



# Budget 2009 Snapshot

## Specific proposals for Oil and Gas Sector

### Economic Indicators

- For financial year 2008-09, overall GDP growth rate of India was 6.7% whereas fiscal deficit was 6.2%.
- India is a net importer of energy with import of 75% of the crude it consumes. Furthermore, demand is expected to rise which would widen the existing gap between demand and supply. Therefore, Government of India continues to take concrete steps to ensure energy security by accomplishing self-reliance through indigenous production.

### Policy Initiatives

- **New Exploration Licensing Policy ('NELP')**

NELP - VIII offers 70 exploration blocks comprising 24 deepwater blocks, 28 shallow water blocks and 18 onshore blocks. These 70 blocks cover a sedimentary area of about 164,000 sq. km.

The overall number of blocks brought under NELP now exceeds 200. The allocation of blocks is likely to bring in investments worth US\$ 10 billion.

- **Coal Bed Methane ('CBM')**

Fourth round of CBM blocks recently announced, offers ten CBM blocks covering an area of about 5,000 sq. km.

- **Transportation of Natural Gas**

Government proposes to develop a blueprint for long distance gas highways leading to a National Gas Grid to facilitate transportation of gas across the country.

- **National Gas Hydrate Programme**

To exploit the potential of the gas hydrate as an alternate source of energy, MoU has been signed between the Directorate General of Hydrocarbons and the U.S. Geological Survey for exchange of scientific knowledge and technical personnel.

- **Petroleum and Diesel pricing policy**

Government intends to set up an expert group to advise on the viable and sustainable system of pricing petroleum products to bring domestic prices of petrol and diesel in sync with the global prices.

## Income Tax

- There is no change in rates of corporate tax for Indian companies and remains unchanged at 33.99%.
- Government responds to Industry demands by abolishing Fringe Benefit Tax ('FBT') which will save corporate from some tax outflow and more importantly, cumbersome compliance requirements.
- Rate of Dividend Distribution tax ('DDT') remains unchanged at 16.995%.
- Minimum Alternate Tax ('MAT') rate is increased from 10% (effective 11.33%) to 15% (effective 16.995%) of book profits, which will increase the burden of infrastructure companies claiming tax holiday. The period to carry forward tax credit under MAT is increased from 7 to 10 years.
- New Direct Taxes Code will be released within 45 days for public debate, which will hopefully simplify direct tax compliance.
- Proposed introduction for alternate dispute mechanism and safe harbor rules will facilitate cross-border transactions between group companies.
- LLP will be treated as opaque entity i.e. similar to that of partnership firms. MAT & DDT are not applicable to LLP, thereby reducing the overall tax cost.
- Clearing the air on the availability of full tax holiday for seven years to the undertaking engaged in production of natural gas in blocks licensed under NELP VIII is a welcome measure and it will put an end to unnecessary and avoidable litigation with the tax department.
- Entities engaged in production of mineral oil have been taking a view that each well discovered within a block is an undertaking entitled to deduction under section 80-IB(9) of the Act. Finance Bill 2009 proposes to insert an explanation w.e.f. 1 April 2000 providing that all the blocks licensed under a single contract would be treated as a single undertaking thereby restricting the tax holiday period.
- Benefit of tax holiday has been extended to the private sector refineries engaged in refining of mineral oil between 1<sup>st</sup> October 1998 to 31<sup>st</sup> March 2012.
- 100% deduction allowed for capital expenditure (other than land, goodwill of financial instruments) on laying and operating a cross country natural gas or crude or petroleum oil pipeline network for distribution including storage facilities. Correspondingly, tax holiday on profit from business of laying and operating a cross country natural gas distribution network is discontinued.
- Weighted deduction of 150% of expenditure incurred on R&D is extended to all companies except those specified in Eleventh schedule.

## Contacts - Direct Tax:

Girish Mistry, Mumbai  
girish.mistry@in.pwc.com  
91 22 6689 1433

Hemal Zobalia, Mumbai  
hemal.zobalia@in.pwc.com  
91 22 6689 1466

## Contacts - Indirect Tax:

Sachin Menon, Mumbai  
sachin.menon@in.pwc.com  
91 22 6689 1244

Santosh Dalvi, Mumbai  
santosh.dalvi@in.pwc.com  
91 22 6689 1255

Prasad Paranjape, Mumbai  
prasad.paranjape@in.pwc.com  
91 22 6689 1266

- Flexibility of claiming tax holiday for any 7 years from the first 15 years after the commencement of commercial production under section 80-IB of the Act was highly expected. However, the Budget has been silent on this issue. Further, industry demand of exempting oil and gas companies from MAT is not fulfilled.

## Service Tax

- Service tax rate remains unchanged at 10.30%.
- Territorial jurisdiction of service tax is now extended to installations, structures and vessels in the entire continental shelf and exclusive economic zones of India.

## Customs

- There is no change in the median rate of 10% basic custom duty on import of goods in India
- Basic customs duty on bio diesel reduced from 7.5% to 2.5%.

## Central Excise

- Median rate of central excise remain unchanged at 8.24%.
- Central excise rate on branded petrol converted from '6% + Rs. 5 per liter' to specific rate of Rs. 5 per liter.
- Central excise rate on branded diesel converted from '6% + Rs. 1.25 per liter' to specific rate of Rs. 2.75 per liter.
- Blending of high speed diesel and bio diesels would not attract central excise on fulfillment of certain conditions.
- Central excise rate on naphtha reduced to 14% from 16%.
- Central excise on special boiling point spirits has been reduced to 14%.

## Central Sales Tax ('CST')

- CST remains unchanged at 2%.

## Goods and Service Tax ('GST')

- Reiteration of 1<sup>st</sup> April 2010 deadline of implementation of GST.
- Satisfactory progress on roadmap.
- Dual GST structure is proposed – Central and State.