



BMR & Associates

India BUDGET STATEMENT

2006

IMPACT ON
ENERGY SECTOR



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Contents

- Developments during the year.....2
 - Oil and gas.....2
 - Power.....6
- Budget expectations.....8
- Key budget proposals.....11
 - General proposals.....11
 - Specific proposals16
- Glossary.....23

Oil and gas

The year of 2005-06 has been another year of India importing over 75 percent of its crude requirement whereas it continued to have a net exportable surplus in refined petroleum products. The imports of petroleum products were 7.32 MMT during 2005 (April-Nov) while the exports were 12.68 MMT during the same period. This is chiefly attributable to increase in the refining capacity from 118.37 MMTPA in 2003 to 127.37 MMTPA in 2005 and better GRMs across the regions.

Cascading international prices

International oil prices registered an unprecedented volatility during the year with crude oil prices (Indian basket) touching an all time high of USD 62.78 per barrel in September 2005. This was USD 36.95 per barrel on December 30, 2004. India's import bill touched over USD 27 billion in 2005-06 (April-Oct); and revised annual estimates of imports is pegged at over USD 33.2 billion.

The consumers in India were spared much of the impact of rising oil prices as the government did not allow a complete pass-through of price-rise on to the consumers and the burden was shared between the oil companies by the sharing mechanism decided by the government.

The burden sharing mechanism is beginning to collapse in the face of unprecedented hike in international oil prices leading to bleeding of oil marketing companies. The big four public sector oil marketing companies which reported an impressive net profit of USD 2.4 billion in 2003-04 recorded a lower net profit of USD 1.6 billion in 2004-05 and even worse went into red with reporting a net loss of USD 0.65 billion in 2005-06 (April-Dec).

In order to bail out the bleeding oil companies, the government, in September 2005, issued oil bonds aggregating to USD 1.32 billion. Besides, the cabinet has approved further issue of oil bonds to the tune of USD 2.6 billion. This is in addition to upstream assistance of USD 2.2 billion and the budgetary subsidy of USD 0.45 billion during the period.

To tide over the impending threat of financial problems faced by oil companies on the one hand and the energy security of the country on the other, in October 2005, the government constituted a committee headed by C Rangarajan. The committee has looked into the various aspects of pricing and taxation of sensitive petroleum products. The committee has recommended bold steps of moving towards a trade parity pricing regime and bringing down taxes / duties.

Upstream

Fifth and sixth rounds of NELP

Efforts continued to step up indigenous exploration activities in the country. Fifth round of NELP was launched in January 2005. 69 bids were received for the 20 blocks offered during this round. Awards for 18 blocks were finalized and signed within a short span of 9 months.

The government announced the sixth round of NELP earlier this month, the biggest ever offer in terms of number of acreages and area. A total of 55 blocks have been offered under this round. Besides, the third round of CBM has also been initiated with 10 blocks being offered for exploration and production.

New discoveries

The year 2005 saw 21 oil & gas discoveries, which included 14 by private / JV, 4 by ONGC and 3 by OIL. These discoveries were made in Rajasthan, Gujarat, Assam, KG basin, Orissa and Mumbai High. Besides, there were optimistic (albeit un-confirmed) announcements of significant gas reserves by GSPC (to the tune of almost 45-50 tcf).

International forays

Along with the ongoing spur of domestic activities, Indian upstream companies created footprints on international shores. During the year, 23 blocks were acquired in seven countries. In order to leverage strength to obtain more oil equity abroad, a unique joint venture was formed between Indian oil major ONGC and the well-known steel maker Mittal Steel. India and China, often fierce rivals in the race for global energy supplies entered into an agreement (ONGC and China's CNPC) with Petro-Canada to acquire its entire interests in four assets in Syria.

India's largest investment abroad; Sakhalin-I in Russia commenced production in October 2005. India's share from this project is expected to be in the range of 2-2.5 MMT of oil and 5-8 MMSCMD of gas.

Private sector player Reliance too was very active in acquiring overseas acreages. In March 2005, it acquired exploration rights to one of the large deepwater blocks in Oman. It is also likely to get two major contracts for exploration in Sudan. In addition to this, Reliance has been racing against time to bring onto production its KG basin asset in the Bay of Bengal.

Diplomatic efforts

Asia is emerging as the largest single supplier as well as fastest growing consumption centre of energy in the world. In order to promote greater cooperation among Asian countries in the hydrocarbon sector, India hosted two ministerial round tables with the principal Asian consumers – China, Japan, South Korea and the West Asian oil producing countries and the another one with oil producers of North and Central Asia.

During the second meeting, the countries agreed to initiate a study on Asian Gas Grid of pipelines for networking oil & gas sources to consuming centres across countries in Asia.

Natural gas

Pipelines

The government initiated steps for two transnational gas pipelines; Iran-Pakistan-India and Myanmar-Bangladesh-India. Till date several discussions have been held with the countries concerned through Joint Working Groups.

India has also been invited to become an official member of the Turkmenistan–Afghanistan–Pakistan Natural Gas Pipeline Project. The invitation was made by the Steering Committee of the Project during its ninth meeting held in Ashgabat in mid-February 2006.

LNG

LNG has played a crucial role in bridging the energy gap in the country. In June 2005, India signed a SPA with Iran for supply of 5 MMTPA to commence by end of 2009.

Petronet the first LNG company in the country has initiated expansion of its existing LNG terminal in Dahej to 10 MMTPA. Shell commissioned India's first merchant LNG terminal with a capacity of 2.5 MMTPA in Hazira in April 2005. Implementation of Dabhol LNG terminal was initiated with GAIL and NTPC forming a consortium to revive the project. Besides these, several greenfield LNG terminals in Kochi, Mangalore and Ennore are under implementation.

CBM

As a part of an initiative to tap natural gas trapped in CBM, GAIL along with ONGC entered into an understanding with expert bodies from Russia and Canada for undertaking underground coal gasification projects in India.

Gas pricing

Domestic supply of natural gas is likely to increase in the near future. In order to give a fillip to the natural gas industry, the consumer prices of APM gas produced by ONGC and OIL were revised in July 2005 to Rs 3,200 per MMSCM. These prices had been unchanged for long and were non-conducive to greater investments and participation. Apart from this the gas produced by JVs is sold at market determined prices. Similarly, re-gasified LNG is also sold at market prices which are much higher.

Refining

In the refining sector several initiatives were taken during the year to evolve a plan of promoting India as a refining hub for export of petroleum products. India's export of petroleum products grew to USD 6.4 billion during the 2004-05 from USD 3.8 billion in 2003-04, a growth of 69.2 percent. Projects are underway to add significant refining capacity to the existing capacity.

Policy

Regulator

With several players engaged along the hydrocarbon value chain, a regulatory mechanism for activities in the oil & gas sector is essential. A Bill to set up P&NGRBB was introduced in the Rajya Sabha in December 2005, incorporating improvements over the previous Bill. This Bill is aimed to promote healthy competition among entities and fair trade practices in order to protect consumer interests.

Foreign investment

The foreign direct investment policy has been liberalized as follows:

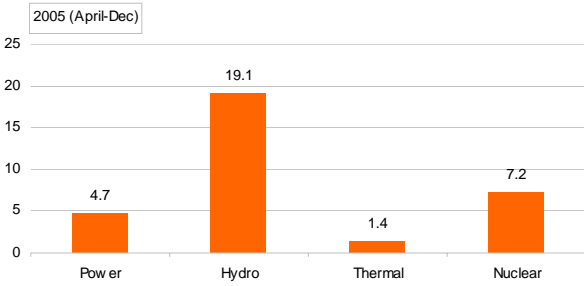
Activities	FDI limits (percent)
Oil exploration in small and medium size fields	100
Petroleum product pipelines	100
Natural gas / LNG pipelines	100
Petroleum products marketing	100
Market study and formulation and investment / financing	100
Refining activities in PSU	26*
Refining activities in private company	100
Creation of infrastructure related to marketing in petroleum sector	100

* Requires prior FIPB approval

Power

Power generation this year reflected a modest growth of 4.7 percent during 2005 (April-Dec), which is primarily attributable to shortage of fuel, mainly coal and LNG. Nuclear and hydro-generation showed a sharp turnaround growing 7.2 and 19.1 percent respectively over the previous year.

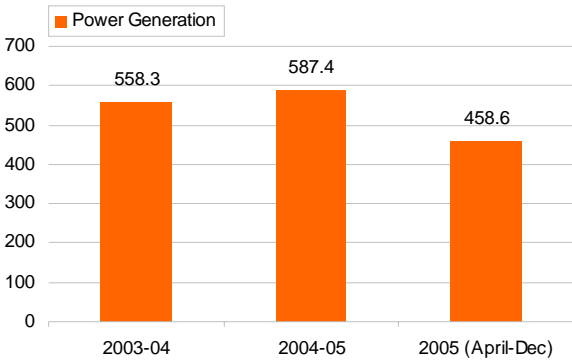
GROWTH IN POWER GENERATION (PERCENT)



PLF which is an important measure of the operational efficiency of thermal plants showed signs of improvements across the region. The average PLF across the country stood at 71.5 percent during 2005 (April-Dec), the PLF of private sector plants was much higher at 86.6 percent during the same period.

Generation

POWER GENERATION (IN BILLION KWH)



Capacity additions

The Tenth Plan had targeted a capacity addition of 41,110 MW which was revised down to 36,956 MW. The country is likely to achieve a target of around 34,024 MW, which is about 83 percent of the original target set and 92 percent of the revised target. During this plan, the private sector is expected to add capacity of 4,898 MW and the balance is to come from central and state initiatives.

The country has not been able to augment additional capacity primarily because of unavailability of coal and natural gas / LNG. Demand for gas has outstripped supply and the power plants are unable to get the required allocations. The gas based plants have at times resorted to naphtha which is uneconomical. Demand-supply imbalances have been a matter of concern even for coal. Non-availability of coal has resulted in generation losses.

Outlook

Electricity Act, 2003 has helped enhance investment in the power sector. An IIG, comprising of senior representatives from the Financial Institutions and Ministry of Power, has been constituted to especially focus on fast-track power projects, which could be taken up for early commissioning and could achieve early financial closure. 13 private sector power projects having a total capacity of about 5,000 MW involving an investment of about USD 4 billion achieved financial closure and another 10 projects with a total capacity of 11,432 MW involving an investment of USD 9 billion approximately are being monitored by the IIG for facilitating early financial closure.

Five sites including three coastal sites, one each in Karnataka, Gujarat and Maharashtra are being identified for development of Ultra-Mega Power plants with capacity of 4,000 MW each, through the competitive bidding route. It has been suggested that necessary coordination may be done at the apex level. It is expected that in view of their size, these would deliver power at rates between Re.1.60-1.80/KWh.

Policy

The Electricity Act, 2003 provides that the SERC's shall adopt the tariffs through a transparent process of bidding in accordance with the guidelines issued by the Central Government. A move away from the cost plus approach, this approach to tariff determination is expected to encourage private sector investment. Government issued the guidelines for competitive bidding for determination of tariff for procurement of power by distribution licensees on January 19, 2005.

Electricity Amendment Bill

The Electricity (Amendment) Bill, 2005 on the above proposed amendments has been introduced in the Lok Sabha on December 23, 2005. Electricity Rules, 2005, notified on June 8, 2005, which among other things describe the requirement of captive generating plant, have brought clarity for implementation of the provisions of the Act. Under the provisions of the Electricity Act, 2003, the Appellate Tribunal for Electricity became operational from July 21, 2005 and started hearing appeals against decisions of various Electricity Regulatory Commissions.

Budget expectations

The major demands of the industry from the budget have been outlined below:

Income tax

- Various infrastructure projects such as roads, ports etc are eligible for income tax holiday being infrastructure. In this regard, in view of the strategic importance of oil and gas facilities such as LNG terminals and pipelines, they should also be eligible for 10 years income tax holiday and exemption from taxability of interest / dividend / capital gains or income earned from the project
- Under the Site Restoration Fund Scheme, deductibility of provisions for site restoration is permitted subject to deposit of Indian Rupee amounts with the State Bank of India. However, blocking scarce resources in the fund and associated exchange risks has prevented oil and gas players from availing of the scheme. The sector has sought the relaxation of the conditions by permitting maintenance of the reserve monies in foreign exchange
- In view of the government's commitment to providing level playing field, a uniform corporate income tax rate for domestic and foreign oil companies was sought
- Under the provisions of section 293A of the Income tax Act, 1961, the government can make special income tax provisions in respect of exploration and production companies as well as oil field service providers. In this regard, the government has notified that exploration and production companies operating in a consortium would be taxed on an individual basis and not as a collective tax unit

Similar provisions were sought for oil field service providers to provide that where such service providers operate in consortiums, they would be taxed as individuals and not a collective unit

- While upstream income is sheltered by a 7 year tax holiday, the same is subject to a MAT thereby diluting the income tax holiday shelter. In this regard, it was sought that MAT should not apply during the tax holiday period to enable the enjoyment of the tax holiday
- Similarly, power projects are eligible for a tax holiday; however, the income is subject to a MAT thereby diluting the income tax holiday shelter. In this regard, it was sought that MAT should not apply during the tax holiday period to enable the enjoyment of the tax holiday

- The plant and machinery items used in petroleum industry are highly corrosive in nature, involving heavy repairs and replacements. In this regard, high depreciation rates were sought for facilities used in the industry in line with higher depreciation rates for machinery used in specific industries like textile industry, semi conductor industry etc

Indirect tax

- Deflation in the consumer prices of petroleum products by reduction in customs duties on petroleum products was sought
- Adequate duty protection to domestic refineries via suitable amendments to structure of additional customs duty in lieu of excise to take care of domestic tax distortions
- Promotion of environment friendly fuels such as natural gas, CNG, LNG, LPG, ethanol blended petrol, bio-diesel, gas to liquid and hydrogen, including the infrastructure required for the transportation and distribution of such fuels by providing concessions under customs and excise duties
- Specifically, the industry, backed by the recommendations from the Ministry of Petroleum & Natural Gas, expected the following changes in customs, excise and service tax laws

Customs

- Nil duty on kerosene and LPG; duty rate on other petroleum products to be reduced progressively
- Nil customs duty proposed for new refineries / refinery expansions; suggested reduction in customs duty for capital goods for hydrocarbon projects to 5 percent
- Import of research equipment & chemicals for R&D activities on petroleum products and alternate fuels by petroleum companies sought to be exempted from customs duty
- Exemption from custom duty on import of bio-diesel
- Grant of Project Import status to pipeline projects and exemption from duties of customs

Excise

- Nil excise duty for subsidized products
- Specific duty for petroleum products alongwith withdrawal of National Calamity Contingent Duty

Sales tax

- 'Declared Goods' status to natural gas under the Central Sales Tax Act

Service tax

- Withdrawal of service tax on all services procured for carrying out E&P operations
- Clarification regarding services performed outside the Exclusive Economic Zone of India and in non-designated areas

Key budget proposals

General proposals

Income tax

Rate of tax

- No amendment in the rates of corporate income tax and personal income tax. The rates of surcharge and the education cess also remain unchanged
- The rate of MAT has been increased to 10 percent from its existing level of 7.5 percent
- For the purpose of computation of book profits liable to MAT, long term capital gains will be included (including gains on sale of specified securities otherwise exempt from tax)
- Depreciation on revaluation of asset to be added back to book profits to determine profits liable for MAT
- MAT credit will be available for a seven year period (up from existing five years)
- Upstream projects, power projects and port projects continue to be eligible for tax holiday, however, MAT will apply during the tax holiday periods

Key effective tax rates

Nature of tax	Foreign company (percent)	Domestic company (percent)
Corporate tax	41.82	33.66
DDT	Not Applicable	14.025
Effective rate of tax*	41.82	41.82
MAT	10.455	11.22

*Including corporate tax and DDT

Tax holiday

- Tax holiday available for an undertaking engaged in developing, developing and operating or maintaining an industrial park notified by the Central Government in accordance with the scheme framed and notified by it for the period beginning on April 1, 1997 and ending on March 31, 2009 (existing date is March 31, 2006)

Fringe Benefit Tax

- Rationalization of FBT regime, key changes in the existing rules are as follows:

- Contribution to superannuation fund in excess of Rs 100,000 per annum per employee would be subject to FBT
- Fringe benefits by way of 'tour and travel (including foreign travel)' would be valued at 5 percent of total expenditure (down from 20 percent)
- Food and beverage expenses, hotel, boarding and lodging expenses incurred by an employer engaged in the business of carriage of passengers or goods by aircraft or ship, will be valued at 5 percent (down from 20 percent)
- Expenditure on distribution of free samples of medicines or of medical equipment to doctors and payment to any person of repute (ie brand ambassador) for promoting the sale of goods or services of the business of employers shall not be included in 'sales promotion including publicity' for valuation of fringe benefits
- Any expenditure incurred on to and fro journeys of employees from residence to office and back will not be taxable

Securities Transaction Tax

- With effect from June 1, 2006, rate of STT has been increased by 25 percent across all categories of transactions. The effective rates (as a percentage of transaction value) are as follows:

Nature of transaction	Existing	Proposed
Delivery based purchase of an equity share in a company or a unit of an equity oriented fund, entered in a recognized stock exchange (to be paid by buyer and seller separately)	0.1	0.125
Non-delivery based sale of an equity share in a company or a unit of an equity oriented fund, entered in a recognised stock exchange to be paid by the seller	0.02	0.025
Derivatives being option or future, entered in a recognized stock exchange	0.0133	0.017
Sale of units of an equity-oriented fund to the mutual fund	0.2	0.25

Other proposals

- 'One-by-six scheme', requiring a person fulfilling any of the specified six criteria to furnish a return of income, has been withdrawn
- Eligible investments for claiming tax exemption from long term capital gains tax restricted to bonds of NHA and REC (the list previously included bonds of NABARD, NHB and SIDBI)
- With effect from June 1, 2006, interest payable for default in deducting or collecting tax at source and / or depositing tax so deducted or collected will be payable before furnishing the quarterly statement (previously, the same was payable only at the discretion of the Revenue authorities)
- Tax holidays under section 10B, 80-IA (covers power projects and ports), 80-IAB, 80-IB (covers upstream projects) and 80-IC shall not be allowed to an assessee who does not furnish a return of his income on or before the specified due date
- It is proposed that the tax exemption for lease payments received for lease of aircrafts / aircraft engines by a non resident from an Indian company engaged in the business of operation of aircrafts is extended to agreements entered into on or before March 31, 2007 (as against the existing time limit of March 31, 2006)

Customs duty

- Peak rate of basic customs duty on all non-agricultural goods reduced from 15 percent to 12.5 percent; move intended to bring rates closer to ASEAN levels
- Additional duty of customs at 4 percent now imposed on all imports; earlier applied only on Information Technology Act bound products. This would however be eligible as input credit and can be used to pay output excise duty liability
- Additional duty of customs at 4 percent however exempt on specified goods such as crude, motor spirit, high speed diesel, petroleum gases and fuels etc
- Project Import status accorded to pipeline projects for transportation of crude, petroleum products & natural gas
- Several duty benefits accorded to key industries such as Information Technology, Healthcare and Textiles

Cenvat (ie Excise Duty)

- Reiteration to stabilise rates at maximum of 16 percent

- Rate reduced to by a third to 16 percent for small passenger cars (defined as cars of upto 4000 mm length and engine capacity of 1200 cc for petrol cars and 1500 cc for diesel cars)
- Duty imposed on packaged software at 8 percent
- Reintroduction of duty on manufacture of computers at 12 percent
- Deemed manufacture list (on re-labeling / repackaging) expanded

Service tax

- Tax rate proposed to be increased from 10 percent to 12 percent (once the Finance Bill is enacted)
- 15 additional services proposed to be taxed; key services include:
 - Advertisement space selling
 - Business support services
 - Sponsorships
 - International air transport
 - Ship management
 - Internet telephony
 - Public Relation services
- Scope of 9 services proposed to be expanded / rationalized; key services include:
 - Management consultancy services
 - Maintenance or repair
 - Erection, commissioning or installation services
 - Business auxiliary services
 - Banking and other financial services
 - Reinsurance services
- Exemption to call centers and medical transcription centers withdrawn
- All services provided by practicing chartered accountants, company secretaries and cost accountants in their professional capacity have been made liable to tax. Earlier, services tax was payable only on specified services such as auditing, certification, etc

- Exemption granted to 90 percent of interest charged in case of financial leasing services (including equipment leasing and hire purchase), which are taxable as 'banking and other financial services'
- Facility to pay service tax on composition basis (viz 33 percent of the contract value in case of erection, commissioning and installation services etc) is now subject to the tax payer not claiming credit of input services in addition to credits on inputs and capital goods
- A new section 66A has been introduced to levy service tax on services received from outside India. Earlier, the Finance Act, 2005 had introduced an 'explanation' to section 65(106) to tax such services. With the introduction of section 66A, this explanation has been withdrawn
- Key aspects of the above new section are:
 - Taxable services received from outside India liable to service tax
 - Service recipient to be treated as the service provider
 - Establishment of service provider most directly connected with the service to be relevant for determination of country from where services are being provided
 - Separate permanent establishments (in India and elsewhere) to be treated as separate persons
 - Branch or agency to be construed as a business establishment
 - Usual place of business to be construed as the place of incorporation or legal constitution

The above provisions would not apply if the service recipient is an individual receiving such services otherwise than for purpose of use in any business or commerce
- The existing valuation provisions have been replaced, and a new section 67 has been introduced. Key aspects of the new section are:
 - Valuation provisions for cases where consideration is not wholly in the form of money specified to be the amount of money, as is equivalent to the entire consideration
 - Rules to be notified for valuation of services where consideration is not ascertainable
 - Gross amount charged to include any amount received for taxable services, before, during or after the provision of services

- Gross amount charged to include payments by deduction from account and any form of payment by issue of credit notes or debit notes and book adjustment, in addition to other payments
- Rules likely to provide for additional principles of valuation apart from the above
- Advance Ruling allowed for determining taxability
- Specific provision has been introduced to provide for conclusion of adjudication proceedings in cases where, pursuant to a show cause notice, the tax demand, interest and 25 percent of the penalty levied have been voluntarily paid
- Penalty is now prescribed at higher of Rs 200 per day or 2 percent of tax per month for the failure to pay service tax
- Draft of the following Rules proposed to be issued for public feedback:
 - Service Tax (Determination of Value) Rules, 2006
 - Taxation of Services (Provided from Outside India and Received in India) Rules, 2006

Central Sales Tax & others

- Rate of Central Sales Tax not reduced to 2 percent as expected, but retained at 4 percent against Form-C
- Goods and Services Tax proposed to be implemented from April 1, 2010

Specific proposals

Specific proposals as relevant to upstream, midstream and downstream segments of the oil and gas industry and to power industry are elaborated upon in the following paragraphs

Upstream

- Cess under the Oil Industry Development Act, 1974 on crude oil has been increased from Rs 1,800 per tonne to Rs 2,500 per tonne
- While ADC at 4 percent extended to all goods imported, exemption has been however provided to those that are entitled to exemption from basic as well as additional customs duty, amongst others (refer details under Downstream)
- Service tax on services procured by E&P companies, continues though at an increased rate of 12.24 percent (inclusive of education cess) in view of across the board rate increase

- Service tax imposed on Ship Management Services. This essentially includes tax on the following activities:
 - Supervision of maintenance, survey and repair of ship
 - Engagement or providing of crews
 - Receiving hire or freight charges on behalf of the owner
 - Arrangements for loading and unloading
 - Providing of victualling or storing of ship
 - Negotiating contracts for bunker fuels and lubricating oils
 - Payments on behalf of the owner of expenses incurred in providing services or in relation to the management of the ship
 - Entry of ship in a protection or indemnity association
 - Dealing with insurance, salvage and other claims
 - Arranging of insurance in relation to the ship

Midstream

- Exemption from tax available on income (by way of dividends, interests and capital gains) arising to an infrastructure capital fund / infrastructure capital company / cooperative bank from long term funding of infrastructure projects (such as ports and power plants) has been discontinued
- Project Import status accorded to pipeline projects for transportation of crude oil, petroleum products or natural gas
- Consequently, all items of machinery, including prime movers, instruments, apparatus and appliances, control gears and transmission equipment, auxiliary equipment including those required for research and development purposes, testing and quality control as well as all components or raw materials, for the manufacture of the above mentioned items and their components, required for initial setting up or substantial expansion of pipeline projects for transportation of crude oil, petroleum products or natural gas, can be imported a uniform rate of customs duty regardless of their individual classification
- The rate of customs duty in the above case would be basic duty of 10 percent, CVD of 16 percent, ADC of 4 percent and education cess as per applicable rates

Downstream

- Customs and excise duty rates on select petroleum products altered, as per chart (provided in the end)
- While ADC at 4 percent extended to all goods, exemption has been however provided to Petroleum Crude, Kerosene for PDS, LPG for domestic household consumers, Petrol, Diesel, Coal, Coke and Petroleum gases and fuels
- However, the following petroleum products are likely to attract additional duty of customs, so long as they do not fall / do not qualify as / are not in the nature of any one of the goods specially exempted from this duty and mentioned above:
 - Coal gas, water gas, producer gas and similar gases other than petroleum gases
 - Tar distilled from coal, lignite or peat and other mineral tars whether or not dehydrated or partially distilled including reconstituted tars
 - Oils and other products of the distillation of high temperature coal tar
 - Pitch and pitch coke obtained from coal tar or other mineral tars
 - Base oil, textile oil, lubricating oil, and waste oil
 - Petroleum jelly, paraffin wax, microcrystalline petroleum wax, slack wax, ozokerite, lignite wax, peat wax, other mineral waxes, and similar products obtained by synthesis or by other process whether or not coloured
 - Petroleum coke, petroleum bitumen and other residues of petroleum oils or of oils obtained from bituminous minerals
 - Bitumen and asphalt, natural; bituminous or oil shale and tar sands; asphaltites and asphaltic rocks
 - Bituminous mixtures based on natural asphalt, natural bitumen, petroleum bitumen, mineral tar or mineral tar pitch
- ADC at 4 percent is also exempt on the following:
 - Goods exempt from basic customs duty and additional customs duty
 - Fertilizers and all goods for manufacture of fertilizers
 - CNG for use in transport sector

- Tariff rate of basic customs duty reduced from 15 percent to 12.5 percent on the following goods
 - “Coal...” (under 2701) other than bituminous coal
 - “Lignite...” (under 2702)
 - “Peat...” (under 2703)
 - “Coke...” (under 2704)
 - “Coal Gas...” (under 2705)
 - “Tar...” (under 2706)
 - “Oils...” (under 2707)
 - “Pitch...” (under 2708)
- Rate of basic customs duty on Naphtha, Petroleum Coke, Propane, Butane and Natural Gas reduced from 10 percent to 5 percent
- Basic customs duty exempted on Naptha imported for manufacture of LDPE, HDPE, etc
- Declared goods status granted to LPG for domestic use. Consequently, local sales tax, Value Added Tax & Central Sales tax cannot be imposed on these goods at a rate higher than 4 percent

Power

- Tax holiday available for an undertaking engaged in generation or generation and distribution of power or transmission or distribution by laying a network of new transmission or distribution lines if it commences operations by March 31, 2010 (existing date is March 31, 2006)
- Exemption from tax available on income (by way of dividends, interests and capital gains) arising to an infrastructure capital fund / infrastructure capital company / cooperative bank from long term funding of infrastructure projects (such as ports and power plants) has been discontinued
- Reorganization of existing exemption notifications appears to have led to withdrawal of exemption of Cenvat on manufacture of naphtha and petroleum oil when supplied to specified power plants and specified electrical entities respectively

Excise Duty

Item	Crude	Petrol	Diesel	Domestic LPG
As on 2.6.98	Rs 900 pmt as cess	32% + Re 1 / Ltr	15%	10%
As on 28.2.99	Rs 900 pmt as cess	32% + Re 1 / Ltr	16% + Re 1 / Ltr	8%
As on 30.9.00	Rs 900 pmt as cess	16% + Re 1 / Ltr	12% + Re 1 / Ltr	8%
As on 1.3.02	Rs 1800 pmt as cess	32% + Rs 7 / Ltr	16% + Re 1 / Ltr	16%
As on 1.3.03	Rs 1800 pmt as cess	30% + Rs 7.50/Ltr	14% + Rs.1.50 /Ltr	16%
As on 16.6.04	Rs 1800 pmt as cess	26% + Rs 7.50/Ltr	11% + Rs.1.50 /Ltr	8%
As on 19.8.04	Rs 1800 pmt as cess	23% + Rs 7.50/Ltr	8% + Rs.1.50 /Ltr	8%
As on 1.3.05	Rs 1800 pmt as cess	8% + Rs 13 / Ltr	8% + Rs. 3.25/Ltr	Nil
Post Finance Bill 2006	Rs 2500 pmt as cess	8% + Rs 13/Ltr	8% + Rs. 3.25/Ltr	Nil

Customs Duty

(percent)

Item	Crude	Petrol	Diesel	Domestic LPG
As on 2.6.98	22	32	32	12
As on 28.2.99	20	30	30	10
As on 1.3.00	15	25	25	10
As on 30.9.00	10	20	20	10
As on 1.3.03	10	20	20	10
As on 19.8.04	10	15	15	5
As on 1.3.05	5	10	10	Nil
Post Finance Bill 2006	5	10	10	Nil

Project Imports

(percent)

Project type	BCD	CVD	ADC
Fertilizer projects	5	16	4
Coal mining projects	5	16	4
Power generation projects	5	16	Nil
Power transmission projects	5	16	Nil
Mega port projects	Nil	Nil	Nil
Nuclear power projects	Nil	Nil	Nil
LNG re-gasification plant projects	5	Nil	4
Aerial passenger ropeway projects	5	Nil	4
Pipeline projects	10	16	4

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Glossary

ADC	Additional Duty of Customs (equal to Sales Tax)
APM	Administered Pricing Mechanism
ASEAN	Association of Southeast Asian Nations
BCD	Basic Customs Duty
BPCL	Bharat Petroleum Corporation Limited
CBM	Coal Bed Methane
CNPC	China National Petroleum Corporation
CVD	Additional Duty of Customs (equal to Excise)
DDT	Dividend Distribution Tax
FBT	Fringe Benefits Tax
FDI	Foreign Direct Investment
FIPB	Foreign Investment Promotion Board
GAIL	GAIL India Limited
GRM	Gross Refining Margin
HPCL	Hindustan Petroleum Corporation Limited
IIG	Inter-institutional Group
IOC	Indian Oil Corporation
JV	Joint Venture
KG	Krishna Godavari
KWH	Kilo Watt Hour
LNG	Liquefied Natural Gas
MAT	Minimum Alternate Tax
MMT	Million Metric Tonne
MMSCM	Million Standard Cubic Meter
MMSCMD	Million Standard Cubic Meter per Day
MMTPA	Million Metric Tonne Per Annum
MW	Mega Watt
NABARD	National Bank for Agriculture and Rural Development
NELP	New Exploration Licensing Policy
NHAI	National Highways Authority of India
NHB	National Housing Bank
OIL	Oil India Limited
ONGC	Oil and Natural Gas Corporation
P&NGRBB	Petroleum & Natural Gas Regulatory Board Bill
PLF	Plant Load Factor
PSU	Public Sector Undertaking
R&D	Research and development
REC	Rural Electrification Corporation
SERC	State Electricity Regulatory Commission
SIDBI	Small Industries Development Bank of India
SPA	Sale Purchase Agreement
STT	Securities Transaction Tax
USD	United States Dollar



www.bmrtax.com

OUR CONTACTS

MUMBAI

3F Contractor Building
41 R Kamani Marg
Ballard Estate
Mumbai 400 001
Tel: + 91 22 3021 7000
Fax: + 91 22 3021 7070

DELHI

The Great Eastern Centre
First Floor, 70 Nehru Place
New Delhi 110 019
Tel: + 91 11 3081 5000
Fax: + 91 11 3081 5001

BANGALORE

202, Sobha Alexander Plaza
16/1, Commissariat Road
Bangalore 560 001
Tel: + 91 80 3052 0000
Fax: + 91 22 3052 1221