

Budget Analysis – 2020

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Industry Overview

Oil and Gas Sector

Overview

- Industry outlook – 2020
- Budget 2020 Analysis
 - Direct Tax
 - Indirect Tax
- Future of Energy!

Industry Overview – Oil and Gas Industry Outlook 2020

Market Fundamentals

- Trade and Economic Headwinds - Uncertainty!
- Rapid growth in global fuel consumption
- US Shale – Biggest source of production growth
- Trade Disputes have grown – US and Iran
- Regulatory Changes – IMO2020 – lower sulphur fuels
- Rise in Global fuel stock
- To Stabilise prices
 - lower shale output and
 - OPEC Quotas

Global Oil Supply

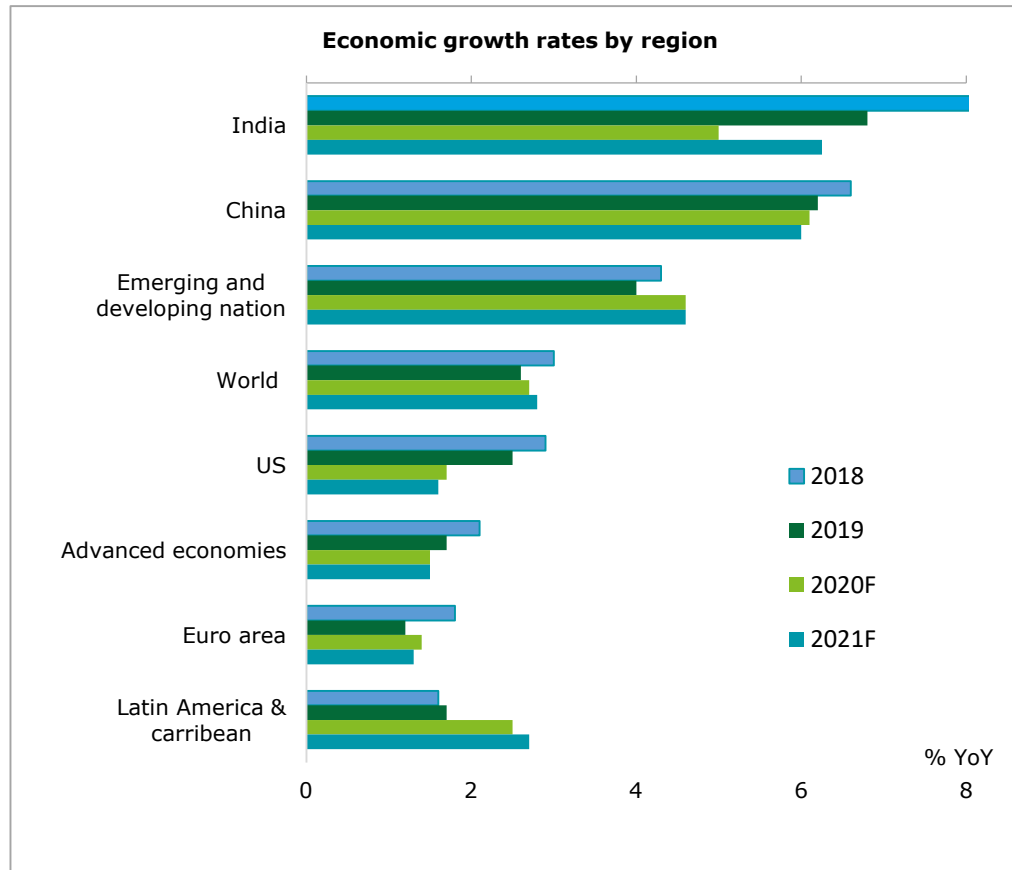
- Increasing Security and decreasing demand supply gap
- Mid Sept 2019 – Saudi Arabia attack: largest supply disruption
- Rise in supply from US, Brazil and Canada
- Healthy crude oil inventories in OECD Countries
- Production restraint agreement between the OPEC and Non-OPEC Vienna Agreement

Emerging Disruptive Trends

- Energy Transition – Renewables
- Rise in Carbon Consciousness
- Disruption can happen in value chain, customer preferences and economic drivers
- Concrete steps needed:
 - Eliminate methane leaks from existing infrastructure
 - Reduce emissions from field operations
 - Fresh water use and Waste Water disposal
 - Industry decisions taken now – will have long term impact

Growing with strong fundamentals

India aspiring to be a US\$ 10 trillion economy by 2030



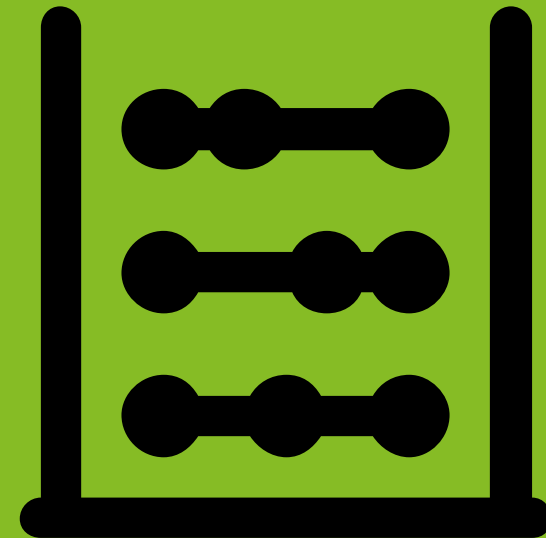
Source: Oxford economics, RBI, MOSPI
 Note: *The budget estimate as per Union Budget 2020.
 CAGR stands for cumulative aggregate growth rate between the years mentioned.

Economic fundamentals have been the strongest pillars

<p>FDI increased at a CAGR of 18.4 percent in the past 15 years.</p>	<p>The equity market's capitalisation increased more than 10 times in the past 15 years.</p>
<p>India's ranking surged in the World Bank's Ease of Doing Business Index by 67 spots to 63rd position in three years.</p>	<p>Foreign exchange reserves touched a record high of US\$ 437.6 billion from US\$ 5.8 billion in March 1991.</p>
<p>India's fiscal deficit fell from -7.2 percent in FY 2010 to -3.8 percent in FY 2020*.</p>	<p>The current account deficit fell from -5.0 percent in FY 2013 during taper tantrum to 2.1 percent in FY 2019.</p>

Budget Proposals

- Oil and Gas Industry



Oil and Gas

Major proposals

National Gas Grid

- Proposal to expand national gas grid by 67 percent, from present 16,200 km to 27,000 km
- Further reforms to be undertaken to facilitate transparent price discovery and ease of transactions to deepen gas markets in India

Hydrocarbon Acreages

- Hydrocarbon acreages covering 137,000 sq km have been awarded to private sector and central public sector enterprises for exploration, under the Open Acreage Licensing Policy (OALP)

Indian Strategic Petroleum Reserves Limited

- Proposal to exempt income accruing or arising to Indian Strategic Petroleum Reserves Limited under an arrangement for replenishing crude oil in its storage facility, in pursuance of directions of Central government.
- Exemption to not apply if crude oil is not replenished within three years from end of financial year in which it was removed for the first time

BCD exemption

- provided for specific variant of marine fuel - Very Low Sulphur Fuel Oil
- BCD on calcined petroleum coke reduced from 10 to 7.5 percent

Oil and Gas

Major proposals

Dividend Distribution Tax

- Dividend distribution tax to be replaced by dividend taxation in the hands of shareholders—allowing lower tax treaty rates on dividends to apply for foreign investors

Incentives for investments by Sovereign Wealth Funds

- Insert new clause to provide exemption in respect of any income being in the nature of dividend, interest or long-term capital gains, arising from investments made by a “specified person” in India, in the form of debt or equity, subject to the following conditions:
 - The investment should be made on or before 31 March 2024;
 - The investment should be held for a period of at least three years
 - The investment is in a company or enterprise which carries on the business of (a) developing, or (b) operating and maintaining, or (c) developing, operating or maintaining any infrastructure facility

Interest Limitation

- Provision of interest limitation to not apply on interest payable in respect of debt availed from Permanent Establishment (PE) of non-resident banks in India

Transfer Pricing

- Due date for Transfer Pricing Compliance i.e., Form 3CEB and TP documentation proposed to be amended to one month prior to due date for filing of return of income i.e. 31 October instead of 30 November

Oil and Gas

Additional proposals

Non-residents – Exemption from Tax Return filing

- Exemption from filing income tax returns by non-residents now extended to other categories of income i.e., royalties and fee for technical services

Attribution of profit to Permanent Establishment

- Amendment proposed to include attribution of profit to PE as part of the Safe Harbour Rules under section 92CB and in Advance Pricing Agreement under section 92CC

Dispute Resolution Panel

- Dispute Resolution Panel route under section 144C also available for a non-resident, not being a company

Approval of Survey Operation

- Survey (133A) is now proposed to be conducted by a subordinate Income Tax Authority only with the prior approval of the higher authority i.e., Commissioner / Director of Income –tax

Appearance of authorised representative

- Due to practical difficulties arising on representation, it is proposed to enable any other person, as may be prescribed by the CBDT, to appear as an authorised representative.

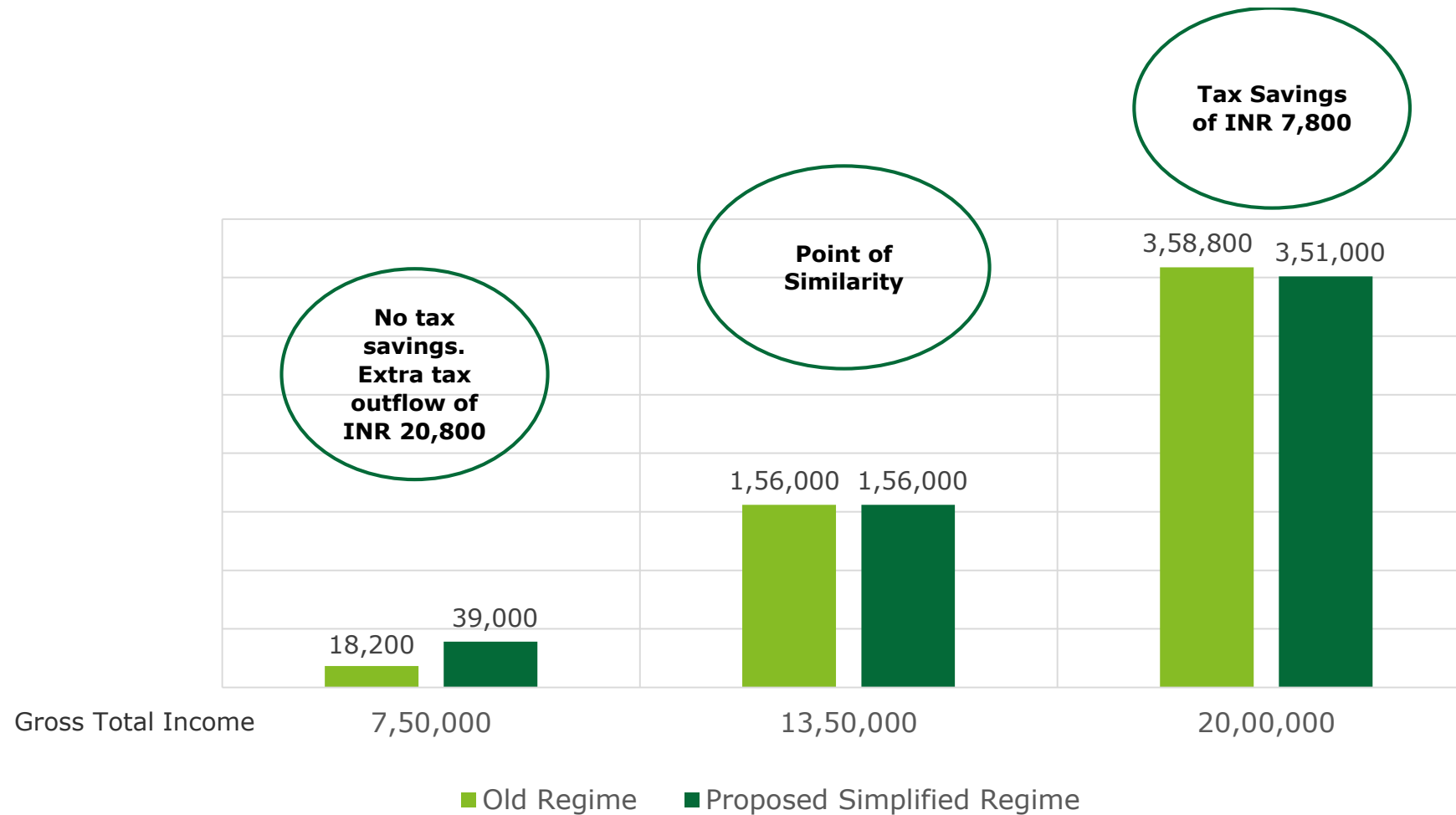
Simplified personal tax regime

The new tax slabs as compared to the earlier slab rates are

Income slabs (in INR)	Rate of Tax (percent) (under proposed simplified regime)	Rate of Tax (percent) (under the old regime)
Upto 250,000	NIL	NIL
250,000 to 500,000	5	5
500,000 to 750,000	10	20
750,000 to 1,000,000	15	20
1,000,000 to 1,250,000	20	30
1,250,000 to 1,500,000	25	30
Above 1,500,000	30	30

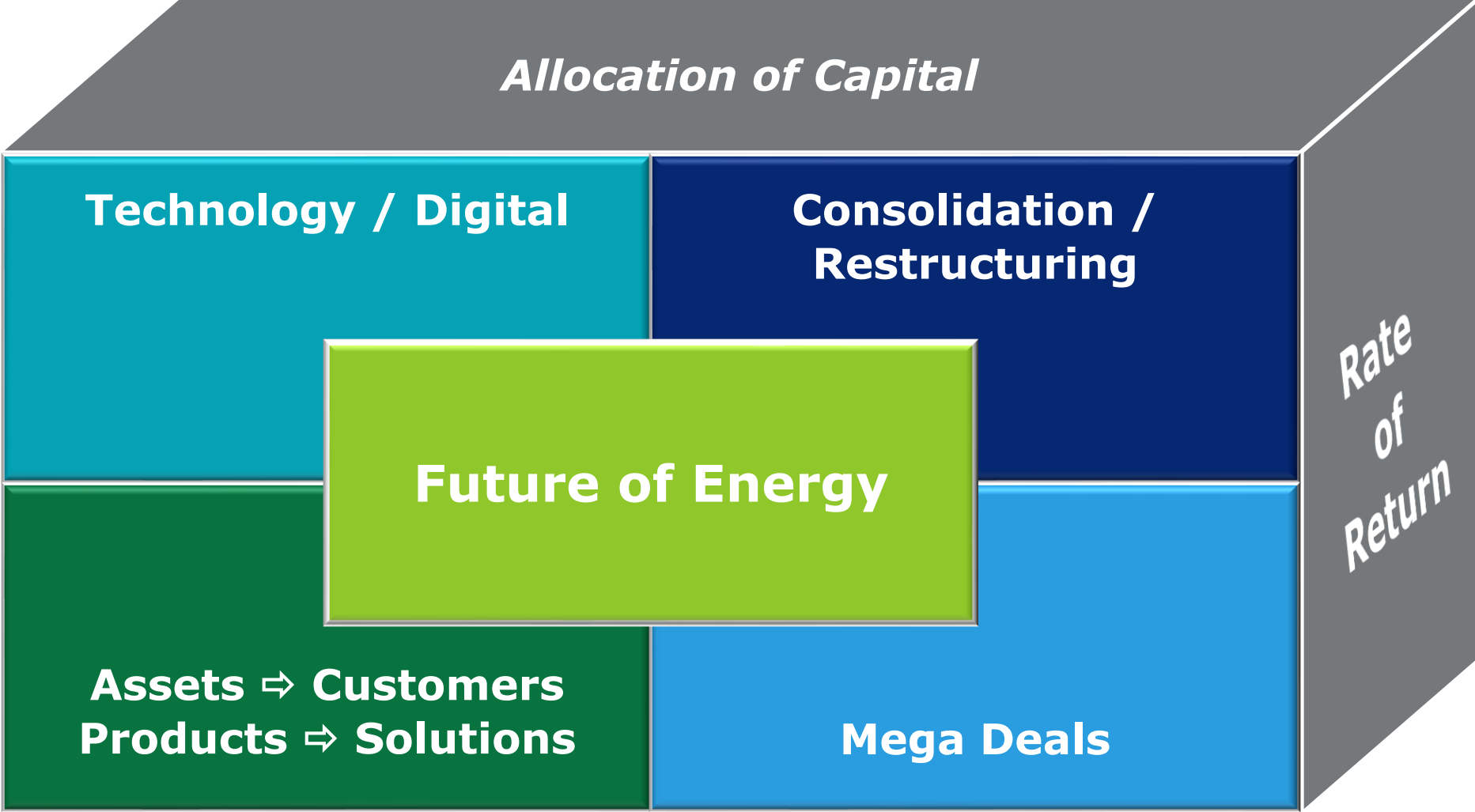
- It may be noted that the regular surcharge would be applicable based on the income levels.
- AMT shall not apply if this option is exercised

Simplified personal tax regime – Impact



For the above tax impact, we have assumed claim of standard deduction (INR 50,000) and Chapter VIA deduction (INR 1,75,000) totaling to INR 2,25,000 were claimed under old regime.

Transition is here!
Oil and Gas Industry



Indirect Tax proposals

Policy and Law

Policy changes

Goods & Service Tax (GST)

- No changes in GST rates
- GST e-invoicing and simplified return filing system would be implemented from 1 April 2020.
- Definition of Union Territory in CGST Act, 2017 and UTGST Act, 2017 amended to notify Ladakh and Dadra and Nagar Haveli and Daman and Diu.
- Time limit for availment of input tax credit on debit notes to be determined based on the date of issue of such debit note thereby delinking the same from the corresponding invoice.
- Provision to prescribe time limit and manner of issue of tax invoice for specific categories of services or supplies incorporated in the Act
- Availment of transitional credit within prescribed timelines incorporated retrospectively with effect from 1 July 2017.

Indirect Tax proposals

Policy and Law

Policy changes

Goods & Service Tax (contd.)

- Penal provisions expanded to cover persons who have retained the benefit and at whose instance fraudulent transactions of input tax credit have been conducted.
- The requirement for issuance of GST – TDS certificate by Deductor omitted from the Act– the form and manner for issuance of TDS certificate to be prescribed by the Government. Further provision of late fee for failure to furnish GST-TDS certificate has also been omitted.

Central Excise

- No changes in excise duty rates for Motor Spirit and High Speed Diesel.

Indirect Tax proposals

Policy and Law

Policy changes

Customs

- Powers to prohibit importation or exportation of goods expanded to include within its ambit 'any other goods' in addition to gold or silver with an objective to prevent injury to the economy against uncontrolled imports.
- New provision has been introduced to facilitate creation of electronic duty credit ledger in Customs automated system –
 - Duty credit may be issued in lieu of remission of duty for export of goods or other financial benefits available to exporters
 - It shall be maintained in the automated system for the recipient of such duty credit
 - It may be used by the person to whom it is issued or by the person to whom it is transferred, to be used towards payment of duty payable
 - Provision has been inserted for recovery of duties in case Electronic Duty Credit has been obtained through fraudulent means

Note: Changes effective from the date of enactment of Finance Bill 2020

Indirect Tax proposals

Policy and Law

Policy changes

Customs

- A new Chapter incorporated in the Customs Act with the following enabling provisions to administer the procedure regarding claim of preferential rate of duty under Trade Agreements.
- Impose obligations on the importer with regard to –
 - the origin criteria, including regional content and product specific criteria, specified under rules of origin as per respective Trade Agreements.
 - Furnish information in a time bound manner
- Officers empowered to seek additional information to satisfy whether country of origin criteria has been met and temporarily suspend of preferential rate of duty, pending verification
- Preferential rate of tax could be denied even without verification on specified conditions. Goods imported on claim of preferential rate of duty in contravention of the new Chapter are liable for confiscation

Indirect Tax proposals

Policy and Law

Policy changes

Customs

- Customs Tariff (Identification, Assessment and Collection of Anti-Dumping Duty on Dumped Articles and for Determination of Injury) Rules, 1995 amended to strengthen the anti-circumvention measures by making them more comprehensive
- Customs Tariff (Identification, Assessment and Collection of Countervailing Duty on Subsidized Articles and for Determination of Injury) Rules, 1995 has been amended to include a provision to enable investigation in case of circumvention of countervailing duties.

Note: Changes effective with effect from 2 February 2020

Customs – Miscellaneous rate movement changes

- New tariff heading and relevant rates have been prescribed for wall fans, open cell for television set, unassembled solar cells, solar cells assembled in modules or made up in panels.
- Certain redundant custom duty exemption notifications have been withdrawn.
- Existing exemption notification to be pruned further after taking stakeholders' suggestion.

Customs

Rate movement

Oil and Gas

Description of goods	Up to 1 Feb 2020	From 2 Feb 2020
Calcined petroleum coke	10 percent	7.5 percent
Spent catalyst/ash containing precious metals	12.5 percent	11.85 percent
Very low sulphur fuel oil meeting specified certification and conditions for import	10 percent	Nil
Micro-fuse base, sub-miniature fuse base, and their covers	7.5 percent	Nil

Industrial products and chemicals

Description of goods	Up to 1 Feb 2020	From 2 Feb 2020
Compressor of refrigerator and air conditioner	10 percent	12.5 percent
Industrial fans, railway carriage fans, air circulator	7.5 percent	10 percent
Pressure vessels, welding and plasma cutting machines, motors like single phase AC motors, stepper motors, and wiper motors	7.5 percent	10 percent
Specified goods and their parts used in manufacturing of catalytic converter including parts of catalytic converter	5 percent	7.5 percent
Other chemicals products and preparations falling under CTH 3824 99 00	10 percent	17.5 percent
Specified static converters	15 percent	20 percent
Specified polymers of ethylene	7.5 percent	10 percent
Polymers of styrene in primary forms	7.5 percent	10 percent

Customs

Rate movement

Power and utilities

Description of goods	Up to 1 Feb 2020	From 2 Feb 2020
Specified goods used for construction/repair of road	Nil	Applicable BCD
Specified goods used in high voltage power transmission project	5 percent	7.5 percent

Mining and metals

Description of goods	Up to 1 Feb 2020	From 2 Feb 2020
Noble metal solutions and compounds used in manufacturing of catalytic converter and their parts	5 percent	Applicable BCD
Platinum or palladium used in manufacturing of catalytic converter and their parts	5 percent	Applicable BCD
Copper and articles thereof used in manufacturing of specified electronic items	Nil	Applicable BCD



Thank You!

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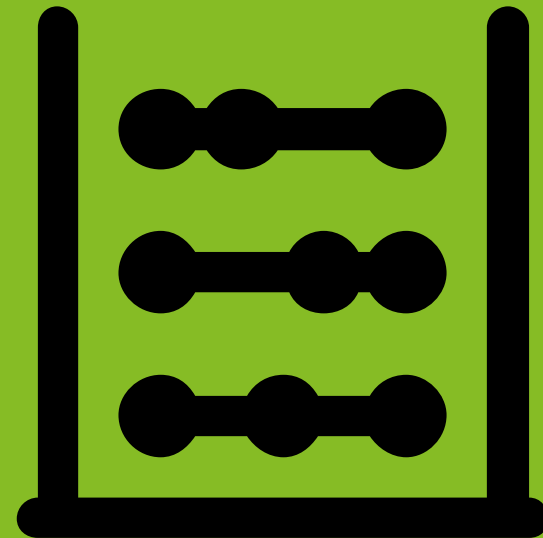
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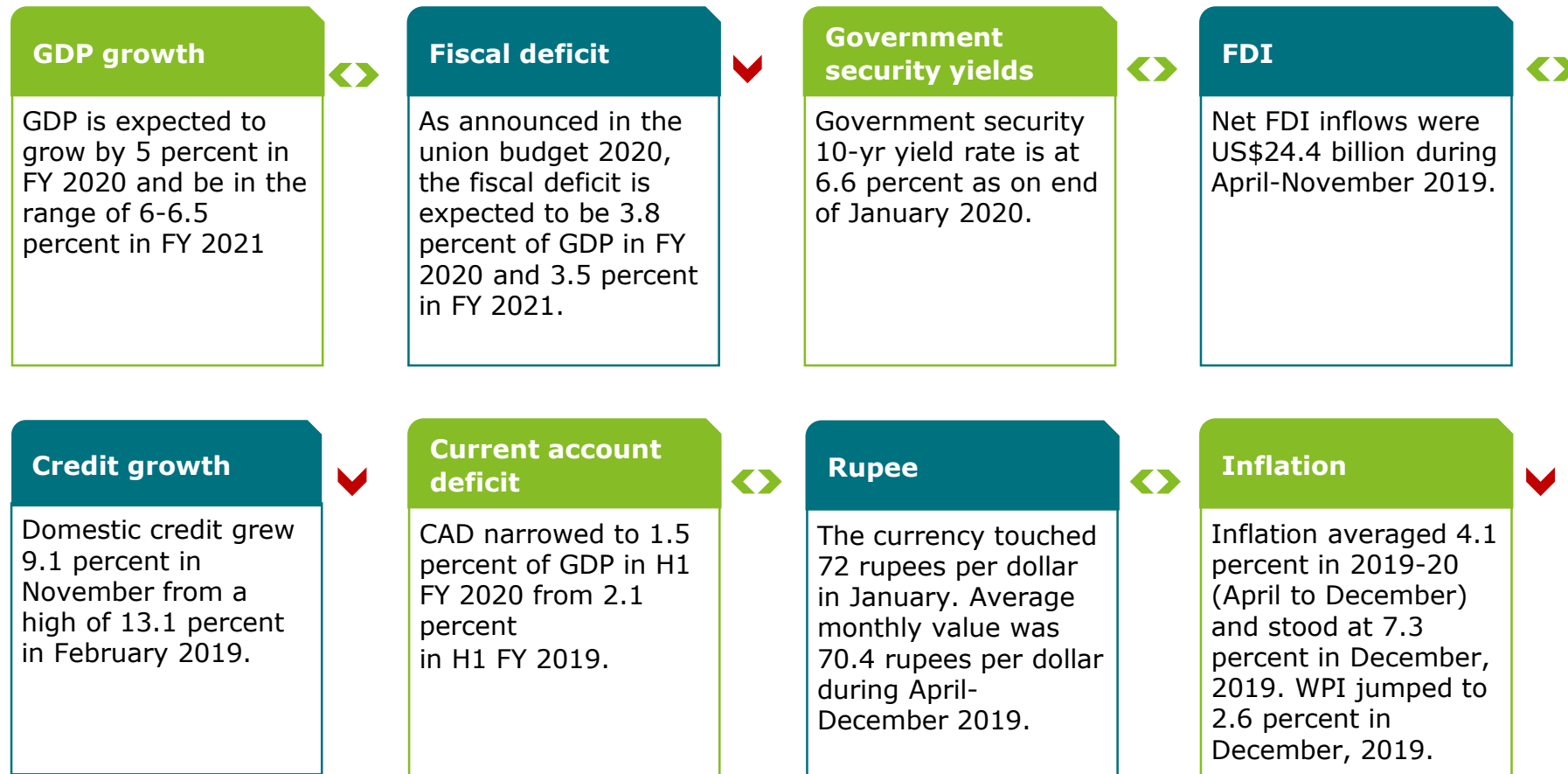
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Annexure



Economy snapshot

Economic growth projected at 5 percent in FY2020



Source: CMIE, RBI

Notes: 1. The FY 2020 numbers are as announced during budget for FY 2021. All percentage growth measures are in year on year unless specified otherwise.

Corporate taxation

Corporate tax rate card

Types of companies	Income up to INR10 million		Above INR10 million up to INR100 million		Above INR100 million	
	Effective tax rate (Normal)	Effective tax rate (MAT)	Effective tax rate (Normal)	Effective tax rate (MAT)	Effective tax rate (Normal)	Effective tax rate (MAT)
Domestic company With turnover up to INR4,000 million in FY 2018-19 and avails any tax incentives or exemptions or tax holiday	26%	15.60%	27.82%**	16.69%**	29.12%**	17.47%**
Other domestic company	31.20%	15.60%	33.38%**	16.69%**	34.94%**	17.47%**
Domestic company who do not avail any tax incentives or exemptions or tax holiday#@	25.17%***	NIL	25.17%***	NIL	25.17%***	NIL
New domestic manufacturing including companies engaged in business of generation of electricity (set up and registered on or after 1 October 2019 and does not avail of any tax incentives or exemptions and commences production on or before 31 March 2023)#	17.16%***	NIL	17.16%***	NIL	17.16%***	NIL
Foreign company	41.60%^	19.24%^	42.43%^	19.62%^	43.68%^	20.20%^

** Includes surcharge at the rate of 7% in case of income from INR10 million upto INR100 million and 12% in case of income above INR100 million

*** Includes surcharge at the rate of 10%

#other than the provisions of section 80JJAA and section 80M of the Act

@ same would apply to co-operative society not availing tax incentive or exemptions or tax holiday.

^ Includes surcharge at the rate of 2% in case of income from INR10 million upto INR100 million and 5% in case of income above INR100 million

Further all the above rates are further increased by EC of 4%

Illustration

Comparison of taxation between company, branch and LLP

Particulars	Branch	LLP	Company			
			25%* (Turnover based)	30%* (Not opting for section 115BAA /115BAB)	22%* (Section 115BAA of the Act)	15%* (Section 115BAB of the Act)
Taxable income	100.00	100.00	100.00	100.00	100.00	100.00
Less: Indian tax liability (A)	43.68	34.94	29.12	34.94	25.17	17.16
Profit after tax	56.32	65.06	70.88	65.06	74.83	82.84
Profit available for distribution	56.32	65.06	70.88	65.06	74.83	82.84
Less: DDT (B)	0.00	0.00	12.09	11.09	12.76	14.13
Distributed amount	56.32	65.06	58.79	53.96	62.07	68.71
Total tax outflow (A+B)	43.68	34.94	41.21	46.04	37.93	31.29
Total tax outflow on DDT abolition (A)	43.68	34.94	29.12	34.94	25.17	17.16

* Tax rates to be increased by surcharge and EC

Corporate taxation

Abolition of DDT

Withholding tax applicable on dividends

Payer	Recipient	Nature of dividend income	Withholding rate under the Act*
Domestic company	Resident shareholders (in excess of INR5,000)	Dividend on shares	10 percent
	NR including foreign company	Dividend on shares	20 percent
	NR including foreign company	Dividend on foreign currency bonds	10 percent
	FII	Dividend on shares	20 percent
	Individual being a NR	Dividend on specified foreign currency bonds	10 percent

*Subject to benefits of a lower rate under tax treaties for NR including foreign company. Such lower rate would be subject to satisfying conditions relating to treaty eligibility including beneficial ownership

Corporate taxation

Alignment of the Act with MLI

Rationale

- Section 90 of the Act empowers the CGT to enter into DTAA with foreign countries/specified territory for granting relief in respect of double taxation, exchange of information and recovery of income-tax
- Similar provisions are laid down under section 90A of the Act where the CGT is empowered to enter into agreements with a specified association in the specified territory outside India
- India has signed the MLI to implement tax treaty related measures to prevent BEPS along with representatives of various companies, which has since been ratified
- In order to align the provisions of the Act relating to providing relief through application of DTAAs with the recently ratified MLI, the following amendments are proposed

Proposed amendments

- It is proposed to amend section 90 and section 90A of the Act to include text specified in the preamble to Article 6 of the MLI. Section 90/90A will now provide that the CGT may enter into an agreement with the Government of any country or specified territory for, *inter alia*, the avoidance of double taxation of income under the Act and under the corresponding law in force in that country or specified territory, without creating opportunities for non-taxation or reduced taxation through tax evasion or avoidance (including through treaty-shopping arrangements aimed at obtaining reliefs provided in this agreement for the indirect benefit of residents of any other country or territory)

This amendment will take effect from assessment year 2021-22.

Amendment to source rules

Significant Economic Presence

Background

- The scope of business connection of a non-resident in India was expanded through the introduction of the concept of “Significant Economic Presence” (SEP) in section 9(1)(i) of the Act.
- The monetary and number of users thresholds which were to be prescribed for applicability of SEP provision have not been notified till date in light of on-going discussions on the subject in G20-OECD BEPS project.

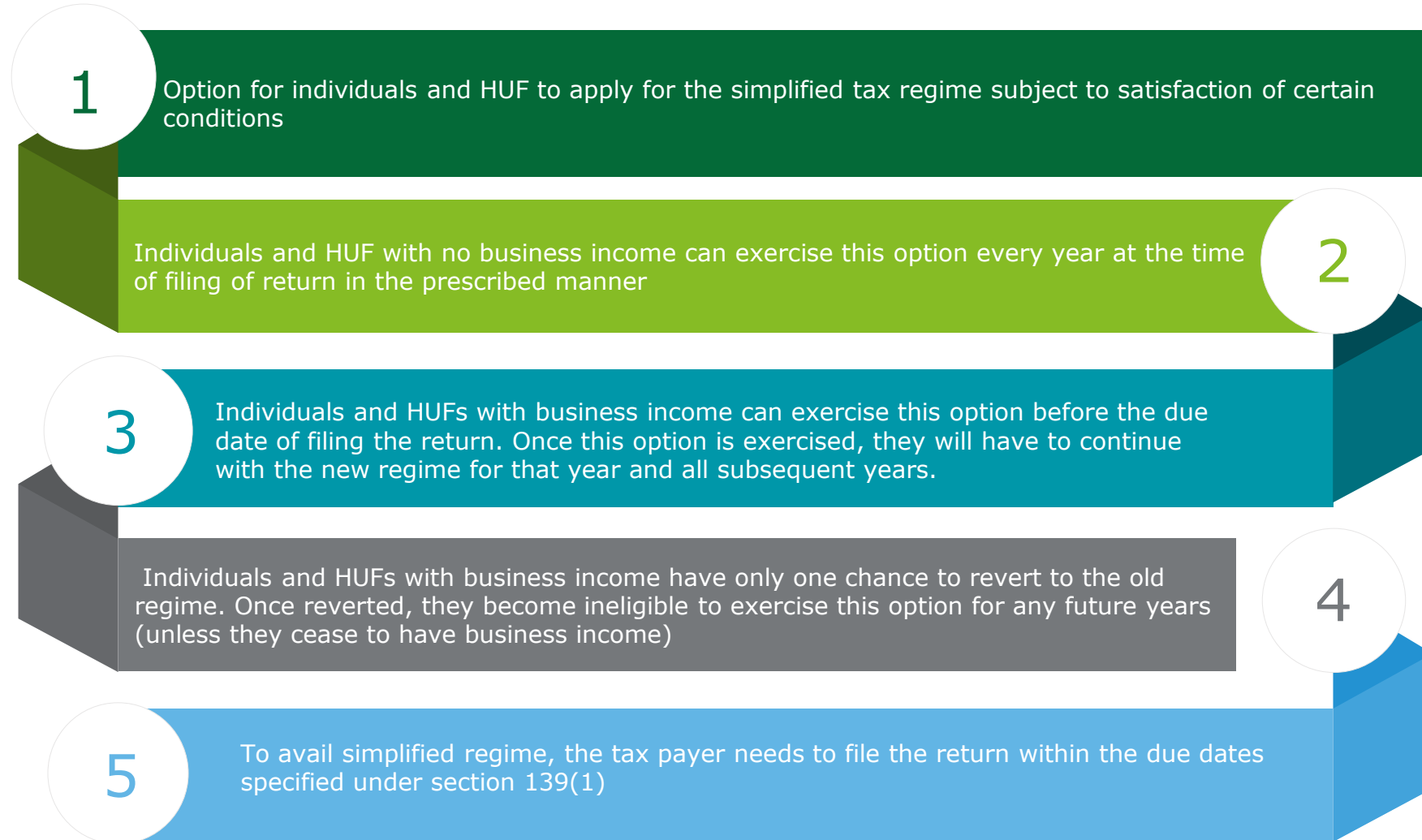
SEP provisions deferred and amended

- In view of the on-going discussion, the applicability of SEP provision is proposed to be deferred to AY 2022-23 and onwards.
- SEP definition is also proposed to be revised to mean –
 - transaction in respect of any goods, services or property carried out by a non-resident **with any person** in India including provision of download of data or software in India, provided the revenue therefrom exceeds monetary threshold as may be prescribed; or
 - systematic and continuous soliciting of business activities or engaging in interaction with users (exceeding the number as may be prescribed) in India.

Revised definition is proposed to be applicable from AY 2022-23 and onwards.







Individual taxation

Proposed simplified regime

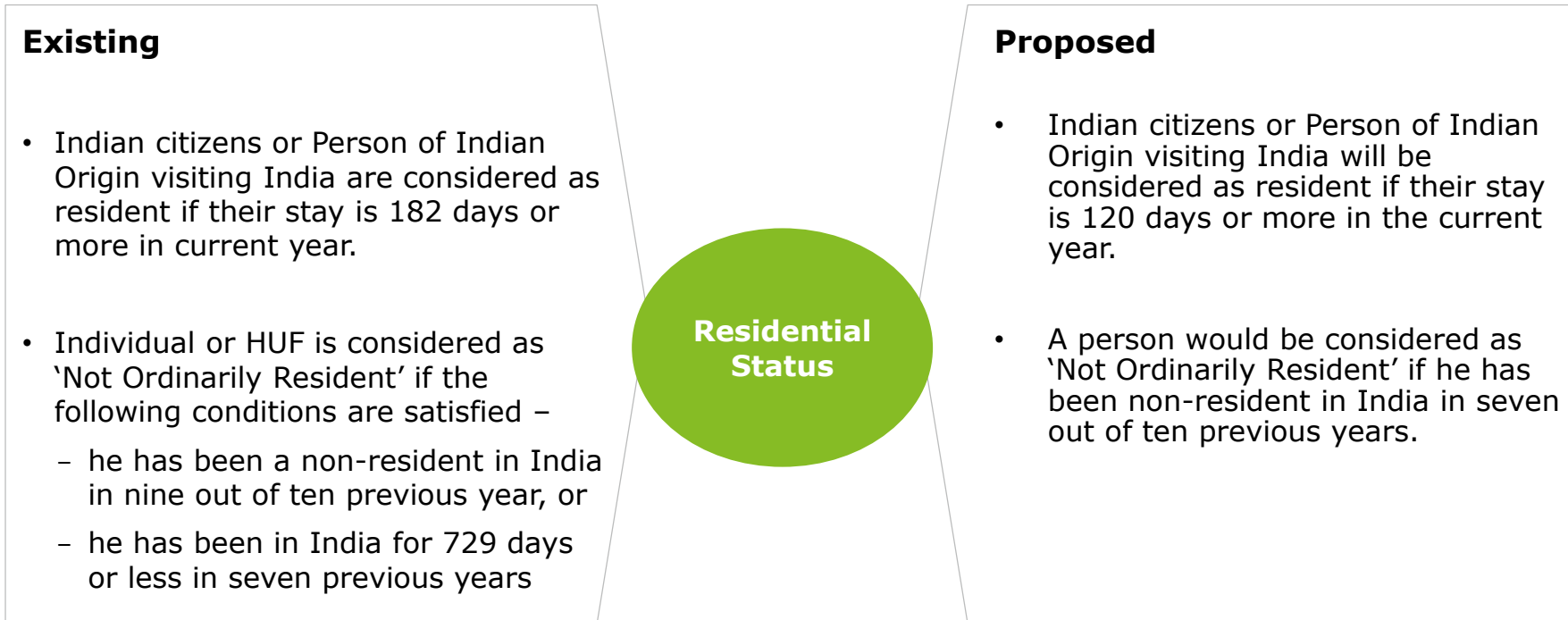


Proposed simplified regime

Following deductions/exemptions are not allowed under Proposed Simplified Regime

<p>Deductions under chapter VIA (other than employers' contribution to NPS under section 80CCD(2) and deduction for employment of new employees under section 80JJAA)</p>	
	<p>Exemptions such as House Rent allowance, Leave Travel Allowance, income of minor child, allowances received by a member of parliament, SEZ exemption and deductions such as standard deduction, profession tax, family pension deduction</p>
<p>Allowances granted to employees other than transport allowance, conveyance allowance, per-diems and travel and transfer allowance</p>	
	<p>Certain deductions for business income such as depreciation, investment in new plant and machinery, tea coffee rubber development, specified business, agriculture extension projects, scientific research expenditure, etc.</p>
<p>Exemption in respect of voucher granted for free food and beverages</p>	
	<p>Set-off of loss from House property with any other head of income. Such loss will deemed to have been utilized and will not be allowed to carry forward to future years</p>

Determination of residential status



Additionally, Indian citizen shall be deemed to be resident in India if they are not liable to tax in any other country or territory by reason of his domicile or residence or any other criteria of similar nature