers the council in the letter.

This would also help the export oriented units (EOUs) which are shifting their operations to SEZs, since the timeframe for Income Tax exemption is expected to end by March 2011, under the Sunset Clause. The Pharmexcil has also requested the government to reconsider and extend this timeline so that the units can smoothly shift their operations to the SEZs.

On the basis of the SEZ Act, 2005 commerce ministry has already granted formal approval to 578 units out of which 353 units are notified and only about 111 are operational. The operational units are also not yet developed fully are at various stages of development, while the developers and units have invested huge amount in the plant and machinery.

The government should also notice that an investment to the tune of Rs 1.5 lakh crore employing over 5 lakh persons has been committed by SEZs and these zones has achieved exports of Rs 2,20,711 crore which is translated to the incremental growth rate of 127 per cent during the financial year 2009-10, points out the council.