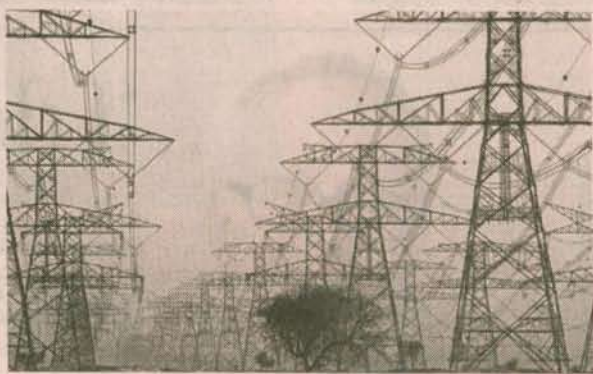


Customs duty on electrical supply shocks SEZ developers



According to a Budget proposal, electrical energy supplied from SEZs to the DTA and non-processing areas within SEZs will attract 16 per cent ad valorem duty

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The imposition of 16 per cent Customs duty on supply of electricity from special economic zones (SEZ) to non-processing and outside areas has added another issue to the ongoing dispute between finance and commerce ministries over these zones.

Developers and experts said the Budget proposal of Finance Minister Pranab Mukherjee lacked clarity and overlooked certain fine points of the SEZ Policy. The developers are also miffed at the classification of these tax-free enclaves into processing and non-processing areas.

"At a time the government is encouraging the power sector, this duty seems meaningless. This provision should be removed. Moreover, it is high time the finance ministry starts considering an SEZ as a unit and not processing and non-processing zones," said Naveen Raheja, chairman and managing director, Raheja Developers.

Raheja said this would lead to further confusion over the SEZ policy because according to the present norms, a power plant in the non-processing part of the SEZ is considered an infrastructure facility.

"This is going to be com-

plex. The idea is probably that the government wants the benefits to be confined to the processing zones," said Pratik Jain of KPMG. Also, according to Section 30 of the SEZ Act, goods sold from SEZ to the domestic tariff area (DTA) are subjected to same level of duties as are applicable on imported goods.

At present, electrical energy is fully exempt from Customs duty. According to the Budget proposal, electrical energy supplied from SEZs to the DTA and non-processing areas within SEZs will attract 16 per cent ad valorem duty, which will be applicable retrospectively from June 26, 2009.

LB Singhal, director-general, Export Promotion Council for EOUs and SEZs, said while the finance minister recognised the contribution of SEZs in bringing investment, increasing exports and creating employment, "Certain provisions like imposing Customs duty on supply of electricity will create complexities."

Singhal said the duty was on the higher side and should be proportionate to the duty-free benefits taken on the imported consumables. He also highlighted that at present, no duty was imposed on import of power and this should be extended to SEZs also.