

Budget 2017 Snapshot

Key proposals for Oil and Gas Sector

February 2017



Agenda



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Budget 2017 Snapshot – Key Tax Proposals

Key Policy Announcements

- Announcement made to create an integrated public sector 'oil major' which will be able to match the performance of international and domestic private sector oil and gas companies
- Foreign Investment Promotion Board is proposed to be abolished. A road-map for the same is proposed to be announced in next few months
- Certain relaxations are under consideration in Foreign Direct Investment ('FDI') regulations - to be announced soon

Key direct tax proposals

Tax rates

Corporates

- Corporate tax reduced to 28.84%* from 34.61% * for domestic companies having total turnover/gross receipts up to INR 50 Crores during financial year ('FY') 2015-16; tax rates for other corporates remains unchanged

Income from Sale of leftover stock of Crude Oil from Strategic reserves

- Income of the foreign companies is made exempt from tax on sale of leftover stock of crude oil from strategic reserves after expiry of agreement

* After considering maximum rate of surcharge and education cess



Budget 2017 Snapshot – Key Tax Proposals

Minimum Alternative Tax (MAT)/ Alternative Minimum Tax (AMT)

- Methodology to compute book profits for MAT purpose amended to align with Indian Accounting Standards ('IndAS') for preparation of financial statements of Indian companies
- MAT/ AMT credit allowed to be carried forward up to 15 assessment years as against 10 years provided currently
- Eligibility of MAT/AMT credit restricted where the credit of foreign tax taken against MAT, which is of a higher amount compared to the Foreign Tax Credit (FTC) available under normal provisions. For the purpose of allowing MAT credit excess FTC claimed would be ignored.

Promoting digital economy

- Limit for claiming deduction for revenue expenditure incurred in cash reduced from INR 20,000 to INR 10,000
- Amount paid in cash for capital expenditure in excess of INR 10,000 to be ignored for the purpose of (i) computing cost of the asset, and (ii) investment linked incentives
- Restriction on receipt of cash in excess of INR 300,000; recipient contravening this provision can be subject to penalty equal to cash so received
- Cash donations exceeding INR 2000 not eligible for deduction under 80G



Budget 2017 Snapshot – Taxation of capital gains and other income

Taxation on conversion of preference shares

- Conversion of preference shares into equity shares not a transfer
- Cost of acquisition and period of holding of preference shares to be considered in the period of holding and cost of acquisition of equity shares

Long term capital gains on listed equity shares

- Exemption for long-term capital gains tax on listed equity shares not available with respect to such shares acquired (after 1 October 2004) without payment of securities transaction tax
- Central Government to notify acquisitions where exemption shall continue, possibly for cases like IPO, bonus, rights issue of listed companies, acquisition by NR in accordance with FDI Policy, etc.

Tax on certain dividends received from Indian companies

- 10% tax on dividend income in excess of INR 10 lacs extended to all resident tax payers except domestic companies and certain specified funds and institutions

Carbon credit

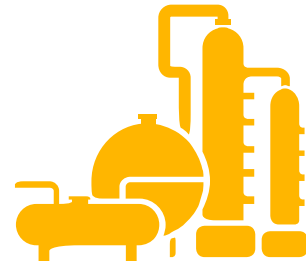
- Gross income from transfer of carbon credit taxable at 10%; no deduction for expenses in relation to generation of carbon credit



Budget 2017 Snapshot – Taxation of capital gains and other income

Others

- FMV to be deemed as full value of consideration for computing capital gains where consideration for transfer of unquoted shares is less than its FMV
- Cost of shares of previous owner available in case of demerger of a foreign company meeting certain conditions
- Base year for claiming indexation benefit (i.e. inflation adjustment to cost of an asset) shifted from 1 April 1981 to 1 April 2001
- Land and building to qualify long-term capital asset if period of holding exceeds twenty-four months instead of thirty-six months
- Indirect transfer provisions not to apply to specified Foreign Institutional Investor and Foreign Portfolio Investor



Budget 2017 Snapshot – Key Cross Border Taxation and Transfer Pricing Proposals

Taxation of Cross Border Transactions

- Lower Withholding Tax at the rate of 5% on rupee denominated bond of an Indian company and Government securities extended till 30 June 2020
- Capital gains on transfer of Rupee Denominated Bonds (RDB) between non-residents exempt
- Exemption from capital appreciation on account of foreign exchange fluctuation at the time of redemption of Masala bonds, extended to secondary holders as well
- Terms not defined under Tax Treaty to derive meaning from the domestic law and explanation given by Central Government



Budget 2017 Snapshot – Key Cross Border Taxation and Transfer Pricing Proposals

Key Transfer Pricing proposals

Rationalisation of domestic transfer pricing ('DTP') provisions

- DTP coverage restricted to situations where one of the entities involved in the transaction enjoys tax holiday; amendment applicable from FY 2016-17

Secondary adjustments to transfer price

- Secondary adjustments introduced (subject to conditions) where primary adjustments result in increase in total income or reduction in loss
- Excess money available with the associated enterprise ('AE') as a result of primary adjustment, if not repatriated to India within the prescribed time, to be treated as an interest bearing 'Advance'



Budget 2017 Snapshot – Key Cross Border Taxation and Transfer Pricing Proposals

Key Transfer Pricing proposals.....

Limiting interest deductions

- Applicable to borrowings by Indian companies or Indian Permanent Establishments of foreign companies. Triggers when interest / similar consideration (interest) is paid to overseas AE
- Provisions also apply to interest paid to unrelated lenders if the associated enterprise has provided implicit or explicit guarantee or equivalent deposit for the debt.
- Allowance of interest capped to the lower of the following:
 - 30% of earnings before interest, taxes, depreciation and amortisation
 - Interest paid or payable to associated enterprises for the year under consideration
- Interest disallowed is eligible for carry forward up to eight consecutive years. Set off subject to the above mentioned cap for that year
- Withholding tax obligation to continue on the aggregate interest liability to the AE
- Aforesaid restriction on deduction of interest would not be applicable if the interest expenditure is not more than INR 1 crore
- These provisions are not applicable to taxpayers engaged in Banking or Insurance business.



Budget 2017 Snapshot – Key Procedural Amendments

Tax returns

- Time available for filing revised tax returns reduced; tax returns filed for FY 2017-18 onwards can be revised only within one year from the end of the financial year
- To ensure timely filing of tax returns, a mandatory late fees has been introduced in the range of INR 1,000 to INR 10,000 for tax returns filed after the due date with respect to FY 2017-18 and onwards

Tax refunds

- Powers of tax officers to withhold any refund due to a tax payer pending the tax scrutiny proceeding restricted. Refunds to be processed in stipulated time except in certain cases where assessing officer has opinion that issuing of refund may adversely affect recovery of revenue
- Claim for disputed FTC to be filed within six months post resolution

Dispute Resolution

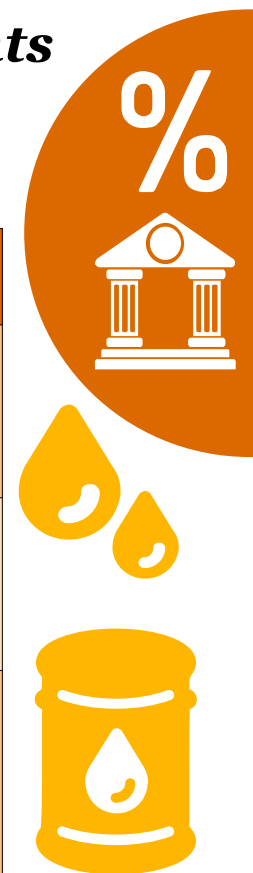
- Authority for Advance Ruling for direct and indirect tax merged
- To improve the efficiency and efficacy of AAR the available pool of judges eligible for appointment as Chairman has been expanded



Budget 2017 Snapshot – Key Procedural Amendments

Rationalisation of timelines for tax proceedings

#	Type of assessment	Current timelines	Proposed timelines
1	Regular/best judgement assessment	33 months from the end of the financial (“FY”) in which income was first assessable.	30 months for FY 2017-18 and 24 months from FY 2018-19 onwards.
2	Re-assessment	9 months from the end of the financial year (‘FY’) in which notice for reassessment is served.	12 months in respect of re-assessment where notice is served after on or after 1 April 2019.
3	An order of fresh assessment as a result of an order setting aside or cancelling an assessment	9 months from the end of the FY in which such order is received by prescribed authorities.	12 months in respect of fresh assessment where the order setting aside or cancelling an assessment is passed on or after 1 April 2019.



Budget 2017 Snapshot – Key Personal Tax Proposals

Changes in tax rates

- Reduction in tax rate from 10 percent to 5 percent for income between INR 2.5 lacs and INR 5 lacs; all other rates remain unchanged
- Additional surcharge at 10 percent for income between INR 50 lacs to INR 1 crores and existing surcharge of 15 percent continues for income above INR 1 crores
- Tax rebate for low income tax payers reduced from INR 5,000 to INR 2,500

National Pension Scheme ('NPS')

- Partial withdrawals by an employee out of an NPS Trust to be exempt from tax, to the extent it does not exceed 25% of the amount of contributions made by such employee
- Self-employed individuals to be eligible for deduction up to 20% (instead of the existing limit of 10%) of the gross total income in respect of contribution made to NPS Trust

Deductions / exemptions

- Removal of deduction towards investment made under Rajiv Gandhi Equity Savings Scheme (RGESS) from April 2017
- Restriction on set off of loss from house property limited to INR 2 lacs ; balance to be carried forward and set off up to 8 years



Budget 2017 Snapshot – Key Indirect Tax Proposals

Key indirect tax proposals

GST Implementations

- Re-assurance provided that preparation for GST implementation are on schedule. Government to reach out to trade and industry associations from 1 April 2017 to create awareness
- Considering that GST would be implemented, no change in peak rate of Excise duty, Customs duty and the base rate of service tax has been proposed
- Proposal to repeal the Research and Development Cess

Ease of Doing business and dispute resolution

- Proposal to merge the authority for Advance Ruling of customs, central excise and service tax with income tax
- Settlement Commission provision also extended to any person, other than the tax payer, who has been issued a show cause notice
- In case of mergers, acquisitions, amalgamation, etc. the transfer of CENVAT credit shall be allowed by the authorities within three months of application

Change in Tarrif Rates

- Reduction in customs duty on Import of LNG halved from 5% to 2.5%
- Customs and Excise Duty reduction on specified inputs used in manufacture of components for Renewable energy



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