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The differentiator

Implications of the Union Budget 2015 on the oil and gas industry

3.4%

Average WPI moderated in 2014-15 (Apr-Dec) from high of 6-9% in 2011-13.

3.0%

Fiscal deficit target 2017-18. 2015-16 and 2016-17 targets are 3.9% and 3.5% respectively.

66%

Trade shock (benefit of crude oil price drop) went to government savings. Balance to consumers.

25%

Rate of Corporate tax to be reached over the next four years from current 30%.

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Preface

Effect of crude oil prices

The significant oil price drop was the single largest contributor to turning around the Indian economy. The reduced global crude oil prices since July 2014 provided the newly constituted government of India with an array of macro and micro economic options. It also provided the Finance Minister the much needed space to deal with the budget allocations for 2015-16.

The positive shock of oil price reduction was also well utilised. Since it was unpredictable as to how long this benefit will be available, the transport fuel consumer prices were maintained until October 2014. Thereafter, the low price opportunity was used to bring in a long-awaited diesel fuel consumer price decontrol. Given the affordability demonstrated by the consumers, the government deliberately chose to keep the savings mostly (upto 66%) with itself rather than passing them on to the consumers. The excise duty on fuel was increased to build exchequer earnings, and the tax is also being treated as de-facto carbon tax.

As the macro-economic indicators reveal, the situation has improved significantly during FY 2014-15. The release of the new series of national accounts revealed that the economy has been performing much better than what was being depicted earlier. Economic growth as measured by the growth in GDP at constant market prices was estimated at 5.1 and 6.9% respectively during 2012-13 and 2013-14. Driven by lower food and fuel prices, the headline inflation measured in terms of the WPI (base year 2004-05=100) which remained persistently high at 6 to 9% during the period 2011-13 moderated to a low of 3.4% in 2014-15 (April-December). Like the WPI, the retail inflation as measured by the CPI hovering in the range of 9 to 10% for the last two years moderated significantly since the second quarter of 2014-15 and declined to an all-time low of 5% in Q3 of 2014-15.

The impact of Budget 2015 proposals on oil and gas sector

The Budget proposals have been acknowledged by analysts from the perspective of positive contributions made to make 'Make in India' happen, improve ease of doing business, improve funds availability, rationalising the taxes, improve the enforcement of tax laws and importantly, to provide for investment in infrastructure.

The oil and gas sector is attempting to make the best of the governments push to make in India. The sector is advocating for the introduction of policies to make not only goods but also services within India. The sector absorbs a significant quantum of services from imports with a consequential drain of foreign exchange reserves. The policy development is awaited. In the meanwhile, provisions such as the reduction in withholding tax from 25 to 10% for royalty on technology purchase are therefore important and welcome measures. They will significantly reduce the input costs of Indian companies and encourage setting up shops in India. Reducing corporate tax rates to 25% over the next four years will make India an attractive destination.

Oil and gas sector infrastructure can turn to its benefit the ReIT provisions made very favourable now. Carving out investments made in infrastructure and availing the trust benefits announced last year will give a fillip to the oil and gas sector infrastructure creation.

Budget 2015 introduced the definition of 'place of effective management' as to mean a place where key management and commercial decisions necessary for the conduct of the business of an entity as a whole are, in substance made. Oil and gas companies invest in assets overseas for equity oil, for deploying the core competency of the company in refining, contracting and for trading in products. In such businesses, the taxability will be carefully analysed. The provision may lead to restructuring or significant internal process changes in companies.

The most significant change heralded by the Union Budget, though, is that of rolling out GST. Just one year for implementation will make companies swing into action. The roadmap is unclear, to add. The changes in IT platforms will need significant attention. Logistics in the sector are set to change substantially, in any case.

A silent revolution is happening in the oil and gas sector since the new government took over. The commitment to arrest leakage of subsidy is demonstrated by strongly pushing the direct transfer of cooking gas subsidy. In the Budget speech, the Finance Minister reiterated the commitment of deploying IT to take this initiative national. The dividends of this success are going to be enjoyed by the economy in the next fiscals with enhanced savings in subsidies.

The differentiator

The oil sector, albeit with the blessing of external factors, provided the economy in 2014-15 with reduced inflationary pressures, savings of exchequer costs, and contributions to collections. The sector caused a significant difference to the economy. The sector will continue to make its contribution more significant by increasing domestic production. To meet the demand-supply gap, it will also create infrastructure such as LNG terminals and pipelines. For that, the sector also expects new rapid policy reforms for accelerated unlocking of hydrocarbons by E&P companies, and the creation of gas, LNG and marketing infrastructure in order to develop the gas market much needed for environmentally benign efficient economic development.

Economic Survey 2014-15: Oil and gas industry in perspective

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The Economic Division of the Ministry of Finance, government of India released the Economic Survey 2014-15 on 27 February 2015. The following excerpts of the Survey present the macroeconomic context to the developments in the oil and gas sector the year 2014-15.

State of economy

As indicators reveal, the macroeconomic situation in India has improved significantly during the current year. The release of the new series of national accounts revealed that the economy has been perming much better than what was being depicted earlier. The improvements in some of the macro-aggregates of the economy in 2013-14 have got further strengthened in 2014-15. Economic growth as measured by Gross Domestic Product (GDP) growth at constant market prices was estimated at 5.1 and 6.9% respectively during 2012-13 and 2013-14. The advance estimates (AE) of national income the current year indicate strengthening of the positive growth trends in 2014-15 in the industrial and services sectors.

The Indian economy underwent serious demand and supply constraints in recent years. With the firming up of growth in 2013-14, the final consumption expenditure in the economy (expressed at constant prices) also got strengthened. The trends in aggregate demand clearly indicate that the ongoing revival of growth is predominantly domestic consumption-driven with the share of fixed capital mation in aggregate demand declining and export growth staggering. In view of the strong inter-sectoral linkages that the sectors have, supply side constraints pose a bottleneck. The farm sector suffered from a relatively poor monsoon impacting growth in the industrial and services sector. Also, there are concerns about tentative growth patterns in construction and mining activities that need to be addressed.

The estimates at disaggregated levels indicate that agriculture and allied sectors including crops, livestock, estry and logging, and fishing, picked up in 2013-14 but declined in 2014-15 mainly on account of weak monsoons.

As per recently released national accounts data, with 2011-12 as the base year, industrial growth was much better in 2012-13 and 2013-14 at 2.4 and 4.5% respectively than earlier estimated, with 2004-05 as the base year. The declining trend was attributed to moderation in domestic demand, inflationary pressures, increase in input costs, and slowdown in the world economy. Further, the 1.4% growth in Gross Capital mation (GCF) in industry in 2013-14 implies that recovery in industrial growth had commenced last year. The industrial growth picture as per the IIP suggests that industrial production which had slowed down since 2011-12, reversed the trend in 2014-15. Growth in infrastructure, based on an index of eight core industries, has improved slightly to 4.4% during April-December 2014-15 as compared to 4.1% in the same period in 2013-14. The permance of coal, electricity and cement has shown marked improvement, steel and refinery products have grown marginally by 1.6 and 0.2%, while crude oil, gas and fertilisers have seen negative growth.

India's services sector remains the major driver of economic growth contributing 72.4% of GDP growth in 2014-15. Services sector growth has increased from 8% in 2012-13 to 9.1% in 2013-14 and further to 10.6% in 2014-15. This is mainly due to growth acceleration in financial, real estate and professional services to 13.7% from 7.9% and public administration, defence, and other services to 9 from 7.9% in the previous year.

Prices

Driven by the lower food and fuel prices, the headline inflation measured in terms of the wholesale price index (WPI) (base year 2004-05=100) which remained persistently high at 6 to 9% during the period 2011-13 moderated to a low of 3.4% in 2014-15 (April-December). Like the WPI inflation, the retail inflation as measured by the consumer price index (CPI) which was hovering in the range of 9 to 10% the last two years moderated significantly since the second quarter of 2014-15 and declined to an all-time low of 5% in Q3 of 2014-15. With the sharp decline in international crude oil prices, the CPI inflation in the fuel and light group registered consistent decline during 2014-15, touching 3.4% in the third quarter.

As fuel has larger weight in the WPI, the decline in fuel prices led to a sharper fall in the WPI as compared to the CPI (base year 2010=100).

The Indian energy price index measured in terms of WPI fuel and power declined by only 10% during the period June-December 2014. Though international oil prices started declining from July 2014, there has been greater alignment of international and domestic prices after the deregulation of diesel in October 2014.

External trade

The 2008 global financial crisis and subsequent slowdown in the world economy resulted in a steep decline in India's export growth. However, in the wake of the recent fall in crude oil prices and recovery of the US economy, the global aggregate demand is expected to pick up, leading to a surge in exports.

Over the last 10 years, India's merchandise trade (on customs basis) increased manifold from 195.1 billion USD in 2004-05 to 764.6 billion USD in 2013-14 helping India's share in global exports and imports improve from 0.8 and 1% respectively in 2004 to 1.7 and 2.5% in 2013. After growing by 4.7% in 2013-14, India's merchandise exports growth moderated to 2.4% to reach 265 billion USD in 2014-15 (April-January). During 2013-14, India's merchandise imports contracted by 8.3% to 450.2 billion USD. In 2014-15 (April-January), imports grew by 2.2% to 383.4 billion USD as compared to 375.3 billion USD in 2013-14 (April-January). The value of petroleum, oil and lubricants (POL) imports, which accounted 36.6% of India's total imports in 2013-14, declined by 7.9% in 2014-15 (April-January) as a result of a decline in the price of international crude petroleum products. The growth in imports of POL was 5.9 and 0.4% respectively in 2012-13 and 2013-14. Given the less-than-adequate pass-through, the level of POL imports continued to be elevated till the first quarter of the current financial year.

Changes in crude oil prices have a direct bearing on India's current account deficit (CAD). Historically, crude oil imports accounted a substantial portion of the country's total imports. POL imports accounted more than one-third of India's total imports in recent years. In 2013-14, POL imports accounted 36.6% of total imports. The share of POL imports in total imports is estimated at over 33% in the current fiscal year so far (up to December 2014). Global crude oil prices (Indian basket) which were as high as 107.2 USD per barrel in the first quarter of 2014-15 declined to 101.7 USD per barrel in the second and further to 75.2 USD per barrel in the third quarter of 2014-15. Subsequently, they remained below 50 USD per barrel. As on 30 January 2015, the crude oil prices of the Indian basket stood at 46.7 USD per barrel. Under some simplifying assumptions, a fall in international crude oil prices of 1 USD per barrel is likely to reduce the net import bill by 0.9 billion USD per annum.

Average oil prices in the period from April 2014 to January 2015 were around 90 USD per barrel, which is likely to result in lower overall net oil imports by 9.5 billion USD 2014-15, assuming 6% growth in import quantity. India's current account balance should strengthen in view of a substantial fall of about 56% in crude oil prices of the Indian basket in January 2015 over the level of March 2014.

Subsidies

As a part of the roadmap fiscal consolidation, the Budget 2014-15 envisaged a fiscal deficit target at 4.1% of GDP and sought to reduce it further to 3% by 2016-17. Despite moderate increase in indirect tax and significant decline in subsidy burden in 2014-15 mainly due to decline in international crude oil prices in the second half of 2014-15, achieving this target is a challenging task.

The subsidy bill BE 2014-15 was placed at 2.60 lakh crore INR which was 23.4% of non-Plan revenue expenditure and 2% of GDP. In the post financial crisis period, the subsidy bill had increased from 2.2% of GDP in 2009-10 to 2.5% of GDP in 2012-13. The main items under this head from 2009-10 to 2012-13 were food and petroleum subsidies. The deregulation of diesel prices in October 2014, along with the introduction of direct benefit (subsidy) transfer into the bank accounts of domestic LPG consumers, coupled with a sharp decline in global crude oil prices will help contain the petroleum subsidy bill.

There has been a sharp downturn in international crude oil prices since September 2014. From July 2014 when prices stood at 106.30 USD/bbl, they have fallen to below 50 USD/bbl in January 2015. This sharp fall can be attributed to weakening demand in the economies of Asia, especially China and Europe. In addition, exploration of shale gas by countries such as the US and Canada to reduce their dependence on oil imports has led to lower demand oil. This has also resulted in reduced retail prices of diesel, domestic LPG and kerosene.

In the last few years, the contribution towards under-recovery or subsidies had gone up substantially, adversely affecting the government's fiscal position and thus contributing substantially to inflationary pressure. However, in October 2014, the government has made a move towards major pricing rems in order to rationalise the subsidy structure in the oil and gas sector. The prices of diesel have been deregulated and have become market-determined at retail level as well as at the refinery gate. Deregulation is expected to result in better service delivery on account of increased competition. Besides direct gain, lower diesel prices have also benefitted consumers indirectly as cost of transportation of goods has come down.

Regulated prices of petroleum products resulted in under-recoveries to the oil marketing companies (OMCs) as they paid refinery gate prices based on import parity price (IPP)/ trade parity price (TPP) the purchase of products from the refinery but could not recover the same from domestic prices. Public-sector OMCs continued to pay TPP based on international prices the purchase of diesel and IPP the purchase of PDS kerosene and domestic LPG to refineries until 18 October 2014 when diesel was deregulated.

In view of the importance of household fuels, namely PDS kerosene and domestic LPG, in order to insulate the common man, the government continues to modulate the retail selling prices (RSPs) of PDS kerosene and domestic LPG by providing subsidies under a scheme of 2002. In 2014-15 BE, the subsidies of 2930 crore INR were provided. In addition, support is provided the transport of fuel to far-flung areas (23 crore INR in 2014-15 BE). The estimated under-recoveries during 2014-15 are 74,664 crore INR with diesel contributing 10,935 crore INR, PDS kerosene 24,412 crore INR, and domestic LPG 39,317 crore INR. During 2014-15, with de-administration of diesel and also lower crude oil prices, the under-recoveries are likely to come down by about 47%. The under-recoveries incurred by the OMCs have been shared by the upstream national oil companies and the government. During 2013-14, the national oil companies provided 67,021 crore INR of the total under-recoveries of 1,39,869 crore INR.

Oil and gas sector

Domestic annual production of crude oil has been stagnant at around 38 million tonnes in the last four years. During April-December 2014- 15, domestic production of crude oil was 28.171 MMT which is close to the 28.423 MMT produced during the same period last year. Production

was affected due to operational problems in RJ-ON-90/1, the GAIL pipeline fire accident in Andhra Pradesh, and prolonged bandhs and blockages in Assam.

Gas production during April-December 2014-15 was 25.320 BCM against 26.698 BCM during the corresponding period of 2013-14, showing a decline of 5.1%. The decline in natural gas production is due to lower production in Bassein and satellite fields, the under permance of six newly drilled wells in M&S Tapti, the seizure of one well in KG-D6, and the closure of non-associated gas wells on account of the GAIL pipeline accident.

Domestic production is supplemented by oil and gas assets acquired by Indian companies abroad. During April-December 2014-15, the production of crude oil and natural gas from assets abroad was 4.135 MMT and 2.417 BCM, respectively.

Exploration of unconventional resources

Coal bed methane (CBM)

Out of the total available coal-bearing area of 26,000 sq km CBM exploration in the country, exploration has been initiated in about 17,000 sq km. The estimated CBM resources in the country are about 92 trillion cubic feet (TFC), of which only 9.9 TCF has so far been established. Commercial production of CBM in India has now become a reality with current production of about 0.60 million metric standard cubic metre per day (MMSCMD).

Shale oil and gas

Under the first phase of assessment of shale oil and gas, 50 petroleum exploration lease (PEL) and petroleum mining lease (PML) blocks have been awarded to ONGC and five to OIL. These blocks are located in Assam (6), Arunachal Pradesh (1), Gujarat (28), Rajasthan (1), Andhra Pradesh (10), and Tamil Nadu (9). ONGC has drilled one well and spudded another in Cambay Basin, Gujarat, the assessment of shale gas and shale oil potential of Cambay Basin.

Refining capacity

India is a major player in global refining. Its refining capacity was 215.066 million metric tonne per annum (MMTPA) as on 1 April 2014. Crude throughput during April-December 2014-15 was 166.685 MMT, marginally higher than 166.362 MMT during April-December 2013-14.

Here are the initiatives enhancing crude oil and natural gas production.

- *New gas pricing mula: The government approved the new gas pricing mula on 18 October, 2014 and released New Gas Pricing Guidelines, 2014. The increase in price of domestically produced natural gas strikes a fine balance between the expectations of investors and interests of consumers.*
- *Rems in production-sharing contracts to push investment in exploration: The government has ironed out a number of rigidities in production- sharing contracts in order to instil confidence among investors and ensure that work, stuck in a number of blocks, takes off in right earnest and without further delay.*
- *Reassessment of hydrocarbon potential: An elaborate plan has been rolled out to re-assess hydrocarbon resources in India's sedimentary basins to provide greater clarity to future investors on the prospects of the basins.*
- *Project survey of un-appraised sedimentary basins of India: A project has been undertaken to appraise about 1.5 million sq km area in 24 sedimentary basins where scanty geo-scientific data is available. Data generated under the project shall be stored, maintained and validated in a national data repository (NDR) being set up in the Directorate General of Hydrocarbons (DGH).*
- *Data acquisition through non-exclusive multi-client model: A policy the acquisition of geo-scientific data through a non-exclusive multi-client model is being implemented. This model replaces the earlier fiscal term of profit sharing after cost recovery with the payment of a one-time project fee.*
- *Level playing field gas operations in the north east region: In order to incentivise exploration and production in the north east, a 40% subsidy on gas operations has been extended to private companies operating in the region.*
- *Gas grid infrastructure: In addition to the existing 15,000 km gas pipeline network, another 15,000 km has been planned completion of the gas grid.*

Budget highlights (Direct tax)

Corporate tax rates

- No change in corporate tax rate (except for 2% increase in surcharge for domestic companies); phased reduction of corporate tax rate from 30% to 25% over the next four years proposed. Effective tax rates will be as mentioned below:
- No change has been proposed in tax rate applicable to foreign companies

Particulars	Domestic companies			
	Income > 1 crore INR <= 10 crore INR		Income > 10 crore INR	
	Current	Proposed	Current	Proposed
Effective corporate tax	32.445	33.063	33.990	34.608
Minimum alternative tax	20.008	20.389	20.961	21.342
Dividend distribution tax	19.994	20.358	19.994	20.358

Residential status of foreign companies: Concept of place of effective management introduced

- Presently, a foreign company is considered resident in India if the control and management of its affairs is situated wholly in India.
- It is proposed that a foreign company will be resident in India, if its POEM is in India at any time during the year. The term 'POEM' has been explained to mean a place where key management and commercial decisions that are necessary for the conduct of the business of an entity as a whole are, in substance, made.
- It is also proposed that in due course, a set of guiding principles for determination of POEM will be issued.

Royalty and fees for technical services: Reduction in tax rates

- The rate of tax on royalty and fees for technical services earned by non-residents has been restored to 10% from 25%.

Indirect transfer provisions: Clarifications

The retrospective insertion of indirect transfer provisions in Budget 2012 had resulted in several ambiguities regarding their applicability, thereby impacting investor sentiments. In order to address these concerns, an expert committee was constituted by the government. Several recommendations of this committee have found place in the current Budget. A clarificatory circular may further be issued.

Key amendments proposed are:

- The interest or share in an Indian company to be deemed to derive value substantially from India, if the fair market value of Indian assets (without reduction of liabilities) exceeds 10 crore INR and represents at least 50% of the value of all assets owned by the transferor entity.
- A transaction to not be taxed if the transferor (along with associate enterprises) neither holds the right of control or management nor holds any voting power, share capital or interest exceeding 5%.
- Indirect transfer on account of group reorganisation exempted, subject to meeting specified conditions.
- The Indian entity in the chain is obligated to furnish information relating to the transaction; failure to report may attract a penalty of up to 2% of the transaction value.
- Central Board of Direct Taxes (CBDT) to clarify the dividends declared by the foreign company from Indian source income will not be subject to indirect transfer rules.

Deduction for employment of new workmen

- The existing provisions provide for a special deduction for employment of new workmen by an Indian company deriving profits from the manufacturing of goods in a factory. The quantum of deduction allowed is 30% of the additional wages paid to new regular workmen employed by the Indian company in such a factory for three years, including the year in which such employment is provided. Further, the term 'additional wages' is defined to mean wages paid to new regular workmen in excess of 100 workmen employed during the previous year.
- To encourage employment generation, it is proposed that the benefit of deduction to all assessees having manufacturing units is extended (rather than restricting it to Indian companies). Further, to enable smaller units to claim this deduction, it is proposed to extend the benefit to units employing even 50 regular workmen (instead of 100 regular workmen).

Additional incentives for manufacturing units in Andhra Pradesh and Telangana

Given the government's commitment to promote backward areas of Andhra Pradesh and Telangana, the Budget has introduced the following incentives:

Additional investment allowance

- Additional investment allowance shall be available for setting up a manufacturing undertaking, at 15% of the cost of the new plant and machinery. In line with the existing provisions, such incentive will not be available to certain specified assets (such as office appliances, computer software, etc).
- The incentive shall be available for the plant and machinery acquired and installed between 1 April 2015 and 31 March 2020, in the year of installation.

- In case of sale or transfer of such plant and machinery within a period of five years from date of installation, the incentives availed shall become taxable in the year of transfer. This will be in addition to the capital gains which may arise on account of such a transfer. However, such restrictions are not applicable to transfer in the course of business or corporate reorganisation.
- This incentive is over and above the existing deduction available under Section 32AC.

Additional depreciation

- Additional depreciation of 35% (as against the current 20%) shall be applicable on the new plant and machinery acquired and installed from 1 April 2015 to 31 March 2020, in the year of installation. In line with existing provisions, such an incentive is not available to certain specified assets (such as office appliances, computer software, etc).

Allowance of balance additional depreciation

- Under the existing provisions, additional depreciation is restricted to 50% if the new asset is put to use for a period of less than 180 days. This can result in deferral of investment by the assessee to beginning of the next year in order to avail full deduction. It is now proposed that the balance additional depreciation of 50% shall be allowed in the subsequent year.

Procedure for giving foreign tax credit

- It is proposed to grant powers to the CBDT to lay down the procedure for granting relief of any tax paid by Indian residents in any foreign country or specified territory.

Reporting of payments to non-residents

- In order to further scrutinise the payments to non-residents, it is proposed that the payer shall be under obligation to report specific information in the prescribed form (whether or not such payment is chargeable to tax). Further, failure to do so or furnishing inaccurate information will be subject to a penalty of 1,00,000 INR.

Rationalising MAT provisions

- Under the current provisions, a company which is a member of an association of persons (AOP) or a body of individuals (BOI), is liable to MAT on its share of income even if no income tax is payable on the same under normal provisions.

- As a rationalisation measure, it is proposed to amend MAT provisions to provide that the company's share of income from an AOP or a BOI credited to its profit and loss account (on which no income tax is payable as per normal provisions), shall be reduced from the book profits for the purposes of MAT provisions. Correspondingly, it is proposed that the book profits shall be increased by the amount of expenditure relatable to the above income.

Withholding tax provisions

- Currently, all transporters, irrespective of their size, are claiming exemption from withholding tax by furnishing their PAN to the deductor or payer. The exemption shall now be available only to transporters who owned less than 10 goods carriages at any time during the previous year and have also furnished a declaration to this effect along with a PAN to the deductor or payer. This amendment will take effect from 1 June 2015.
- Provisions introduced to allow the processing of Tax Collection at Source (TCS) correction statement .It is also proposed that the intimation generated on processing a TCS statement can be rectified and appealed against, similar to the processing of TDS statements.
- Effective 1 June 2015, private Employee's Provident Fund (EPF) Trusts disbursing taxable pre mature withdrawal exceeding 30,000 INR, to withhold taxes at a higher rate of 10% or maximum marginal rate (where PAN is not provided).
- Effective 1 June 2015, the employer will be required to collect the proofs of deductions or exemptions (including claim for set-off of losses) claimed by employees from the salary income.

Revisionary power of commissioner enhanced

Currently, the Principal Commissioner or the Commissioner of Income-Tax has the power to revise any order which is erroneous in so far as it is prejudicial to the interest of the revenue. It is now proposed that the order shall be deemed to be prejudicial to the interest of the revenue if in the opinion of Principal Commissioner or Commissioner:

- the order is passed without making inquiries or verification
- the order is passed allowing any relief without inquiring into the claim
- the order has not been made in accordance with any order, direction or instruction issued by the CBDT
- the order has not been passed in accordance with any decision, prejudicial to the assessee, rendered by the jurisdictional High Court or Supreme Court in the case of the assessee or any other person

This amendment is effective from 1 June 2015.

Measures to curb black money

- A separate Bill for a comprehensive new law to be introduced for black money parked outside India; stringent measures proposed to be introduced for non-disclosure of overseas income and assets including rigorous imprisonments and steep penalties
- Benami Transactions (Prohibition) Bill for curbing domestic black money on the anvil
- Confiscation of overseas assets held by Indian residents in violation of FEMA regulations or equivalent Indian assets held by the resident; the Foreign Exchange Management Act/ Prevention of Money Laundering Act to be amended to this effect

Others

- Wealth Tax Act, 1957 proposed to be abolished
- Threshold for specified domestic transactions (domestic transfer pricing provisions) raised from 5 crore INR to 20 crore INR
- Implementation of General Anti Avoidance Rule (GAAR) deferred by two years; GAAR provisions to be applicable from FY 2017-18
- Provisions relating to the Income Tax Settlement Commission rationalised
- Provisions relating to weighted deduction for in-house R&D proposed to be amended in order to provide that deduction shall be allowed if the company enters into an agreement with the prescribed authority for cooperation in such a research and development facility and fulfills prescribed conditions with regard to maintenance and audit of accounts along with furnishing the prescribed report
- Penalty for concealment of income or furnishing of inaccurate particulars shall now also include minimum alternate tax or alternate minimum tax sought to be evaded.
- No person shall accept or repay an advance of loan/deposit/any sum of money in relation to transfer of immovable property otherwise than by cheque/bank draft/ECS if the amount of such advance/loan/deposit exceeds 20,000 INR (penalty for failure)
- Donation to National Fund for Control of Drug Abuse, Swach Bharat Kosh and Clean Ganga Fund eligible for 100% deduction

Personal taxation

- No change in the rates has been proposed in case of individuals (including senior and super senior citizens). However, 2% additional surcharge has been proposed in case a person's total income exceeds 1 crore INR; maximum marginal tax rate will now be 34.608%
- Deduction with respect to contribution to pension fund enhanced from 1,00,000 INR to 1,50,000 INR
- Individual's contribution to the New Pension Scheme is proposed to be eligible for deduction upto 1,50,000 INR (presently restricted to 1,00,000 INR) under the overall limit of 80CCE. Further, an additional deduction of 50,000 INR is proposed for individual's contribution to NPS over and above the aforesaid limit of 1,50,000 INR.
- Limit of medical insurance premium under section 80D enhanced to 25,000 INR and 30,000 INR for senior or very senior citizens. Medical expenditure on very senior citizens to be eligible for deduction within the limit of 30,000 INR provided such person is not covered under medical insurance
- While the Wealth Tax Act has been abolished, it is proposed that assets currently covered in Wealth Tax returns will be disclosed in the individual's Return of Income

Scorecard (direct tax)	
Availability of tax holiday under Section 80IB (9) on the natural gas produced (other than NELP VIII & CBM IV)	No
Separate tax holiday for each well or cluster of wells treating it as a separate 'undertaking'	No
Tax holiday for E&P companies to be enhanced to the block of 10 years out of 15	No
Weighted deduction to expenditure incurred with respect to drilling and exploration activities in line with R&D expenses	No
Allowance of deduction for Corporate Social Responsibility expenses	No
Infrastructure status to LNG projects for the purpose of tax holiday under section 80IA	No
Profit-based / investment-based incentive to refineries for expansion and up-gradation	No

Budget highlights (Indirect tax)

Goods and Services Tax

One of the key expectations of the industry from the Budget was a roadmap for implementation of GST. The Finance Minister has reiterated the government's resolve of rolling out GST from 1 April 2016.

GST will help in developing a common Indian market and reducing the cascading effect on the cost of goods and services. As a precursor to GST, the FM has subsumed Education Cess (EC) and Secondary and Higher Education Cess (SHEC) in Central Excise Duty to rationalise the rate to 12.5% from 12.36%. To further facilitate smooth transition in levying tax on services by both the centre and the state, the present service tax rate has been increased from 12.36% to 14%.

How fast the FM will move the wheels of change to usher in GST will be keenly watched in the coming days.

Customs

Tariff

- The median rate of basic customs duty (BCD) for non-petroleum products maintained at 10%
- Change in custom duty rates for select petroleum products

Effective from 1 March 2015

- BCD on metallurgical coke increased from 2.5% to 5%
- BCD on liquefied butane decreased from 5% to 2.5%
- Special additional duty on Naptha for use in manufacture of excisable goods decreased from 4% to 2%
- Effective rate of additional duty of customs (road cess) levied on imported motor spirit (petrol) and high speed diesel oil increased from 2 INR per litre to 6 INR per litre

Non tariff

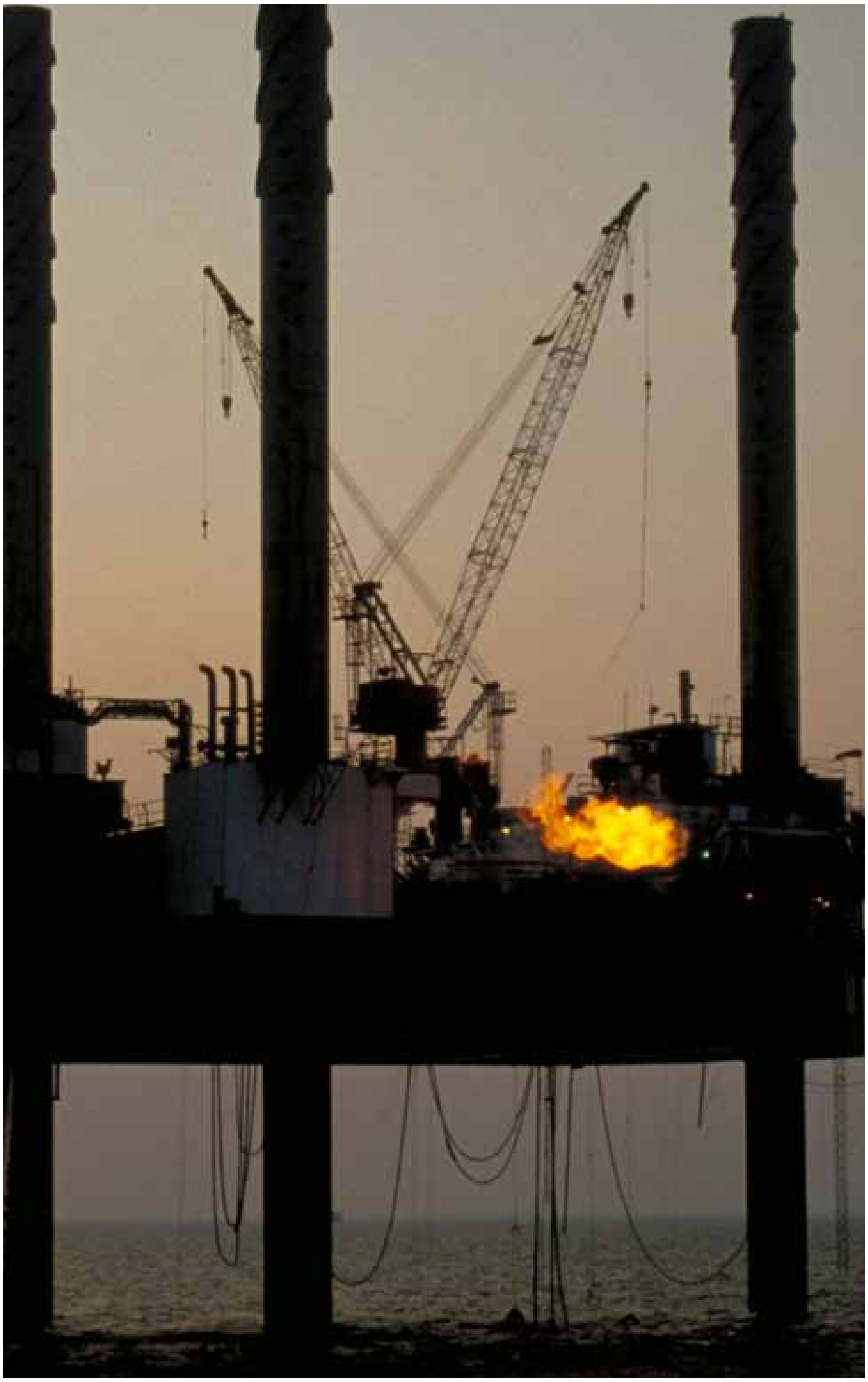
Effective from 1 March 2015

- Facility of advance ruling extended to all resident firms

Effective from date of enactment of the Finance Bill

- Penalty provisions under the customs law have been amended as under:

Act of contravention of law	Condition	Duty and interest	Penalty
Not involving fraud, collusion, mis-statement, etc	Paid within 30 days from the date of receipt of notice	Yes	No
Involving fraud, collusion, mis-statement, etc	Paid within 30 days from the date of receipt of notice	Yes	15%



Excise duty

Tariff

Effective from 1 March 2015

- Median excise duty rate increased from 12.36% (effective rate) to 12.5%
- EC and SHEC subsumed in central excise duty
- Changes in the excise duty rate on petrol and high speed diesel oil have been summarised below:

Duty rates applicable prior to 28 February 2015					Duty rates applicable with effect from 1 March 2015				
CENVAT (INR / litre)	Special additional excise duty (INR / litre)	Additional excise duty (INR / litre)	Education cesses (as percentage of aggregate of duties of excise)	Total (INR / litre)	CENVAT	Special additional excise duty (INR / litre)	Additional excise duty (INR/ litre)	Education cesses	Total (INR litre)
Unbranded petrol									
8.95	6	2	3%	17.46	5.46	6	6	Nil	17.46
Branded petrol									
10.10	6	2	3%	18.64	6.64	6	6	Nil	18.64
Unbranded diesel									
7.96	Nil	2	3%	10.26	4.26	Nil	6	Nil	10.26
Branded diesel									
14% + 5 INR/litre or 10.25 INR/litre, whichever is lower	Nil	2	3%	12.62	6.62	Nil	6	Nil	12.62

However, the total incidence of various excise duties on petrol and diesel remains unchanged.

Amendment in Clean Energy Cess

- The effective rate of Clean Energy Cess has been increased from 100 INR per tonne to 200 INR per tonne.

Amendment in Central Excise Rules, 2002

- Provision regarding the authentication of invoices by means of a digital signature has been inserted. Detailed procedure / guidelines to be notified.

However, for movement of goods, hard copy of a duplicate of the digitally signed invoice, duly self-attested by the manufacturer shall accompany the goods.

An option of electronic maintenance of records has been introduced.

- Provisions regarding the penalty of 100 INR per day subject to a maximum of 20,000 INR on non-filing of any return, annual financial information statement or annual installed capacity statement have been inserted.

Effective from date of enactment of the Finance Bill

- Penalty provision under the excise law have been amended as under

S No	Particulars	Penalty
1	Cases not involving fraud	10% of the duty demanded or 5,000 INR whichever is higher
2 (a)	Cases involving fraud, not covered in books of account	100% of the duty demanded
(c)	Cases involving fraud, covered in books of accounts	50% of the duty demanded (till the Finance bill 2015 is enacted)
(c)	Cases involving fraud, covered in books of accounts	100% of the duty demanded (after enactment of the Finance bill 2015)

CENVAT credit

Effective from 1 April 2015

- Condition of payment of service value under partial reverse charge for availing credit withdrawn, in line with provisions relating to full reverse charge mechanism

Effective from 1 March 2015

- The period for availing CENVAT credit on inputs and input services from the date of issue of invoice increased to one year from six months
- Increase in time limit for return of capital goods from the job worker's premises to two years from six months
- Express provision inserted for the reversal of CENVAT credit (without payment of interest) wrongly taken but not utilised
- Manner of determining the utilisation of CENVAT credit introduced
  - First from opening balance
  - Second from admissible credit availed during the month
  - Last from inadmissible credit availed during the month

Service tax

Effective from the date of notification

- Service tax rate increased from 12% to 14%
- EC and SHEC to be subsumed in the increased rate of service tax
- Swachh Bharat Cess on value of taxable services to be levied at a rate of 2%
- Negative list of services being pruned, several exemptions withdrawn under service tax so as to widen the tax base

Effective from 1 April 2015

- Uniform abatement rate of 70% prescribed for transport of goods and passengers by rail, transport of goods by road and vessel; subject to the condition of non-availment of CENVAT credit on inputs, capital goods and input services
- Manpower supply and security services covered under the full reverse charge mechanism, 100% as against 75% to be paid by the service recipient

Effective from 1 March 2015

- Amendment in Service Tax Rules, 1994
  - Provision regarding the authentication of invoices by means of a digital signature has been inserted. Detailed procedure / guidelines to be notified.

Option of electronic maintenance of records has been introduced.

- Advance ruling facility extended to all resident firms

Effective from date of enactment of the Finance Bill

- Definition of 'consideration' amended to include all reimbursable expenditure or cost incurred and charged by the service provider; effect of the Delhi High Court Ruling in the case of Intercontinental Consultants and Technocrats Pvt Ltd nullified
- Penalty provision under the service tax law have been amended as under

Condition	Duty and interest	Penalty
Not involving fraud, collusion, mis-statement, etc		
Any case prior to the issue of notice	Yes	No
Paid within 30 days from the date of receipt of notice	Yes	No
Paid within 30 days from the date of receipt of order	Yes	25% penalty
Paid after 30 days from the date of receipt of order	Yes	A maximum of 10% of the service tax
Involving fraud, collusion, mis-statement, etc		
Any case	Yes	100%
Paid within 30 days from the date of receipt of notice	Yes	15%
Paid within 30 days from the date of receipt of order	Yes	25%

Scorecard (indirect tax)	
Expansion of the list of goods that can be imported duty-free by the E&P companies, to cover all goods imported in relation to petroleum operations	No
Removal of the National Calamity Contingent Duty (NCCD) on crude oil	No
Exemption from payment of customs duty in relation to the import of raw material for onshore oil and gas activities	No
Availability of CENVAT credit with respect to crude and product pipelines belonging to the refineries	No
Dual taxation on royalty payments or fee for technical services to overseas entities	No
Availability of CENVAT credit on cement and steel articles	No
Availability of CENVAT credit with respect to crude and product pipelines belonging to the refineries	No
No time limit for availing CENVAT credit; the existing six months restriction has been extended to one year	Yes
Exemption from service tax on input services consumed by oil and gas companies in exploration and production activities	No
Non-applicability of service tax on recoveries made by an employer from an employee	No
No benefit of service tax paid on amounts written-off as bad debts	No
Clarity on payment of service tax on transmission charges	No
Clarity on levy or abatement under service tax for transportation of goods through 'time chartered vessels'	No
Removal of ambiguity on distribution of credit through the input service distribution (ISD) mechanism	No
Inclusion of goods required for laying down the natural gas pipeline network in the category of goods eligible for concessional CST against Form C	No
Declared goods status to natural gas, naphtha and ATF	No
Reduction of the reversal rate of input tax credit on stock transfers from 4% to 2% across all states in India uniformly	No

Direct Tax

Upstream

Deduction in respect of exploration and production (E&P) business

100% deduction under section 80 IB(9) of the Income Tax Act, 1961 (Act) is allowed seven years to an undertaking in respect of E&P business, if such undertaking:

- Is located in any part of India and has begun or begins production of mineral oil on or after 1 April 1997;
- (Provided that the provisions of this clause shall not apply to blocks licensed under a contract awarded after 31 March 2011 under NELP dated 10 February 1999 announced by the government of India or in pursuance of any law the time being in ce or by the central or state government in any manner)
- Is engaged in commercial production of natural gas in blocks licensed under the NELP-VIII and begins commercial production of natural gas on or after 01.04.2009;
- Is engaged in commercial production of natural gas in blocks licensed under Round IV of bidding award of exploration contracts coal bed methane (CBM) blocks and begins commercial production of natural gas on or after 1 April 2009;

Since E&P of mineral oil is a capital-intensive, high-risk business, weighted deduction of 150% of all capital and revenue expenditure incurred for exploration and production business should be allowed under section 42 of Income Tax Act. Presently 100% expenditure incurred on E&P business is allowed under section 42 of the Act. Union Budget 2015 is expected to clarify that the term 'mineral oil' would also include natural gas the purpose of admissibility of tax holiday production of natural gas from all blocks (including CBM) retrospectively. It is also expected that the tax holiday under section 80-IB an E&P undertaking would be allowed a period of 10 years out of 15 years from the date of commencement of commercial production.

The industry is also expecting that weighted deduction of 150% of all capital and revenue expenditure incurred the E&P business would be allowed under section 42 of the Act.

Meaning of the term 'undertaking': Explanation to section 80 IB(9) of the Act

According to the explanation to section 80 IB(9), the purpose of claiming deduction under this sub-section, all blocks licensed under a single contract or production sharing contracts (PSCs) shall be treated as a single 'undertaking', with retrospective effect.

This trend in government policy of imposing taxes and taking away the existing benefit is certainly not in the right spirit. After this amendment, substantial fiscal benefits have been taken away, which were previously available.

Since each well or a cluster of wells is a physically separate unit, which can exist on its own as a viable unit capable of earning income.

Further, under the current mechanism of PSCs, each field development plan is separately considered as the basis development. Moreover, there could be one well 'field' that can exist on its own in a field.

Considering the above, it is expected that Budget 2015-16 would remove the hardship being faced by industry by providing that 'wells/cluster of wells/field' would be regarded as an 'undertaking' the purposes of claiming tax holiday.

Corporate social responsibility (CSR) expenses

CSR expenditure has become a part of a company's business operations, particularly PSUs. Further, the Companies Act, 2013 also provides mandatory CSR expenses to the extent of 2% of the average net profit of a company in the last three years. In order to promote the development of the country, CSR expenses need to be encouraged. Under CSR, various development programmes such as development of schools poor children, roads and bridges in rural areas, and financial assistance to NGOs engaged in helping the poor by providing employment are carried out.

The Finance (No. 2) Act, 2014, has inserted an explanation to section 37 of Act, with effect from Financial Year 2014-15, to provide that any expenditure incurred by an assessee on the activities relating to CSR referred to in section 135 of the Companies Act, 2013, shall not be deemed to be an expenditure incurred by the assessee the purposes of the business or profession. The explanatory memorandum to the Finance (No. 2) Bill, 2014, states that CSR expenditure, being an application of income, is not incurred wholly and exclusively the purposes of carrying on business, and since the application of income is not allowed as deduction the purposes of computing taxable income of a company, amount spent on CSR cannot be allowed as deduction computing the taxable income of the company.

While there was a demand incentivising the incurrence of CSR expenditure by allowing 200% deduction the same, the aesaid amendment has even withdrawn the 100% deduction that was otherwise admissible. Further, while the making of a voluntary donation may be considered an application of one's income, incurrence of the expenditure in compliance with the mandate of a statute cannot be said to be so. In the cases of PSUs, CSR activities are not only mandated by statute but are also closely monitored by their administrative ministries and are undertaken in various areas of national importance. Expenditure incurred on such CSR activities is, theree, better targeted and more beneficial the nation and society at large as compared to voluntary donations. It, theree, appears incongruous that the deduction of CSR expenditure has been disallowed while 100% to 50% deduction in respect of voluntary donations has been continued.

It was expected that the aesaid amendment would be rolled back, with the provision that CSR expenditure would be deductible in the year of incurrence thereof. Further, it was expected that amounts paid to trusts or foundations that have been established specifically carrying out CSR activities would also be made deductible and that such trusts or foundations would be exempt from income tax. Considering that CSR activities are as important to the nation as scientific research activities, the industry was also expecting that a 200% deduction might be provided in respect of any expenditure incurred on CSR activities.

Midstream

Infrastructure status to LNG projects the purpose of tax holiday

At present, there is a significant requirement of natural gas to meet the requirements of city gas distribution networks, refineries and the power sector. Theree, it was expected that in order to promote LNG import, LNG facilities located at ports would be included in the definition of infrastructure facility the purpose of tax holiday under section 80-IA and that the benefit may be extended the next five years.

Downstream

Deduction expansion and upgradation of refineries

Given the large expected step-up in fuel demand, oil marketing companies (OMCs) are required to reince their infrastructure in terms of capacity augmentation and fuel-quality upgradation in line with environmental norms. Needless to say, commensurate investments will be required supporting the expansion.

The government, in an attempt to protect the common man from the volatility of crude prices, has been controlling the prices of sensitive products such as petrol, HSD, SKO and LPG, resulting in huge losses to OMCs. The gap in the costs and sales realisation is partially compensated through discounts from upstream PSUs along with cash and bonds from the government, resulting in a varying amount of under-recoveries being absorbed by the OMCs leading to unpredictability in their profit levels. In addition to the under-recoveries, there is an additional impact on the profitability on account of the increased interest costs due to delay and uncertainty in receiving compensations, delay and loss on liquidating the bonds, etc. As a result, the borrowing capability of these companies, to support the above investments and meet working capital requirements, also gets marginalised.

In order to sustain the existence and to be a part of the inclusive growth plans of the nation, it was expected that a profit-based or investment-based incentive would be provided to OMCs the expansion and upgradation of their refineries.

Indirect Tax

Customs

Expanding the list of goods that can be imported duty-free

Selected goods, which are currently specified under list 13 or 14 of the customs notification no 12/2012 dated 17 March 2012, when imported by oil and gas companies, sub-contractors or service providers in relation to oil and gas activities are exempt from the levy of customs duty. It is recommended that such customs duty exemption should be extended to all goods imported in relation to petroleum operations.

Removal of national calamity contingent duty on crude oil

Currently, the national calamity contingent duty (NCCD) of 50 INR per metric tonne is payable on domestic as well as imported crude oil. This was rolled out in the Finance Bill 2003 in order to augment the funds available with the government so as to support relief work in the natural calamity-affected areas of the country. This, however, results in stranded costs to the refining sector. Hence, it is recommended that the NCCD on crude oil be removed in this Budget.

Exemption from payment of customs duty in relation to the import of raw material onshore oil and gas activities

Under the Customs Act, an exemption[1] from payment of customs duty has been provided to certain parts and raw materials the manufacture of goods supplied in connection with offshore oil exploration. These benefits available to offshore oil exploration activities should also be extended to onshore oil exploration activities in order to provide a level playing field to both the operators.

Dual taxation on royalty payments or fee technical services to overseas entities

The issue pertains to Indian Companies entering into business arrangement with eign entities. Such arrangements are mainly done to use the brand, reputation, intellectual property rights, product and business expertise, etc of eign entities and sell products supplied or approved by them in the Indian market. Such arrangements can be made in different legal ms including joint venture, franchise, license and distributor.

Under the above arrangements, Indian companies are obliged to maintain prescribed standards of business, pay value of goods being imported and are also required to make payments to the eign partner services and intangible rights that are identified by various names like franchise/license fee, marketing/advertising fee, agents fee/commission, renewal fee, reimbursements of travel, etc.

While customs authorities consider all the above direct or indirect payments related to services and intangible rights like royalty, license fee, etc to be related to supply of goods and hold them liable to customs duty, service tax authorities treat such payments as consideration services and hold Indian companies liable to pay service tax under the reverse-charge mechanism resulting in dual taxation.

Appropriate clarification should be issued so that payments related to services and intangible rights are not taxed twice.

1. vide Sl. no 357 of the customs notification no 12/2012

Excise duty

Availability of Cenvat credit in respect of crude and product pipelines belonging to refineries

According to the Cenvat Credit Rules, 2004 (CCR), Cenvat credit in respect of inputs as well as capital goods is allowed only if such goods are received and used in the factory of production. Typically, oil refineries have huge networks of crude as well as product pipelines spread all across India, which are not limited to the oil exploration plant. Whether or not Cenvat credit is available in respect of such pipelines has been a matter of intense judicial scrutiny, since such pipelines are not physically located within the factory.

Theree, it is suggested that necessary amendments be carried out in the CCR in order to enable the eligibility of Cenvat credit in respect of both crude as well as product pipelines extending outside these oil refineries.

Availability of Cenvat credit on cement and steel articles

In Union Budget 2012-13, the definition of ‘inputs’ as contained under the CCR was amended, whereby no Cenvat credit was available in respect of goods used the construction of building or supporting capital goods. The shift in service taxation from positive to the negative list is a step towards the introduction of a nationwide goods and services tax (GST), whose basic idea is to have in place seamless credits across goods and services. Restriction of Cenvat credit is a roadblock in the successful implementation of GST. Theree, it is recommended that Cenvat credit admissibility be extended to all goods and services, including those used the construction of building and supporting capital goods, keeping in view of the large amount of investments made by the sector into buildings or capital goods.

No restriction on time limit availing Cenvat credit

The time limit of six months availing Cenvat credit as amended vide Excise Notification No 21/2014 dated 11 July 2014 is too short, resulting in the non-utilisation of eligible credit and becoming a cost to business, which is against the concept of value added tax (VAT). Thus the six-month time limit should be removed.

Service tax and central excise are ms of VAT, levied at each stage of value addition only. Theree, there is a provision of availing credit of taxes paid at the earlier stage on input, capital goods and input services to ensure that taxes are paid only on value additions at each stage. This provision also avoids cascading effects. In case such restrictions are imposed availing credit, the eligible credit would become a cost of the transaction, which is against the principle of VAT. This will also lead to a cascading effect, which is detrimental to the business environment. Theree, the time limit of six months should be withdrawn.

Service tax

Exemption from service tax on input services consumed by oil and gas companies in relation to exploration and production activities

Exemption from service tax on input services consumed by oil and gas companies has been a recurring demand of the sector. The recent shift in the taxation of services from select services to all services has further increased the

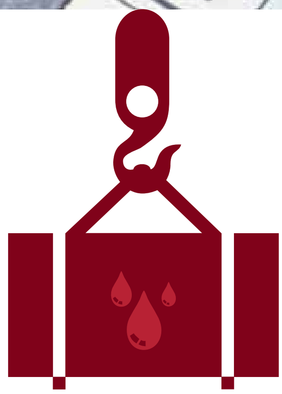
service tax burden on the sector. It has been exempted from the payment of excise duty on the output leg on the crude oil and natural gas production. This has resulted in a break in the credit chain, which has increased the operating costs exploration companies. Hence, the service tax paid on the procurement of taxable services by oil and gas companies is a sticking cost.

Hence, it is expected that in line with other concessions, the central government should exempt the input services consumed by the oil and gas sector from the levy of service tax. Alternatively, the possibility of refund of the service tax paid on input services consumed by the sector may also be considered.

Service tax on recoveries made by an employer from an employee

Services provided by an employee to an employer in relation to employment have been kept outside the purview of service tax. It is common companies to provide certain facilities or benefits to employees and recover the cost from employees such facilities.

Within the present framework of service



tax, the recovery by the employer from its employees is subject to service tax. This poses the challenge of enormous compliances (in the m of registration as well as other procedural requirements), especially companies that do not have any other output service tax or Cenvat liability, except the service tax on these facilities or benefits to employees. It is theree recommended that the government should carve out service tax exemption on services provided by an employer to its employees, similar to that provided services rendered by employees to its employer during the course of employment.

No benefit of service tax paid on amounts written off as bad debts

Rule 6(3) of Service Tax Rules, 1994 provides the adjustment of service tax already paid if the services are not provided by the service provider. However, there is no corresponding provision service tax adjustment when the amount is written off as a bad debt. Since the amounts written off as bad debts affect the cash flow of the assessees, it is suggested that suitable amendment be made to the relevant Rules in order to provide service tax adjustments amounts written off as bad debts.

Clarity on the payment of service tax on transmission charges

As a matter of business practice in the oil and gas sector, contracts the supply of a product is a lump sum contract the sale and transmission of the product. The supplier of the product usually charges a transmission fee, which is a part of the sale price itself, and accordingly chargeable to VAT. However, lately, service tax authorities have been raising demands the payment of service tax on transmission charges. It is recommended that necessary clarifications be issued on the matter in order to avoid the issue of double taxation.

Clarity on levy or abatement under service tax transportation of goods through time-chartered vessels

Oil marketing companies usually transport their goods either through voyage-chartered vessels or through time-chartered vessels.

Presently, services in relation to the import of goods through voyage-chartered vessels transportation purposes is not subject to service tax since the same has been specified in the negative list. In terms of section 66D (p)(ii) of the Finance Act, 1994, service tax is not payable on the transportation of goods by an aircraft or a vessel from a place outside India to the country. Theree, import of goods by a vessel in India is not chargeable to service tax.

In addition to the above, transport of goods though a vessel is entitled 50% abatement[2].

However, the benefit of this exemption is not extended to transport of goods through time-chartered vessels since such services fall within the category of supply of tangible goods use. It is theree recommended that appropriate amendments be issued in order to allow the aesaid benefits on the transport of goods through a time-chartered vessel.

Removal of ambiguity on distribution of credit through the input service distribution (ISD) mechanism

The manner of distribution of eligible input service credit through the ISD mechanism under Rule 7 of CCR has been redefined through amendments made (notification no 5/2014 dated 24 February 2014) post 1 April 2014. Also, a circular dated 11 July 2014 was introduced to further clarify the procedure regarding distribution of credit. However, this amendment or clarification seems to have deviated from the original intention since then.

The amended rule provides that the credit of service tax attributable to services used in more than one unit shall be distributed pro-rata on the basis of the turnover of the unit to the sum total of the turnover of all the units, irrespective of whether the credit pertains to those units or not. This methodology the distribution of credit results in the loss of credit to the extent the credit gets distributed to the exempted units. It is recommended that the method of credit distribution be streamlined by appropriately amending the provisions so as to allow appropriation of credit to only the units using these common services.

Central sales tax (CST)

Inclusion of goods required laying down the natural gas pipeline network within the category of goods eligible   concessional CST against m C

Presently, public sector undertakings (PSUs) are investing heavily on the development of the national gas grid to transport natural gas. Considering the impetus of huge investments into this sector, it is recommended that natural gas pipelines or network products be included within the purview of section 8(3) of the CST Act, on similar lines as telecom networks. The inclusion of natural gas pipelines or network products under section 8(3) of the CST Act will enable

2. vide Sl.No.10 of notification no 30/2012-ST dated 20 June 2012

the industry to purchase these goods at a concessional rate of CST against m C.

Declared goods status to natural gas, naphtha and aviation turbine fuel (ATF)

Natural gas, naphtha and ATF are primary sources of energy the fertiliser, petrochemicals, power, aviation and several other industries. The importance of natural gas is likely to increase in the future with its rising domestic use. However, the high and multiple-point sales tax structure on natural gas and naphtha, without input credits, is adversely affecting the industry, and consumers are ultimately bearing the load of high taxes.

Over the years, natural gas and naphtha have become costlier and non-competitive in comparison to other fuels such as coal and crude oil, which have been declared as 'goods of special importance' in section 14 of the CST Act. In order to provide a level playing field among different primary energy sources, it is recommended that natural gas (including R-LNG), naphtha and ATF be accorded the 'declared goods' status under the CST Act. This will also help in maintaining the unimity in the VAT rates on these products all across India.

Prescribed rate reversal of input tax credit (ITC) on stock transfers should be reversed from 4% to 2% unimly across all states in India

Presently, under most of the state VAT laws, a reversal of ITC to the tune of 4% is required to be executed in relation to goods stock transferred outside the state or used in the manufacture of goods that are stock transferred outside the state. The provision is based on the premise that in case of stock transfers, there is a revenue loss to the extent of CST payable in inter-state sales otherwise. However, since the rate of CST payable on inter-state sales has been changed to 2% with effect from 1 April 2007, it is recommended that the state VAT laws be amended so that the reversal required is 2% of VAT instead of the prevailing rate of 4%.

Goods and service tax (GST)

Inclusion of petroleum products within the GST regime

The draft proposal circulated by the Ministry of Finance to the state government proposes to keep petroleum products and natural gas outside the ambit of the proposed GST regime. Thus, these goods will continue to be taxed as per the existing scheme of taxation even after the introduction of GST. This would lead to inefficiencies as well as cascading tax.

Several countries such as Australia, Canada, Sri Lanka, Singapore and Brazil have included petroleum products under the GST net. In fact, even India, the 13th Finance Commission has recommended the inclusion of petroleum products under GST.

Thus, to avoid the breakage in the tax chain and to ensure overall growth of the oil and gas sector, it is suggested that all petroleum products be brought into the GST regime. If they have to be excluded from GST at this stage, this may be done through an appropriate provision within the GST legislation, instead of excluding them through the constitutional amendment bill.

Significant Policy Changes and Initiatives in Oil & Gas Industry

04

Significant policy changes relating to the oil and gas industry were introduced by the government of India in FY 2014-15. Following are some of the key initiatives and developments:

Diesel and natural gas pricing

With effect from 19 October 2014, the government of India has deregulated the price of diesel, both at the retail and refinery gate level. Since the deregulation, the public sector oil marketing companies (OMCs) are deciding the prices of diesel in line with international prices and other market conditions.

Further, the government notified the New Domestic Natural Gas Pricing Guidelines, 2014 on 25 October 2014, which have become effective from 1 November 2014. As per the guidelines, the wellhead gas price (P) would be determined as per the formula given below:

$$P = \frac{V_{HH} P_{HH} + V_{AC} P_{AC} + V_{NBP} P_{NBP} + V_R P_R}{V_{HH} + V_{AC} + V_{NBP} + V_R}$$

Where

- VHH = total annual volume of natural gas consumed in USA and Mexico.
- VAC = total annual volume of natural gas consumed in Canada.
- VNBP = total annual volume of natural gas consumed in European Union (EU) and mer Soviet Union (FSU) countries, excluding Russia.
- VR = total annual volume of natural gas consumed in Russia.
- PHH and P NBP are the annual average of daily prices at Henry Hub (HH) and National Balancing Point (NBP) respectively, less 0.50 USD/mmbtu towards transportation and treatment charges.
- P AC and P R are the annual average of monthly prices at Alberta Hub (AH) and Russia (R) respectively less 0.50 USD/mmbtu towards transportation and treatment charges.

These guidelines are also applicable to the natural gas produced from coal bed methane (CBM) blocks. The operator of the CBM block will be required to pay royalty and requisite fees, levies and taxes as applicable from time to time to state or central government at the prevailing rates.

Regulating marketing margin supply of domestic gas to urea and LPG producers

The Ministry of Petroleum and Natural Gas (MoP&NG) has decided that the government needs to regulate the marketing margin supply of domestic gas to urea and LPG producers, as it has implications on government subsidy outgo. In all other cases, the marketing margin should be decided by the buyer and seller mutually, and any complaints about the exercise of monopoly power should be addressed by Petroleum and Natural Gas Regulatory Board (PNGRB) or the Competition Commission.

Accordingly, the MoP&NG requested the PNGRB vide letter dated 21 November 2013 to determine the marketing margin supply of domestic gas to urea and LPG producers, through its independent process.

In this regard, the PNGRB submitted its recommendations to the MoP&NG on 20 January 2015. The PNGRB has recommended a range of 150-200 per 1,000 INR/SCM as a marketing margin domestic gas being supplied to fertiliser and LPG plants. The recommendations of the PNGRB are under examination in the MoP&NG.

Amendment in the Kerosene (Restriction on Use and Fixation of Ceiling Price) Order, 1993

With a view to ease the availability of white kerosene (market-priced kerosene) sale in the open market, the central government has amended the Kerosene (Restriction on Use and Fixation of Ceiling Price) Order, 1993. By virtue of this amendment, all the activities of storage, transportation and sale of non-PDS kerosene have been freed of regulatory control. In this regard, the Kerosene (Restriction on Use and Fixation of Ceiling Price) Amendment Order, 2015 has been published in the Gazette of India vide GSR 41(E) dated 19 January 2015. It is expected to reduce the demand diverted PDS kerosene by improving the availability

of non-PDS kerosene in the open market and will thus meet the demand kerosene various legitimate end uses of the industry and individual consumption by those who can afd it at the market price.

Launch of Modified Direct Benefit Transfer LPG (DBTL) Scheme in 54 districts and in the rest of the country by 1 January 2015

The Direct Benefit Transfer LPG (DBTL) scheme PAHAL (Pratyaksh Hanstantrit Labh) was re-launched in 54 districts on 15 November 2014 in the first phase and will be launched in the rest of the 622 districts of the country on 1 January 2015.

DBTL is designed to ensure that the benefit meant the genuine domestic customers reaches them directly and is not diverted. DBTL also ensures that public money is saved. As part of the improvements to the scheme, consumers will now receive an SMS at every stage of enrollment in the scheme.

The major changes in the modified scheme are designed to enhance consumer convenience and are as follows:

- Consumers who affirm that they do not have an Aadhaar number can receive cash directly in their bank account without producing Aadhaar. However, when they get an Aadhaar number, they may have to shift to Aadhaar-based cash transfer.
- Consumers who are not cash transfer compliant (CTC) will get a three-month grace period, during which they will receive gas cylinders at the subsidised rate. After the grace period, they will get an additional period of three months as parking period, during which they will have to buy the cylinders at the market rate. If the consumer joins the scheme within the parking period, the subsidy as per entitlement and consumption during parking period will be transferred to his or her bank account.
- The permanent advance is paid in the bank account of consumers as soon as they book the first cylinder after joining the scheme, prior to the delivery. This advance ensures that LPG consumers have extra cash to pay the first LPG cylinder at market price. The permanent advance shall be notified the consumers now joining the scheme separately.

In the 54 districts covering 11 states, the scheme will cover 2.33 crore households.

Direct sale of bio-diesel by manufacturers or suppliers other than OMCs

The Union Cabinet gave its approval amending the Motor Spirit and High Speed Diesel (Regulation of Supply, Distribution and Prevention of Malpractices) Order dated 19 December 2005. The amendment will allow private bio-diesel manufacturers, their authorised dealers and joint ventures (JVs) of OMCs authorised by the MoP&NG as dealers and provide marketing or distribution functions to them the limited purpose of supply of bio-diesel to consumers. Further, the investment and production conditions (as applicable) specified in the marketing resolution dated 8 March 2002 of the MoP&NG will also be relaxed and a new clause added to give marketing rights bio-diesel (B100) to the private bio-diesel manufacturers, their authorised dealers and JVs of OMCs authorised by the MoP&NG direct sales to consumers.

The Cabinet has also decided to suitably amend para 5.11 and 5.12 of the National Policy on Bio-fuels facilitating consumers

of diesel in procuring bio-diesel directly from private bio-diesel manufacturers, their authorised dealers and JVs of OMCs authorised by the MoP&NG. This decision will encourage the production and use of bio-diesel in the country.

Mechanism procurement of ethanol by public sector OMCs to carry out the ethanol-blended petrol programme

The Cabinet Committee on Economic Affairs (CCEA) has approved a mechanism procurement of ethanol by public sector OMCs to carry out the ethanol-blended petrol (EBP) programme.

The CCEA approved replacing the current procedure on ethanol with the following:

- The delivered price of ethanol may be fixed in the range of 48.50 INR per litre to 49.50 INR per litre, depending upon the distance of sugar mill from the depot or installation of the OMCs as per the slab given below:

Distance in km	*INR per litre*
0-100	48.50
101-300	49.00
>300	49.50

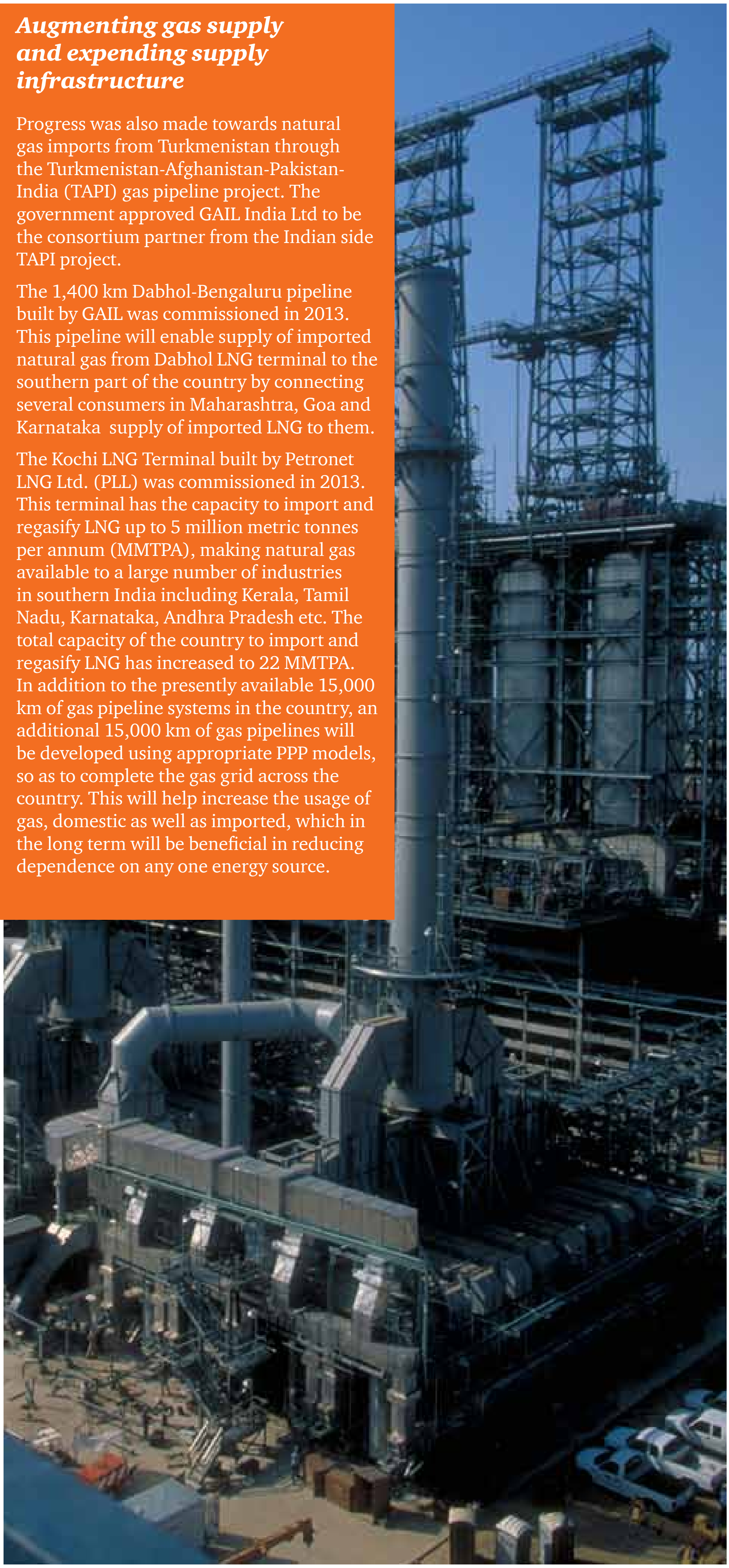
- The rates proposed would be the delivered price at depot location and inclusive of all central and state taxes, transportation costs, etc, which would be borne by the ethanol suppliers.
- The OMCs will include the 'supply or pay' clause duly backed up with a bank guarantee in their supply agreement with ethanol suppliers.
- OMCs will sign MOU with the state governments a comprehensive system uninterrupted inter-depot transfer of ethanol within a state. This may include annual excise permits to OMCs movement of ethanol and other relevant measures.

Augmenting gas supply and expending supply infrastructure

Progress was also made towards natural gas imports from Turkmenistan through the Turkmenistan-Afghanistan-Pakistan-India (TAPI) gas pipeline project. The government approved GAIL India Ltd to be the consortium partner from the Indian side TAPI project.

The 1,400 km Dabhol-Bengaluru pipeline built by GAIL was commissioned in 2013. This pipeline will enable supply of imported natural gas from Dabhol LNG terminal to the southern part of the country by connecting several consumers in Maharashtra, Goa and Karnataka supply of imported LNG to them.

The Kochi LNG Terminal built by Petronet LNG Ltd. (PLL) was commissioned in 2013. This terminal has the capacity to import and regasify LNG up to 5 million metric tonnes per annum (MMTPA), making natural gas available to a large number of industries in southern India including Kerala, Tamil Nadu, Karnataka, Andhra Pradesh etc. The total capacity of the country to import and regasify LNG has increased to 22 MMTPA. In addition to the presently available 15,000 km of gas pipeline systems in the country, an additional 15,000 km of gas pipelines will be developed using appropriate PPP models, so as to complete the gas grid across the country. This will help increase the usage of gas, domestic as well as imported, which in the long term will be beneficial in reducing dependence on any one energy source.



Commodity balance of petroleum and petroleum products

Crude Oil

	Item	1980-81	1990-91	2000-01	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15 (Apr-Dec)*
	1	2	3	4	5	6	7	8	9	10	11	12	13
1	Refinery throughput	25.8	51.8	103.4	146.6	156.1	160.8	192.8	197.0	204.1	219.2	222.5	166.7
2	Domestic production	10.5	32.2	32.4	34.0	34.1	33.5	33.7	37.7	38.1	37.9	37.8	28.2
(a)	*On-shore*	5.5	11.8	11.8	11.3	11.2	11.3	11.8	16.4	18.0	19.4	19.6	14.0
(b)	*Off-shore*	5.0	20.4	20.6	22.7	22.9	22.2	21.9	21.3	20.1	18.4	18.2	14.1
3	Imports	16.2	20.7	74.1	111.5	121.7	132.8	159.2	163.6	171.7	184.8	189.2	142.3
4	Exports	—	—	—	—	—	—	—	—	—	—	—	—
5	Net imports (3-4)	16.2	20.7	74.1	111.5	121.7	132.8	159.2	163.6	171.7	184.8	189.2	142.3

Petroleum products

	Item	1980-81	1990-91	2000-01	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15 (Apr-Dec)*
	1	2	3	4	5	6	7	8	9	10	11	12	13
1	Domestic consumption@ of which	30.9	55.0	100.1	120.7	128.9	133.6	137.8	141.0	148.1	157.1	158.2	122.3
(a)	*Naphtha*	2.3	3.4	11.7	13.9	13.3	13.9	10.1	10.7	11.2	12.3	11.5	8.0
(b)	*Kerosene*	4.2	8.4	11.3	9.5	9.4	9.3	9.3	8.9	8.2	7.5	7.2	5.3
(c)	*High speed diesel oil*	10.3	21.1	37.9	42.9	47.7	51.7	56.2	60.1	64.7	69.1	68.4	51.9
(d)	*Fuel oils*	7.5	9.0	12.7	12.6	12.7	12.6	11.6	10.8	9.3	7.7	6.2	4.4
2	Domestic production$ of which	24.1	48.6	95.6	135.3	144.9	155.2	184.6	194.8	203.2	217.7	220.8	165.4
(a)	*Naphtha*	2.1	4.9	9.9	16.7	16.4	16.5	18.8	19.2	18.8	19.0	18.5	13.1
(b)	*Kerosene*	2.4	5.5	8.7	8.5	7.8	8.2	8.7	7.8	7.9	8.0	7.4	5.7
(c)	*High speed diesel oil*	7.4	17.2	39.1	53.5	58.4	62.9	73.3	78.1	82.9	91.1	93.8	70.5
(d)	*Fuel oils*	6.1	9.4	11.4	15.7	15.8	17.7	18.3	20.5	18.4	15.1	13.4	9.0
3	Imports#	7.3	8.7	9.3	17.7	22.5	18.5	14.7	17.4	15.9	15.8	16.7	14.9
4	Exports	—	2.7	8.4	33.6	40.8	38.9	51.2	59.1	60.8	63.4	67.9	48.6
5	Net imports (3-4)	7.3	6.0	0.9	(15.9)	(18.3)	(20.4)	(36.5)	(41.7)	(45.0)	(47.6)	(51.1)	(33.6)

Source: Economic Survey 2014-15, Ministry of Petroleum and Natural Gas

* *Provisional*
@ Excluding refinery fuel consumption, including imports by private parties
$ Excludes LPG production from fractionators
 # Excluding import of LNG

Notes

About Petrofed

The Petroleum Federation of India is an apex hydrocarbon industry association to promote the interests of members through a self-regulatory environment with national and consumer interest in sight. It acts as an oil industry interface with Government, regulatory authorities and public and helps in resolution of issues and evolution of hydrocarbons related policies and regulations. It represents the industry on Government bodies, committees and task ces and organises seminars, conferences, workshops, training programmes, lectures and brings out study reports and technical publications. It has instituted 13 Annual Awards in eleven categories.

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