



Ref.No. FIPI/9  
June 7, 2017

Shri Amar Nath  
Joint Secretary (Exploration)  
Ministry of Petroleum and Natural Gas  
Shastri Bhawan, New Delhi

Dear Sir,

At the outset, we thank you for your kind intervention and support on the issues faced by the oil industry with regard to GST which has resulted in some positive development. However, there are several critical issues which have been left out and need to be raised with the GST Council. These are described below:

1. Post inclusion of imports of goods being at 5% GST in the last GST council meeting, the blended rate now works out to 14% as under:

Sector	Current Taxes	GST (latest estimate)
Services	15%	18%
Works Contract	6%	18%
Tax on Goods (CST)	2%	5%
Imports	0%	5%
Blended Rate	8%	14%

Industry is thankful for rate of tax on capital goods used for petroleum operations which has been kept at 5%. However, since these goods are currently exempted as provided in the PSC, we insist that in line with the spirit of PSC, the imports of these goods should be exempted under GST. This will help in reducing the stranding of tax for the industry.

2. Works Contract Service - Rate has been increased from 6% to 18%. This will result in significant increase in cost. The works contract service for petroleum operations should be kept at 5% similar to goods.
3. Rigs on hire - As per entry 34 of the Service Tax Rate Schedule, right to use the assets without transfer of title has been made taxable at the rate of tax applicable to similar equipment. The rate of tax for offshore rig is 5% under chapter 89, it may be clarified that rigs on hire for drilling purpose are also taxable at 5% and not at a general rate of 18%.

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4. Cash Calls are considered as Capital Contribution and therefore not chargeable to service tax as per circular no. 179/5/2014 - ST dated 24<sup>th</sup> September 2014. Similarly, it should be clarified that Royalty, Profit Petroleum and Cost Petroleum are not taxable supply.
5. Taxes applied on imports of goods on rental basis should be only on the rental value and not the value of the goods - It is apprehended that under the proposed GST laws, on imports of capital goods IGST might be applied on the full value of the goods as per the provisions of the Customs Law. This will result in significant cash flow issue for the upstream companies and getting the equipment in the country for petroleum operations on rental basis will be a massive challenge. It is therefore requested that the IGST on imports of such equipment on rent should be treated as import of services and rate applied only on the rental value/time use value of the equipment.
6. Movement of Goods from offshore to onshore, from one state to another state and within blocks should be exempted - In the upstream operations, there are movement of goods from offshore to onshore and from one state to another and sometimes at a short notice. As per the current GST law movement of these goods from one registration to another is considered as a taxable supply. This will significantly increase the cost and complexity of petroleum operations. Hence, we request that intra-block and inter block movement of goods should be exempted from GST similar to current regime.

We, once again, request that the above issues be kindly be taken up suitably with the Ministry of Finance prior to next GST Council meeting on 11<sup>th</sup> June, 2017. This will help in ensuring that oil industry is not in a worse off position under the GST regime and the much needed investments in this sector continue to flow in.

Thanking you,

Yours sincerely,



Rajiv Bahl  
Director (Finance, Taxation & Legal)