Frequently Asked Questions (FAQs)

Renewal of Letter of Approval (LOA) of SEZ Units

Q1. What is a Letter of Approval (LOA)?

A Letter of Approval (LOA) is the approval granted by the Development Commissioner for setting up and operating a Unit in a Special Economic Zone (SEZ) for carrying out authorized operations.

Q2. What is the validity of an LOA?

In terms of Rule 19(6) of the SEZ Rules, 2006, the Letter of Approval is ordinarily valid for a period of **five years** from the date of commencement of production or service activities, unless otherwise specified.

Q3. Can the LOA be renewed after expiry of the initial period?

Answer: Yes.

In terms of Rule 19(6) of the SEZ Rules, 2006, the Letter of Approval may be renewed by the Development Commissioner for a further period, subject to satisfactory performance of the Unit and fulfillment of the prescribed conditions.

Q4. When should a Unit apply for renewal of LOA?

The Unit should apply sufficiently in advance and preferably**at least two months before the expiry of the existing LOA**.

Q5. What happens if the application is submitted after the prescribed timeline?

Where the application is submitted after the prescribed period, the Unit should furnish reasons for the delay.

The delay may be examined by the Development Commissioner while processing the renewal application.

Q6. In which format should the application be submitted?

The application should be submitted online through the SEZ Online System in

Form-F1 and should be duly signed by the Authorized Signatory.

Documents Required for LOA Renewal

Q7. What documents are required for renewal of LOA?

The following documents are generally required:

A. Mandatory Documents

1. Duly filled Form-F1 submitted through SEZ Online.
2. Board Resolution/Authorization Letter authorizing the signatory.
3. Detailed projections for the next five years.
4. Break-up of projected foreign exchange outgo.
5. Undertaking regarding compliance with Rule 19(6B).
6. Valid EPCES Membership Certificate.
7. Value-wise list of imported and indigenous input services proposed to be utilized.
8. Any other documents sought by the Development Commissioner.

Q8. What should be included in the projections for the next five years?

The Unit should provide realistic projections relating to:

- Exports
- Imports
- Foreign exchange outgo
- Net Foreign Exchange (NFE) earnings
- Indigenous procurement
- Employment generation

for each year of the proposed block.

Q9. What is meant by the break-up of projected foreign exchange outgo?

The Unit should furnish year-wise details of projected foreign exchange outgo on account of:

- Import of machinery
- Import of raw materials
- Consumables and spares
- Royalty
- Technical know-how fee
- Design and drawing fees
- Foreign travel
- Commission on exports
- Interest on ECB/deferred payment credit
- Other foreign exchange payments

for the proposed five-year period.

Compliance Requirements

Q10. What undertaking is required under Rule 19(6B)?

The Unit is required to furnish an undertaking confirming that:

1. The Unit has not violated any law applicable to its operations.
2. The Unit has not defaulted in statutory payments.
3. The Unit has not undertaken any activity not approved by the Development Commissioner.

If any violation/default exists, complete details must be disclosed.

Q11. Is submission of APR mandatory before seeking renewal?

Answer: Yes.

The Unit should ensure that all Annual Performance Reports (APRs) due up to the date of application have been submitted.

Applications may not be processed where APRs are pending.

Q12. Is EPCES membership mandatory?

Answer: Yes.

The Unit should possess a valid EPCES membership and submit a copy along with the renewal application.

Performance Related Queries

Q13. What factors are considered while examining renewal of LOA?

The following factors are generally examined:

- Export performance.
- NFE achievement.
- Operational status of the Unit.
- Compliance with SEZ Act and Rules.
- Submission of APRs.
- Statutory compliances.
- Utilization of approved space.
- Authorized operations undertaken.
- Any violation proceedings pending against the Unit.

Q14. Is positive NFE important for renewal?

Answer: Yes.

Achievement of positive NFE is one of the important indicators of the Unit's performance and may be considered while examining renewal proposals.

Q15. Can a Unit seek renewal if exports have been low during the previous block?

Answer: Yes.

However, the Unit should provide detailed justification explaining:

- Reasons for lower exports.
- Market conditions.
- Business disruptions.

- Future export strategy.
- Expected improvement during the next block period.

Special Cases

Q16. What additional information is required where both manufacturing and trading activities are permitted?

The Unit should furnish separate details for:

- Exports.
- Imports.
- Forex outgo.
- NFE earnings.
- DTA sales.

for manufacturing and trading activities separately for the previous block and projections for the next block.

Q17. What additional information is required where trading or service activities are permitted?

The Unit should furnish details of DTA sales undertaken during the previous block, indicating:

- Whether sales were under Rule 53A or normal DTA Sale.
- Currency in which payment for these sales was received.

Q18. What additional information is required from jewellery units?

Jewellery units should furnish year-wise details of:

- Value addition achieved.
- Plain Gold Jewellery.
- Studded Gold Jewellery.
- Silver Jewellery.
- Platinum Jewellery.

- Indigenous inputs utilized.
- Interest paid in free foreign exchange to foreign suppliers, if any.

for the previous five-year block.

Income Tax & Related Matters

Q19. Is information relating to Income Tax exemptions required?

Answer: Yes.

The Unit should disclose:

- Whether any Income Tax exemption/deduction is being claimed.
- Relevant section under which benefit is claimed.
- Whether any exemption has been disallowed by the Income Tax Department.

Q20. Is information regarding Income Tax penalties required?

Answer: Yes.

The Unit should furnish complete details of any penalties imposed by the Income Tax Department.

Q21. Is disclosure of transfer pricing transactions required?

Answer: Yes.

The Unit should disclose details of transactions with sister concerns or related parties that may involve transfer pricing implications.

Common Mistakes Observed in LOA Renewal Applications

Q22. What are the most common deficiencies observed during scrutiny?

The following deficiencies are frequently observed:

1. Application submitted close to or after expiry of LOA.

2. Form-F1 not signed by authorized signatory.
3. Board Resolution/Authorization not enclosed.
4. Unrealistic projections without supporting basis.
5. Break-up of foreign exchange outgo not furnished.
6. Pending APRs.
7. Non-submission of EPCES membership certificate.
8. Non-submission of Rule 19(6B) undertaking.
9. Manufacturing and trading figures not segregated.
10. DTA sales details not provided.
11. Jewellery units not providing value addition details.
12. Income Tax exemption details not disclosed.
13. Transfer pricing details not disclosed.
14. Input services proposed for the next block not indicated.
15. Mismatch between projections in Form-F1 and supporting documents.
16. Failure to disclose violations, statutory defaults or pending proceedings.

Q23. What can Units do to ensure faster processing of LOA renewal applications?

Units are advised to:

- Apply at least two months before expiry of LOA.
- Submit complete Form-F1.
- Ensure all APRs have been filed.
- Furnish realistic projections.
- Enclose all supporting documents.
- Maintain valid EPCES membership.
- Submit the Rule 19(6B) undertaking.
- Respond promptly to deficiency letters.
- Ensure consistency between Form-F1, APRs and supporting documents.

Q24. Whether the Unit should provide updated

contact details while applying for renewal?

Answer: Yes. The Unit should invariably provide:

- Registered Office Address;
- Factory/Processing Area Address;
- Registered E-mail ID;
- Name of Authorized Contact Person;
- Mobile Number;
- Telephone Number (if any);

to facilitate communication regarding deficiencies, approvals and other official correspondence.

Q25. How are the authorized operations examined during LOA renewal?

Answer:

The authorized operations proposed in Form-F1 are verified with the activities approved in the original LOA and subsequent amendments issued from time to time.

The Unit should ensure that:

- All activities proposed in Form-F1 are duly authorized.
- Any activity undertaken by the Unit has been approved by the Development Commissioner.
- Any additional activity not covered under the existing LOA is separately applied for through the prescribed procedure.

Failure to reconcile the activities mentioned in Form-F1 with the approved authorized operations may result in issuance of a deficiency letter.

Q26. Why is the status of pending foreign exchange realization examined during LOA renewal?

Answer:

The Unit is required to furnish the status of export proceeds pending realization.

Where export proceeds remain unrealized, the Unit should provide:

- Invoice-wise details;
- Amount pending realization;
- Ageing analysis;
- RBI/Authorized Dealer Bank extension, wherever applicable;
- Reasons for non-realization.

The Development Commissioner may examine such cases while assessing the overall performance of the Unit.

Q27. Is the validity of the lease deed examined during LOA renewal?

Answer: Yes.

The Unit should ensure that the lease deed/license agreement for the approved premises remains valid for the proposed renewal period.

Where the lease has expired or is due to expire shortly, the Unit may be required to submit:

- Renewed lease deed;
- Extension letter;
- Fresh lease agreement; or
- Ownership documents.

Q28. Why is the currency of DTA service sales examined?

Answer:

The currency in which consideration is received may have implications for determination of export performance, NFE calculations and compliance with the provisions of the SEZ Act, 2005 and SEZ Rules, 2006.

Accordingly, the Unit should clearly indicate whether consideration was received in:

- Indian Rupees (INR); or
- Foreign Exchange.

Q29. Should the foreign exchange outgo break-up

match Form-F1 projections?

Answer: Yes.

The aggregate foreign exchange outgo indicated in the supporting statement should reconcile with the figures declared in Form-F1.

Any variation should be explained through a reconciliation statement.

Q30. Is submission of a list of input services required?

Answer: Yes.

The Unit should furnish a value-wise list of imported and indigenous input services proposed to be utilized during the next block period.

The list should:

- Indicate the nature of service;
- Correspond with the approved/default list of services;
- Be consistent with the projections furnished in Form-F1.

Additional Common Deficiencies Observed During LOA Renewal

1. Authorized operations in Form-F1 do not match the approved LOA.
2. Pending export proceeds not disclosed.
3. No details of unrealized foreign exchange furnished.
4. Expired lease deed submitted.
5. CA-certified performance statement not enclosed.
6. DTA service sales not disclosed separately.
7. Currency of DTA sales not indicated.
8. Forex outgo break-up not furnished.
9. Forex outgo figures not matching Form-F1.
10. Input services list not enclosed.
11. Input services not matching proposed operations.
12. Unrealistic export/import projections without justification.