

The Petroleum Tax Guide, 1999

A Handbook of Tax Incentives for Exploration and Production of Petroleum

(A Guide which compiles the specific provisions of the laws relating to income tax, customs duty, central excise, cess, royalties and licence/lease fees as applicable to activities connected with the prospecting for or extraction or production of petroleum in the upstream sector under Contracts entered into on or after 1 st January 1999 in terms of the New Exploration Licensing Policy (NELP))

Title and Application

1. (1) This Guide may be called the Petroleum Tax Guide, 1999

(2) The Guide compiles the specific provisions of the laws relating to income tax, customs duty, central excise, cess, royalties and licence/lease fees, in relation to all or any of the under mentioned activities in the whole of India including the continental shelf of India and the exclusive economic zone of India.

(a) The prospecting for or extraction or production of Petroleum in relation to which the Government of India has entered into a Contract on or after 1 st January 1999 with any person for the association or participation of the Government of India or any person authorised by it;

(b) The provision of any services or facilities or supply of any ship, aircraft, machinery or plant (whether by way of sale or hire) to any person in connection with the prospecting for or extraction or production of Petroleum referred to in (a);

(c) The rendering of services as an employee of any person engaged in any of the activities referred to in (a) or (b).

Compilation

2. (1) The fiscal provisions compiled herein are those in force under the enactments and rules mentioned below and or the notifications issued thereunder in relation to activities connected with the prospecting for or extraction or production of Petroleum in the upstream sector under Contracts entered into on or after 1 st January 1999

(a) The Territorial Waters, Continental Shelf, Exclusive Economic Zone and other Maritime Zones Act (Act No.80 of 1976)

(b) The Income-tax Act (Act No.43 of 1961)

(c) The Income-tax Rules, 1962

(d) The Central Excise Act, 1944 (Act No.1 of 1944)

(e) The Central Excise Tariff Act, 1985 (Act No.5 of 1986)

(f) The Oil Industry (Development) Act, 1974 (Act No.47 of 1974)

(h) The Customs Act, 1962 (Act No.52 of 1962)

(i) The Customs Tariff Act, 1975 (Act No. 51 of 1975)

(j) The Oil fields (Regulation & Development) Act, 1948 (Act No.53 of 1948)

(k) The Petroleum and Natural Gas Rules, 1959

(2) In the event of any inconsistency as between this Guide and any enactment and or any rule prescribed or notification issued thereunder, the relevant act or rule or notification, as the case may be, shall apply.

Definitions

3. (a) "Commercial Production" means production of Petroleum (excluding any production for testing purposes) from a field and delivery of the same at the relevant delivery point under a programme of regular production and sale. The date of commencement of commercial production will be the date when commercial production commences from a field and the date of commencement of commercial production shall be intimated by the contractor to the Government of India in writing.

(b) "Continental Shelf" of India comprises the sea bed and the sub soil of the submarine areas that extend beyond the limits of its territorial waters throughout the natural prolongation of its land territory to the outer edge of the continental margin or to a distance of two hundred nautical miles from the base line, referred to in section 3(2) of the Territorial Waters, Continental Shelf, Exclusive Economic Zone and other Maritime Zones Act, 1976, where the outer edge of the continental margin does not extend up to that distance.

(c) "Contract" means an agreement entered into on or after 1 st January 1999 by the Government of India with any person for the association or participation of the Government of India or any person authorised by it in any business consisting of the prospecting for or extraction or production of Petroleum.

(d) "Contract Area" in relation to any PSC Participant means the area described in the Contract entered into by that person with the Government of India or any portion of said area remaining after relinquishment or surrender from time to time pursuant to the terms of the said Contract.

(e) "Development Operations" means operations conducted in accordance with the development plan pursuant to a Contract and shall include the purchase, shipment or storage of equipment and materials used in developing Petroleum accumulations, the drilling, completion and testing of development wells, the drilling and completion of wells for gas or water injection, the laying of gathering lines, the installation of offshore platforms and installations, the installation of separators, tankage, pumps, artificial lift and other producing and injection facilities required to produce, process and transport Petroleum into main oil storage or gas processing facilities, either onshore or offshore, including the laying of pipelines within or outside the Contract Area, storage and delivery point or points, the installation of said storage or gas processing facilities, the installation of export and loading facilities and other facilities required for the development and production of the said Petroleum accumulations and for the delivery of Petroleum at the delivery point and also including incidental operations not specifically referred to herein but required for the most efficient and economic development and production of the said Petroleum accumulations in accordance with good international petroleum industry practices.

(f) "Exclusive Economic Zone" of India is an area beyond and adjacent to the territorial waters of India, and the limit of such zone is two hundred nautical miles from the baseline referred to in section 3(2) of the Territorial Waters, Continental Shelf, Exclusive Economic Zone and other Maritime Zones Act, 1976.

(g) "Exploration Operations" means operations conducted in the Contract Area pursuant to a Production Sharing Contract in searching for Petroleum and in the course of an appraisal programme and shall include but not be limited to aerial, geological, geophysical, geochemical, palaeontological, palynological, topographical and seismic surveys, analysis, studies and their interpretation, investigations relating to the sub-surface geology including structure test drilling, stratigraphic test drilling, drilling of exploration wells and appraisal wells and other related activities such as surveying, drill site preparation and all work necessarily connected therewith that is conducted in connection with Petroleum exploration.

(h) "Natural Gas" means wet gas, dry gas, all other gaseous hydrocarbons, and all substances contained therein, including sulphur, carbon dioxide, nitrogen but excluding helium, which are produced from oil or gas wells, excluding liquid hydrocarbons that are condensed or extracted from gas and are liquid at normal temperature and pressure conditions, but including the residue gas remaining after the condensation or extraction of liquid hydrocarbons from gas.

(i) "Participating Interest" means, in respect of each PSC Participant, the undivided share, expressed as a percentage, of such participant's participation, as it may exist at any given time, in the rights and obligations under a Contract.

(j) "Petroleum" means Crude Oil and/or Natural Gas existing in their natural condition but excluding helium occurring in association with Petroleum or shale.

(k) "Petroleum Operations" means, as the context may require, Exploration Operations, Development Operations or Production Operations or any combination of two or more of such operations, including construction, operation and maintenance of all necessary facilities, plugging and abandonment of wells, environmental protection, transportation, storage, sale or disposition of Petroleum to the delivery point, site restoration and all other incidental operations or activities as may be necessary.

(l) "Production Operations" means all operations conducted for the purpose of producing Petroleum from the development area after the commencement of production from the development area including the

operation and maintenance of all necessary facilities therefore.

(m) "PSC Participant" means a person with whom the Government of India has entered into a Contract on or after 1 st January 1999 and where more than one person is a party to such Contract, the term "PSC Participants" shall mean all such persons collectively, including their respective successors and permitted assigns.

Any word or expression not defined herein shall have the meaning assigned to it in the context to which it relates in the applicable enactment, rule or notification of the contract, as the case may be.

General

1. PSC participants, their employees, persons providing any materials, supplies, services or facilities or supplying any ship, aircraft, machinery, equipment or plant (whether by way of sale or hire) to the PSC Participants for Petroleum Operations or for any other purpose and the employees of such persons shall be subject to all fiscal legislation in India except where, pursuant to any authority granted under any applicable law, they are exempted wholly or partly from the application of the provisions of a particular law or as otherwise provided in Contract or in any double taxation avoidance agreement entered into by the Government of India under section 90 of the Income-tax Act, 1961.

5. Income Tax in Relation to PSC Participants

(1) PSC Participants shall not be assessed on their income as association of persons or body of individuals; but each PSC Participant shall be assessed in respect of his or its share of income, as the case may be, in the same status in which that participant has entered into the Contract with the Government of India.

"Status" means the category under which a person is assessed to income tax under the Income-tax Act, 1961, e.g., individual, company, firm, etc.

(2) The profits and gains of business of a PSC Participant from Petroleum Operations shall, for the purpose of levy of income tax under the Income-tax Act, 1961, be computed on the basis of the value, determined and revenue realised on sale of Petroleum in accordance with the Contract, of its Participating Interest share of Petroleum produced and saved and sold, or otherwise disposed of, from the Contract Area and any other gains or receipts from Petroleum Operations, as reduced by the deductions as specified herein, and, except as herein provided, all the provisions of the Income-tax Act, 1961, shall apply.

(3) Subject to the provisions herein below, in computing the profits and gains from the business of Petroleum Operations of a PSC Participant for the purpose of income tax, there shall be allowed full deduction of the following expenditures in lieu of (and not in addition to) corresponding allowances provided for under the heading "Profits and Gains of Business or Profession" in the Income-tax Act, 1961 -

a) All expenditure incurred in respect of Exploration Operations

b) All expenditure incurred in respect of drilling operations.

Expenditure incurred in respect of Development Operations, other than drilling operations, and Production Operations will be allowed as per the provisions of the Income-tax Act, 1961.

However, the allowance of all expenditure mentioned herein is subject to the following:

(i) Where any expenditure is not solely incurred on Petroleum Operations or is incurred as part of or in conjunction with any other business, only that portion of the total expenditure which is proved to the satisfaction of the Assessing Officer to be attributable to the Petroleum Operations, having regard to all the relevant facts and circumstances, shall be allowed to be deducted

(ii) Sections 40A and 44C of the Income-tax Act, 1961, shall apply i.e.

a) Where any expenditure is incurred in respect of which payment has been made or is to be made to any person referred to in clause (b) of section 40A(2) of the Income-tax Act, 1961 and the Assessing Officer is of opinion that such expenditure is excessive or unreasonable having regard to the fair market value of the goods, services or facilities for which the payment is made or the legitimate needs of the business of the PSC Participant or the benefit derived by or accruing to him therefrom, so much of the expenditure as is so considered by him to be excessive or unreasonable shall not be allowed as a deduction.

b) Where any expenditure is incurred in respect of which payment is made in a sum exceeding twenty thousand Indian rupees, otherwise than by a crossed cheque drawn on a bank or by a crossed bank draft, 20 % of such expenditure shall not be allowed as a deduction, except in such cases and under such circumstances as may be prescribed in the Income-tax Rules, 1962.

c) No deduction shall be allowed in respect of any provision made for the payment of gratuity to employees on their retirement or on termination of their employment for any reason, except where the provision is made for the purpose of payment of a sum by way of any contribution towards an approved gratuity fund, in which case the deduction shall be allowed on the basis of actual payment to the fund in accordance with the provisions of section 43B of the Income-tax Act, 1961, or the provision is made for the purpose of payment of any gratuity that has become payable during the year.

d) No deduction shall be allowed in respect of any sum paid by a PSC Participant as an employer towards the setting up or formation of, or as contribution to, any fund, trust, company, association of persons, body of individuals, society or other institution for any purpose except where such sum is paid by way of contribution towards a recognized provident fund, or an approved superannuation fund or an approved gratuity fund referred to in clause (iv) and clause (v) of section 36(1) of the Income-tax Act, 1961 to the extent mentioned therein

e) In the case of a PSC Participant, being a non-resident, the deduction of head office expenditure shall be limited to -

i. 5 % of the adjusted total income, or
ii. So much of the expenditure in the nature of head office expenditure incurred by him as is attributable to the business carried on in India, whichever is lower.

"Adjusted total income" means total income computed in accordance with the Income-tax Act, 1961, as modified herein, but before any deduction for carried forward unabsorbed depreciation, carried forward family planning expenses under section 36(1)(ix), any losses carried forward under section 72(1), or section 73(2) or section 74(1) or section 74(3) or section 74A(3) or deduction under section 80IA of the Income-tax Act, 1961.

(iii) "Head office expenditure" means executive and general administration expenditure incurred by the PSC Participant outside India, including expenditure incurred in respect of -

a) Rent, rates, taxes, repairs or insurance of any premises outside India used for the purposes of the business;

b) Salary, wages, annuity, pension, fees, bonus, commission, gratuity, perquisites or profits in lieu of or in addition to salary, whether paid or allowed to any employee or other person employed in, or managing the affairs of, any office outside India;

c) Travelling by any employee or other person employed in, or managing the affairs of, any office outside India; and

d) Such other matters connected with executive and general administration as the government of India may prescribe for the purpose of section 44C of the Income-tax Act, 1961.

(iv) For any or all accumulated expenditures incurred in respect of exploration operations and drilling operations prior to the date of commercial production, PSC Participants shall have option to amortize such expenditures over a period of ten (10) years from the date of first commercial production.

Provided further that, a PSC Participant may, at his option, set off any loss on account of the allowable expenses in the year such expenses are incurred against profits from any other source in accordance with and subject to the provisions of sections 70 and 71 of the Income-tax Act, 1961.

(V) A PSC participant shall be entitled, for income tax purposes only, to deduct all its unsuccessful exploration costs in contract areas covered by other contracts from the aggregate value of Petroleum allocable to the PSC participant from any Field(s) in the Contract Area in the manner as follows:

a) Unsuccessful exploration costs incurred in contract areas other than the Contract Area where a commercial discovery has been made up to the date of commencement of Commercial Production shall be aggregated and the PSC participant shall be entitled to deduct such costs at the rate of one hundred per cent (100%) per annum;

b) Unsuccessful exploration costs incurred in contract areas other than the Contract Area where a commercial discovery has been made, after the commencement of Commercial Production, shall be deductible at the rate of one hundred per cent (100%) per annum of such costs beginning from the Year such costs are incurred.

Provided however, a PSC Participant may, at his option set off any costs mentioned in (a) or (b) above in the year in which such costs are incurred against profits from any other source in accordance with and subject to the provisions of sections 70 and 71 of the Income-tax Act, 1961.

(Vi) A PSC Participant shall be entitled to deduct, while computing his profits and gains of business from Petroleum Operations, for the purpose of income tax, any amount deposited by him in the Site Restoration Fund, in accordance with and for the purposes specified in, the Site Restoration Fund Scheme, 1999 notified by the Ministry of Petroleum and Natural Gas, Government of India, in the year in which such amount is deposited, upto a maximum of 20% of such profits. Interest reinvested in accordance with the Scheme shall also qualify for deduction within this limit.

(Vii) A PSC Participant will be entitled to deduct for the purpose of income tax, any expenditure (net of any recovery from the Site Restoration Fund referred to in (6) above) incurred by him on the expiry or termination of the Contract or on relinquishment of part of the Contract Area towards removal of all equipment and installations from the relinquished area or former Contract Area in a manner agreed with the Government of India pursuant to an abandonment plan or towards all necessary Site Restoration in accordance with good international petroleum industry practice and towards taking all other action necessary to prevent hazards to life or property or environment, from the profits and gains of business of Petroleum Operations in the year in which such expenditure is incurred.

(viii) As regards the tax treatment of assignment or transfer of participating interest by a PSC participant under the Contract, following provisions of section 42(2) of the Income-tax Act shall apply with effect from the first day of April, 1999:

"Where the business of the assessee consisting of the prospecting for or extraction or production of petroleum and natural gas is transferred wholly or partly or any interest in such business is transferred in accordance with the agreement refer to in sub-section

(1) Subject to the provisions of the said agreement and where the proceeds of the transfer (so far as they consist of capital sums) -

(a) Are less than the expenditure incurred remaining unallowed, a deduction equal to such expenditure remaining unallowed, as reduced by the proceeds of transfer, shall be allowed in respect of the previous year in which such business or interest as the case may be, is transferred;

(b) Exceed the amount of the expenditure incurred remaining unallowed so much of the excess as does not exceed the difference between the expenditure incurred in connection with the business or to obtain interest therein and the amount of such expenditure remaining unallowed shall be chargeable to income tax as profits and gains of the business in the previous year in which the business or interest therein, whether wholly or partly has been transferred;

Provided that in a case where the provisions of this clause do not apply, the deduction to be allowed for expenditure incurred remaining unallowed shall be arrived at by subtracting the proceeds of transfer (so far as they consist of capital sums) from the expenditure remaining unallowed.

Explanation:

Where the business or interest in such business is transferred in a previous year in which such business carried on by the assessee is no longer in existence, the provisions of this clause shall apply as if the business is in existence in that previous year.

(c) Are not less than the amount of the expenditure incurred remaining unallowed, no deduction for such expenditure shall be allowed in respect of the previous year in which the business or interest in such business is transferred or in respect of any subsequent year or years;

Provided that in a scheme of amalgamation of the amalgamating company sells or otherwise transfers the business to the amalgamated company being an Indian company, the provisions of this sub-section:

(i) Shall not apply in the case of amalgamating company and

(ii) Shall, as far as may be, apply to the amalgamated company as they would have applied to the amalgamated company if the later had not transferred the business or interest in the business."

(ix) Any capital expenditure, other than those qualifying for 100 % allowance as per (3) and (5) above, in the nature of buildings, machinery, plant or furniture owned by the PSC Participant and used for the Petroleum Operations, shall be eligible for depreciation allowance on the written down value of the block of assets in accordance with section 32 of the Income-tax Act, 1961, at the rates prescribed in Appendix I of the Income-tax Rules, 1962.

(x) Set off, or carry forward and set off of losses, if any, shall be in accordance with the provisions of the Income-tax Act, 1961.

(xi) Under section 80-IA of the Income-tax Act, 1961, PSC Participants who begin Commercial Production of Petroleum in any part of India on or after 1 st April 1997 shall be entitled to claim deduction of 100% of their profits and gains derived from such business for initial seven years commencing from the first year of Commercial Production.

(xii) The provisions of section 115JA of the Income-tax Act, 1961 shall apply to a PSC Participant in respect of profits and gains derived from a Contract.

(xiii) The income-tax payable by the PSC Participant on his total income shall be the amount of income-tax calculated on such total income at the rate of income-tax in force as applicable to him.

(xiv) In terms of section 10(15) of the Income-tax Act, 1961, the following interest shall be exempt from income-tax in the hands of the payee.

Interest payable by a PSC Participant -

(a) On moneys borrowed under a loan agreement with such financial institution in a foreign country as may be approved in this behalf by the Central Government by a general or special order.

(b) On moneys borrowed or debt incurred by it in a foreign country in respect of the purchase outside India of raw materials or components or capital plant and machinery, to the extent to which such interest does not exceed the amount of interest calculated at the rate approved by the Central Government in this behalf, having regard to the terms of the loan or debt and its repayment. Explanation - For the purpose of this item, "purchase of capital plant and machinery" includes the purchase of such capital plant and machinery under a hire-purchase agreement or a lease agreement with an option to purchase such plant and machinery.

(c) On moneys borrowed by it in foreign currency from sources outside India under a loan agreement approved by the Central Government having regard to the need for industrial development in India, to the

extent to which such interest does not exceed the amount of interest calculated at the rate approved by the Central Government in this behalf, having regard to the terms of the loan and its repayment.

Income Tax in Relation to Service Providers and Suppliers

6. (1) Subject to the provisions of the applicable double taxation avoidance agreement entered into by India under section 90 of the Income-tax Act, 1961, in the case of a person being a non-resident, engaged in the business of providing services or facilities in connection with, or supplying plant and machinery on hire used, or to be used, in the prospecting for or extraction or production of Petroleum and/or Natural Gas, a sum equal to 10% of the aggregate amount specified in (a) and (b) below shall be deemed to be the profits and gains of such business, which shall be taxed at the normal tax rate applicable to the business income of such non-resident

a) The amount paid or payable (whether in or out of India) to the person or to any other person on his behalf on account of the provision of services and facilities in connection with, or supply of plant and machinery on hire used, or to be used, in the prospecting for, or extraction or production of Petroleum in India; and

b) The amount received or deemed to be received in India by or on behalf of the person on account of the provision of services and facilities in connection with, or supply of plant and machinery on hire used, or to be used, in the prospecting for, or extraction or production of Petroleum outside India

"Plant" includes ships, aircraft, vehicles, drilling units, scientific apparatus and equipment, used for the purpose of the said business.

(2) The income-tax liability, if any, of a non-resident from transactions involving sale of plant and machinery in connection with the prospecting for or extraction or production of Petroleum, shall be in accordance with the provisions of the Income-tax Act, 1961 or the applicable double taxation avoidance agreement entered into by India under section 90 of the Income-tax Act, 1961, whichever is more beneficial to the non-resident.

3) Residents providing any services or facilities or supplying any ship, aircraft, machinery or plant (whether by way of sale or hire) in connection with any business consisting of the prospecting for or extraction or production of Petroleum and/or Natural Gas, will be liable to income-tax in accordance with the normal provisions of the Income-tax Act, 1961.

Customs Duty

7. (1) Import of machinery, plant, equipment, materials and supplies by the PSC Participant or any of its subcontractor shall be exempt from customs duty, provided -

a) They fall within the list given in Annexure A

b) The goods are imported in connection with Petroleum Operations to be undertaken under a Production Sharing Contract

c) Where the importer is a contractor, he produces to the Assistant Commissioner of Customs, at the time of importation, the following, namely -

(i) As certificate from a duly authorised officer of the Directorate General of Hydrocarbons in the Ministry of Petroleum and Natural Gas, Government of India to the effect that the imported goods are required for such Petroleum Operations and have been imported under a contract signed under the New Exploration Licensing Policy; and

(ii) A certificate, in the case of a contract entered into by the Government of India and a Foreign Company or Companies or the Government of India and a consortium of an Indian Company or Companies and a Foreign Company or Companies that no foreign exchange remittance is to be made for the import of such goods undertaken by the Foreign Company or Companies.

d) Where the importer is a sub-contractor, he produces to the Assistant Commissioner of Customs, at the time of importation, the following, namely -

(i) A certificate from a duly authorised officer of the Directorate General of Hydrocarbons in the Ministry of Petroleum and Natural Gas, Government of India to the effect that the imported goods are required for such Petroleum Operations and have been imported under a contract signed under the New Exploration Licensing Policy and containing the name of such sub-contractor,

(ii) An affidavit to the effect that such sub-contractor is a bona fide sub-contractor of a contractor,

(iii) An undertaking from such contractor, binding him to pay any duty, fine or penalty that may become payable, if any of the conditions for exemption are not complied with, by such sub-contractor or contractor, as the case may be, and

(iv) A certificate, in the case of a contract entered into by the Government of India and a Foreign Company or Companies or the Government of India and a consortium of an Indian Company or Companies and a Foreign Company or Companies that no foreign exchange remittance is to be made for the import of such goods undertaken by the sub-contractor on behalf of the Foreign Company or Companies.

Provided that nothing contained in (iv) above shall apply if such sub-contractor is an Indian company or companies.

Such goods shall also be exempt from export duties or other charges on re-exportation in accordance with applicable legislation.

Any imports not fulfilling the above conditions shall be liable to customs duties at rates in force from time to time in relation to the specific item being imported.

(2) The Government of India shall have the right to inspect the records and documents of the physical item or items for which an exemption has been provided pursuant to (1) to determine that such item or items are being or have been imported solely and exclusively for the purpose for which the exemption was granted. The Government shall also be entitled to inspect such physical items wherever located to ensure that such items are being used for the purpose herein specified and any item not being so used shall immediately become liable to payment of the applicable customs duties.

(3) Subject to the provisions of the Contract, the PSC Participant, its sub-contractors and their sub-contractors may sell or otherwise transfer in India all imported items which are no longer required for Petroleum Operations, subject to the applicable laws governing customs duties and sale or disposal of such items.

Excise Duty and Cess

1. No excise duty or cess shall be levied on production of Petroleum under Production Sharing Contracts.

Royalty

1. PSC Participants shall pay royalty at 10% for crude oil & natural gas in offshore areas. For onshore areas the royalty shall be at 12.5% for crude oil and at 10% for natural gas.

Provided, however, the royalty will be charged at half the rate applicable to normal off-shore area i.e., at 5% for deep water areas beyond 400 m bathymetry for the first 7 years, commencing with the year in which Commercial Production is commenced.

The valuation of Petroleum for the purpose of calculating royalty shall be as per the provisions of the Oilfields (Regulation and Development) Act, 1948 and the Petroleum and Natural Gas Rules, 1959.

The royalty amount due for any month shall be paid to the Central Government/ State Government

latest by the last day of the succeeding month in accordance with the provisions of The Petroleum and Natural Gas Rules, 1959.

Deposits, Licence Fee, Dead Rent and Surface Rent

10. (1) Before the licence is granted, the applicant for a licence shall deposit with the Central Government or where the licence is to be or has been granted by the State Government, the State Government as security for due observance of the terms, covenants and conditions of the licence, a sum of Rs. 50,000.

(2) The licensee shall pay yearly in advance by way of licence fee in respect of his licence a sum calculated for each square kilometre or part thereof covered by the licence at the following rates -

- a. Rs. 8 for the first year of the licence
- b. Rs. 40 for the second year of the licence
- c. Rs. 200 for the third year of the licence
- d. Rs. 400 for the fourth year of the licence
- e. Rs. 600 for the first and second years of the renewal.

(3) The applicant for a lease shall, before the lease is granted to him -

a) Deposit with the Central or the State Government, as the case may be, as security, a sum of Rs. 100,000, for due observance of the terms and conditions of the lease,

b) Also deposit with the Central or the State Government, as the case may be, for meeting the preliminary expenses, such sum not exceeding Rs. 10,000, as the Central Government or the State Government with the approval of the Central Government, may determine.

(4) On the grant of a lease, the lessee -

a) Shall pay to the Central or the State Government, as the case may be, for every year a fixed yearly dead rent at the following rates -

Rs. 12.50 per hectare or part thereof for the first 100 square kilometres and Rs. 25 per hectare or part thereof for area exceeding the first 100 square kilometres provided that the lessee shall be liable to pay only the dead rent or the royalty, whichever is higher in amount but not both.

b) Shall also pay to the State Government, for the surface area of the land actually used by him for the purpose of the operations conducted under the lease, surface rent at such rate, not exceeding the land revenue and cesses assessed or assessable on the land, as may be specified by the State Government with the approval of the Central Government.

(5) The deposits, license fee, dead rent and surface rents are subject to change in accordance with the relevant laws and rules by the Government or State Government, as the case may be, from time to time.

Employees

1. Subject to the provisions of applicable double taxation avoidance agreements entered into by India under section 90 of the Income-tax Act 1961, employees of PSC Participants, service providers and suppliers shall be subject to the provisions of all fiscal legislation in India. However, if the employer bears the tax on the remuneration under conditions and circumstances referred to in section 10(5B) of the Income-tax Act, 1961, such tax shall not be included in the taxable income of the employee i.e. there will be no grossing up.

Exclusion

1. This Guide does not take into account

- a) Charges payable by specified industries or in connection with Petroleum Operations under any other legislation;
- b) Payments for purchase, lease or rental of land or land rights in connection with Petroleum Operations;
- c) Taxes, fees or charges for specific services rendered on request or to the public generally;
- d) Sales tax, if any, leviable on the facts and circumstances of any given case;
- e) Stamp duties, registration fees, licence fees, taxes such as taxes on property or assets (not calculated by reference to income or otherwise exempted) or other levies, fees or charges of a non-discriminatory nature and generally applicable in India or in the State where Petroleum Operations are being conducted.

Annexure - A

1. Land Seismic Survey Equipment and accessories, requisite vehicles including those for carrying the equipment, seismic survey vessels, global positioning system and accessories, and other materials required for seismic work or other types of Geophysical and Geochemical surveys for onshore and offshore activities.
2. All types of Drilling rigs, jackup rigs, submersible rigs, semi submersible rigs, drill ships, drilling barges, short-hole drilling rigs, mobile rigs, workover rigs consisting of various equipment and other drilling equipment required for drilling operations, snubbing units, hydraulic workover units, self elevating workover platforms, Remote Operated Vessel (ROV).
3. Helicopters including assemblies/parts.
4. All types of marine vessels to support Petroleum Operations including work boats, barges, crew boats, tugs, anchor handling vessels, lay barges and supply boats; Marine ship equipment including water Maker, DP system and Diving system.
5. All types of Equipment/units for specialised services like diving, cementing, logging, casing repairs, production testing, simulation and mud services, oil field related lab equipment, reservoir engineering, geological equipment, directional drilling Stimulation, Coil Tubing units, drill stem testing (DST), data acquisition and processing, solids control, fishing (as related to downhole retrieval in oil field operations), well control, blowout prevention (BOP), pipe inspection including Non Destructive Testing, coring, gravel pack, well completion and workover for oil/gas wells including wireline and downhole equipment.
6. All types of casing pipes, drill pipes, production tubing, pup joints, connections, coupling, kelly, cross overs and swages, Drive Pipes.
7. All types of drilling bits, including nozzles, breakers and related tools.
8. All types of oil field chemicals including synthetic products used in petroleum operations, oil well cement and cement additives required for drilling, production and transportation of oil or gas.
9. Process, production and well platforms for oil, gas and water injection including items forming part of the platforms and equipment required like process equipment, turbines, pumps, generators, compressors, primemovers, water makers, filters and filtering equipment Telemetry, Telecommunication, Tele-Control and other material required for platforms.
10. Line pipes for flow lines and trunk pipelines including weight coating and wrapping.
11. Derrick barges, Mobile and stationary cranes, trenchers, pipelay barges, cargo barges and the like required in the construction/installation of platforms and laying of pipelines.

12. Single buoy mooring systems, mooring ropes, fitting like chains, shackles, couplings marine hoses and oil tankers to be used for oil storage and connected equipment; Tanks used for storage of oil, condensate, water, mud, chemicals and related materials.
13. All types of fully equipped vessels and other units/equipment required for pollution control, fire prevention, fire fighting, safety items like Survival Craft, Life Raft, fire and gas detection equipment, including H₂S monitoring equipment.
14. Mobile and skid mounted pipe laying, pipe testing and pipe inspection equipment.
15. All types of valves including high pressure valves.
16. Communication equipment required for Petroleum operations including synthesized VHF Aero and VHF Marine multi channel sets.
17. Non-directional radio beacons, intrinsically safe walkie-talkies, directional finders, EPIRV, electronic individual security devices including electronic access control system.
18. Specialized antenna system, simplex telex over radio terminals, channel micro wave systems, test and measurement equipment.
19. X-band radar transponders, area surveillance system.
20. Common depth point (CDP) cable, logging cable, connectors, geo-phone strings, perforation equipment and explosives.
21. Wellhead and christmas trees, including valves, chokes, heads spools, hangers and actuators, flexible connections like chocks and high pressure hoses, shut down panels.
22. Cathodic Protection Systems including anodes.
23. Technical drawings, maps, literature, Data tapes, Operational and Maintenance Manuals required for petroleum operations.
24. Sub-assemblies, tools, accessories, stores, spares, materials, supplies, consumables for running, repairing or maintenance of the goods specified in this list.