

# Finance Bill 2026 — SEZ Amendment Clarity Note

Does the 20-Year Tax Holiday Apply to Section 10AA SEZ Export Units?  
The Answer May Surprise You.

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## THE WIDESPREAD MISCONCEPTION

"The Finance Bill 2026 extends the SEZ income-tax deduction to 20 years for **all** SEZ units, including those claiming under Section 10AA."

This interpretation is **incorrect**. The 20-year extension applies only to Offshore Banking Units (OBUs) and IFSC Units under Section 80LA (now Section 147 of the Income Tax Act, 2025). Section 10AA SEZ export units remain at the existing 15-year graduated deduction structure, with no amendment in the Finance Bill 2026.

### SECTION 01

## Why the Confusion Exists

Multiple budget summaries, news reports, and professional commentaries have described the Finance Bill 2026 amendment as extending "SEZ tax deductions to 20 years." The phrase is technically not wrong — Offshore Banking Units do operate *inside* Special Economic Zones, and they are covered by this extension. But the shorthand "SEZ deduction" has caused many to assume that **all SEZ units**, including manufacturing exporters and IT services units claiming under Section 10AA, are also beneficiaries.

They are not. Section 10AA and Section 80LA are two entirely separate provisions, covering different categories of entities, with different eligibility criteria, different deduction structures, and — critically — different treatment under the Finance Bill 2026.

### SECTION 02

## Section 10AA vs. Section 80LA — A Clear Comparison

Parameter	Section 10AA (SEZ Export Units)	Section 80LA / Section 147 (OBUs & IFSC Units)
Who it covers	Manufacturing units, IT/ITES services units, and other export-oriented businesses set up in notified SEZs.	Offshore Banking Units (OBUs) of scheduled/foreign banks in SEZs, and Units of International Financial Services Centres (IFSCs) such as GIFT City.

Parameter	Section 10AA (SEZ Export Units)	Section 80LA / Section 147 (OBUs & IFSC Units)
Nature of income	Profits derived from export of articles, things, or services in convertible foreign exchange.	Income from offshore banking business, approved IFSC activities, sale of leased aircraft/ships.
Deduction structure (BEFORE amendment)	100% for 5 years, 50% for next 5 years, 50% (reinvested) for next 5 years = 15-year graduated window.	OBUs: 100% for 5 years + 50% for 5 years = 10 years. IFSC units: 100% for 10 years out of 15 (at option).
Deduction structure (AFTER Finance Bill 2026)	<b>NO CHANGE. Remains at 15-year graduated structure. No amendment in Finance Bill 2026.</b>	<b>OBUs: 100% for 20 consecutive years. IFSC units: 100% for 20 years out of 25 (at option).</b>
Post-holiday tax rate	Standard corporate rate applies (25% / 30% as applicable).	<b>Concessional 15% on business income after the 20-year holiday exhausts.</b>
Sunset clause	Unit must have commenced before 1 April 2021. No new claims possible.	<b>No sunset clause restriction in the Finance Bill 2026 amendment for new units (subject to anti-abuse provisions).</b>
Key certification	Form 56F certified by a Chartered Accountant.	Form 10CCF certified by a Chartered Accountant.

## SECTION 03

## What the Finance Bill 2026 Actually Says

The relevant clause of the Finance Bill 2026 amends Section 147 of the Income Tax Act, 2025 (which replaces Section 80LA of the 1961 Act). The operative text states:

*“(2) Irrespective of anything contained in section 80LA of the Income-tax Act, 1961, the deduction shall be allowed*

*(a) for **twenty consecutive tax years** beginning from the relevant tax year in the case of an entity mentioned in sub-section (1)(a) [OBUs];*

*(c) for **twenty consecutive tax years out of twenty-five years** beginning from the relevant tax year, at the option of an assessee, in the case of an entity mentioned in sub-section (1)(b) [IFSC units].”*

Note the precise language: sub-section (1)(a) refers to scheduled banks and foreign banks with OBUs in SEZs. Sub-section (1)(b) refers to Units of an IFSC. **There is no reference to Section 10AA, no reference to SEZ export units, and no reference to manufacturing or services units in SEZs.** The amendment operates exclusively within the Section 80LA / Section 147 framework.

## SECTION 04

## What This Means for Section 10AA SEZ Units

If your business operates as an export unit in an SEZ — whether in manufacturing, IT services, BPO, pharmaceuticals, or any other sector — and claims deduction under Section 10AA, the Finance Bill 2026 does not change your deduction period or structure. Specifically:

- **Your 15-year window remains unchanged.** The graduated structure of 100% (5 years) + 50% (5 years) + 50% reinvested (5 years) continues exactly as before.
- **The sunset clause still applies.** Only units that commenced operations before 1 April 2021 are eligible. No new Section 10AA claims can be initiated for units set up after this date.
- **No extension of the deduction period has been granted.** If your 15-year window is approaching expiry or has already expired, the Finance Bill 2026 does not provide any additional years.
- **Filing requirements remain the same.** Form 56F certification by a CA, timely return filing under Section 139(1), and remittance of export proceeds within 6 months continue to apply.
- **The new Income Tax Act, 2025 re-enacts these provisions** without substantive amendment to the deduction structure or period for Section 10AA units.

### WHO DOES BENEFIT FROM THE 20-YEAR EXTENSION?

The entities that benefit are: (1) Offshore Banking Units of scheduled and foreign banks operating within SEZs, claiming deduction under Section 80LA / Section 147; and (2) Units of International Financial Services Centres (such as GIFT City), including fund managers, insurance intermediaries, aircraft lessors, fintech companies, and capital market entities. These units now receive 100% deduction for 20 years, followed by a concessional 15% tax rate. Both existing and new units are covered by the extended window.

#### SECTION 05

### The Policy Gap — And Why It May Prompt Future Representations

The asymmetry is notable. Financial service units in SEZs (OBUs) now have a 20-year tax holiday, while manufacturing and services export units in the same SEZs remain capped at 15 years with no extension. Professional commentators have already observed that this gap “may lead to further representations” from the industry.

SEZ export units — particularly in IT/ITES, pharmaceuticals, and electronics manufacturing — contribute significantly to India’s export earnings. Many of these units are now in the final years of their 15-year deduction window (having commenced between 2006 and 2012). The absence of an extension, combined with the sunset clause preventing new claims, creates a situation where the SEZ manufacturing ecosystem could lose its tax competitiveness even as the financial services ecosystem within the same zones is being substantially strengthened.

Industry bodies such as EPCES (Export Promotion Council for EOUs and SEZs) and NASSCOM have historically advocated for extension of Section 10AA benefits. The Finance Bill 2026’s generous treatment of OBUs and IFSC units may renew these advocacy efforts with greater urgency.

#### SECTION 06

### Practical Action Items for SEZ Units

- **Verify your deduction timeline.** Identify exactly which year of the 15-year window your unit is currently in. If you are in years 11–15, you are in the reinvestment-based deduction phase and must ensure the SEZ Reinvestment Reserve Account is properly maintained.
- **Do not assume the 20-year extension applies to you.** If your tax advisor or compliance team has planned on the basis of a 20-year deduction under Section 10AA, this assumption must be corrected immediately to avoid incorrect advance tax computation and ITR disclosure.
- **If your 15-year window is expiring, plan the transition.** Once the Section 10AA deduction exhausts, your export profits become fully taxable at the applicable corporate rate. Evaluate whether the standard 25% rate or the concessional 15% rate under Section 115BAB (for new manufacturing companies) or Section 115BAA applies to your entity.
- **Maintain documentation as if you will be audited in the final year.** The Assessing Officer can scrutinise any year within the deduction window. Consistent documentation across all 15 years — export invoices, FIRC, Form 56F certifications, SEZ approval letters, and separate books — is essential to sustaining the deduction if questioned.
- **Watch for future amendments.** Given the policy gap between Section 80LA and Section 10AA, there is a possibility of future relief through CBDT notifications, the next Finance Bill, or representations to the SEZ Board. Stay informed.

#### THE CA PERSPECTIVE

Clarity in tax law is not a luxury — it is the foundation of sound compliance. The Finance Bill 2026 has delivered a genuinely significant benefit to OBU and IFSC units. But for the much larger universe of Section 10AA SEZ export units, the position remains unchanged. Businesses that plan on the assumption of a benefit that does not exist will face adverse consequences — from incorrect advance tax to disputed deduction claims.

At R. Mahesh & Associates, our SEZ practice spans unit formation, annual compliance, deduction computation, and assessment representation. If you have questions about how the Finance Bill 2026 affects your specific SEZ operations — whether under Section 10AA or Section 80LA — we are available for a detailed consultation.

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Source: Finance Bill 2026 (Bill No. 3 of 2026) as passed by Lok Sabha on 25 March 2026; Budget Memorandum 2026-27 ([indiabudget.gov.in](http://indiabudget.gov.in)); Income Tax Act, 2025 (Act 30 of 2025). This note is for general educational purposes and does not constitute legal or tax advice specific to your situation.