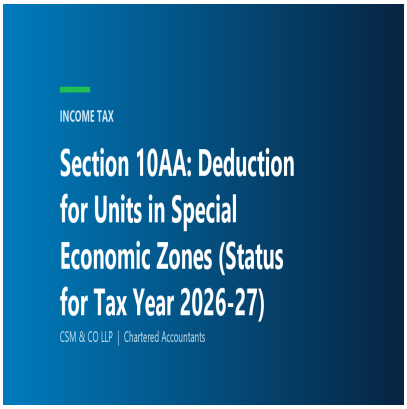

Section 10AA: Deduction for Units in Special Economic Zones (Status for Tax Year 2026-27)

Description

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Quick summary

- Section 10AA gave SEZ units 100% of export profits for 5 years, 50% for the next 5 years, and 50% of ploughed back profit for a further 5 years.
- It applies only to units that began manufacture or services on or after 01/04/2006 and before 01/04/2021, so no new unit can qualify.
- Existing units continue to claim under section 144 of the Income-tax Act, 2025, calculated as under section 10AA and only for the years it would have allowed.
- It is not available in the new tax regime or at the 22% and 15% company rates.

Section 10AA of the 1961 Act gave tax holidays to units set up in Special Economic Zones (SEZs) under the Special Economic Zones Act, 2005. The start date is long past, so it now matters only for units that began earlier and are still inside their 15 year window. From Tax Year 2026-27 the saving provision is section 144 of the Income-tax Act, 2025. For FY 2025-26 (assessment year 2026-27) the claim is still under section 10AA.

Who qualified?

An entrepreneur (as defined in section 2(j) of the SEZ Act, 2005) running a Unit in an SEZ that:

- began to manufacture or produce articles or things, or to provide services, on or after 1 April 2006 and before 1 April 2021,
- was not formed by splitting up or reconstructing a business already in existence, and
- was not formed by transferring to the new business machinery or plant previously used for any purpose. Used machinery up to 20% of the total value of machinery in the business is ignored, and imported machinery never used in India and never depreciated also counts as new.

A unit that had already enjoyed the section 10A deduction for ten years before the SEZ Act cannot claim section 10AA.

The 5, 5 and 5 year deduction

Years	Deduction
First 5 consecutive years from the year the unit begins	100% of profits from export of articles, things or services
Next 5 years	50% of those export profits
Next 5 years	Up to 50% of the profit that is debited to the profit and loss account and credited to the “Special Economic Zone Re-investment Reserve Account”

Because the latest start year is FY 2020-21 (assessment year 2021-22), the last year anyone can claim is FY 2034-35.

Export profit formula

Profit from export = profit of the unit’s business x export turnover of the unit / total turnover of the business carried on by the unit.

Export turnover is the consideration for export of articles, things or services received in, or brought into, India. It does not include freight, telecommunication charges or insurance attributable to delivery outside India, or expenses incurred in foreign exchange in rendering services outside India. On-site development of software outside India counts as export of software.

Re-investment reserve conditions

For the third block of five years, the deduction is allowed only if the amount credited to the reserve is:

- used to acquire machinery or plant that is first put to use within three years after the year in which the reserve is created, and
- until then, used for the purposes of the business, and not for dividends or profits, remittance outside India as profits, or creating an asset outside India.

An amount not used for these purposes, or not used within three years, is treated as profit and taxed, in the year of misuse or the year after the three years.

Other points

- The deduction is worked out on the total income before giving effect to section 10AA, and cannot exceed that total income.
- Brought forward losses of the unit can be carried forward and set off.
- If the unit is transferred in an amalgamation or demerger, the amalgamating or demerged unit gets no deduction for that year, and the section applies to the successor as if it had not happened.
- A deduction under section 10AA bars a deduction for the same specified business under section 35AD.
- Section 10AA(8) applies sub-sections (5) and (6) of section 10A. Sub-section (5) requires the report of an

accountant, in the prescribed form, certifying that the deduction has been correctly claimed, to be furnished with the return of income. Sub-section (6) works the depreciation and similar allowances of the deduction years as if they had been given full effect in those years, so they are not carried into later years. A unit should confirm the current form for the report under the Income-tax Rules, 2026.

Which tax regime?

Section 144 of the 2025 Act sits in Chapter VIII. The new regime for individuals, HUFs and similar persons (section 202) and the 22% and 15% regimes for companies (sections 200 and 201) bar Chapter VIII deductions other than the few they list, and section 144 is not among them. A unit has to be taxed under the normal provisions to claim it. The Finance Act, 2026 also removed the separate reference to section 144 from section 202, which was a duplicate of the Chapter VIII bar.

Frequently asked questions

Can a new SEZ unit claim section 10AA?

No. The unit must have begun to manufacture, produce or provide services on or after 01/04/2006 and before 01/04/2021.

How long is the benefit?

Up to 15 years: 100% of export profits for the first 5 years, 50% for the next 5 years, and for the next 5 years up to 50% of profit transferred to the SEZ Re-investment Reserve Account.

How are export profits worked out?

Profit of the unit multiplied by export turnover divided by total turnover of the business carried on by the unit.

What happens from Tax Year 2026-27?

Section 144 of the Income-tax Act, 2025 allows the deduction for units still within their period, calculated as under section 10AA.

Is it available in the new tax regime?

No. The new regime and the 22% and 15% company regimes bar Chapter VIII deductions other than sections 146 and 148 (and a few others for individuals).

Official sources

- Income Tax Department: Section 10AA, Income-tax Act 1961
- Income Tax Department: Income-tax Act 2025 as amended by Finance Act 2026 (sections 144, 200, 201, 202)

Related reading

- Deferred Tax Asset and Deferred Tax Liability
- Filing of ITR after the Due date: Detailed legislative consequences, examples, and financial implications

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