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Union Budget 2014-15

Impact on the Energy sector



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Overview

Power is the need of the hour. The proposal to streamline power supply to rural areas will boost industrial growth; employment of rural human capital being a positive by-product of this initiative. The budget has focused on establishing the Green Energy Corridor, setting up Ultra Mega Solar Power Projects, undertaking a drive aimed at re-exploration of natural gas reserves coupled with certain other policy measures.

Power companies were struggling due to shortfall in coal linkages which required them to augment their production. Due to specific industry demands, rationalisation of Customs duties on various grades of coal has been carried out which will help such companies not only to overcome their shortfall but also put to rest the ambiguity over classification of various forms of coal due to difference in their duty rates.

Further, concessions and benefits in Customs and Excise duties for the renewable energy sector will bolster confidence in the industry and have a far reaching impact on the generation of power through alternate sources of energy.

On the income tax front, Extension of sunset clause for the commencement of business by certain power sector companies for availing deduction under Section 80IA has come as a major boost.

We share herein some of the key policy initiatives for this sector in the Budget and the tax proposals.

Key policy initiatives

Power

- Allocation of Rs 100 crore for preparatory work for a new scheme titled "Ultra-Modern Super Critical Coal Based Thermal Power Technology" to promote cleaner and more efficient thermal power

Coal

- Adequate quantity of coal will be provided to power plants which are already commissioned or would be commissioned by March 2015

New and Renewable Energy

- Rs 500 crore allocated for Ultra Mega Solar Power Projects in 5 states
- Implementation of the Green Energy Corridor Project will be accelerated in the current financial year to facilitate exploration and utilisation of renewable energy across the country

Petroleum and Natural Gas

- 15,000 km of pipelines proposed for completing the gas grid across the country. It is proposed to develop these pipelines using appropriate PPP models

Others

- Thrust on introduction of GST
- Convergence with International Financial Reporting Standard (IFRS) by adoption of the new Indian Accounting Standards by Indian companies



Direct tax proposals

Corporate tax rates

- There is no change in the corporate tax rates, surcharge, education cess, and secondary and higher education cess

Extension of sunset clause for the commencement of business by certain power sector companies for availing deduction under Section 80IA

- Under Section 80IA of the Income Tax Act (the Act), 100% deduction is available for undertakings that commence their operations before 31 March 2014, and which are involved in the business of generation and/ or distribution, transmission or distribution of power. This tax holiday has now been extended to undertakings that commence operations before 31 March 2017



Direct tax proposals

Investment allowance available to smaller investment

- Investment allowance was available under the existing provisions only if the aggregate investment exceeded Rs 100 crores in FYs 2013-14 and 2014-15
- Budget proposes to extend the investment allowance in excess of Rs 25 crore in a FY starting from 1 April 2014 till 31 March 2017 under Section 32AC of the Act to medium size investments in plant and machinery where a company engaged in the business of producing or manufacturing an article or thing, acquires and installs such new plant and machinery
- An investment allowance of 15% is proposed on such investments

Tax deduction of expenditure on CSR

- Expenditure on CSR activities has been mandated by the Companies Act 2013. However, there was no clarity on the allowability of such expenditure under the existing provisions of the Act
- Budget proposes to specifically disallow the expenditure in respect of CSR under Section 37 as business expenditure



Indirect tax proposals

Central excise duty

- Peak rate of Central excise retained at 12%

Product specific changes in Excise duty rates

Products	Rates	
	Pre-Budget	Post-Budget
Branded petrol	Rs 7.50 per litre	Rs 2.35 per litre
Forged steel rings used in the manufacture of bearings of wind operated electricity generators	12%	Nil
Clean Energy Cess on coal, lignite and peat	Rs 50 per tonne	Rs 100 per tonne

Miscellaneous

- Education cess, and secondary and higher education cess applicable only in respect of excise duty applicable on coal, but not on clean energy cess

Exemptions from Central excise Duty

- Solar tempered glass used in the manufacture of solar photovoltaic cells/ modules, solar power generating equipment/ system, and flat plate solar collectors
- Machinery, equipment, etc. required for setting up projects engaged in the production of solar energy
- Backsheet and EVA sheets used in the manufacture of photovoltaic cells/ modules and specified raw materials used in their manufacture
- Parts consumed within the factory for producing non-conventional energy devices
- Flat copper wires used in the manufacture of PV ribbons (tinned copper interconnect) for use in the manufacture of solar cells/ modules
- Machinery, equipment, etc. required for setting up compressed biogas plant (Bio-CNG)

Retrospective exemption

- Liquefied Propane and Butane mixture, Liquefied Propane, Liquefied Butane and Liquefied Petroleum Gases (LPG) for supply to non-domestic exempted category (NDEC) customers by IOCL, HPCL or BPCL is fully exempted from central excise duty with effect from 8 February 2013 upto 10 July 2014

Indirect tax proposals

Customs duty

Peak rate of Customs duty retained at 12%

Product specific changes in Customs Duty rates

Products	Rate			
	Pre-Budget		Post-Budget	
Non-agglomerate coal of various types:	BCD	CVD	BCD	CVD
Coking coal	NIL	6%	2.5%	2%
Steam Coal	2%	2%	2.5%	2%
Bituminous Coal	2%	2%	2.5%	2%
Anthracite Coal and other coal	5%	6%	2.5%	2%
	BCD		BCD	
Metallurgical coke	NIL		2.5%	
Coal tar pitch	10%		5%	
Forged steel rings used in the manufacture of bearings of wind operated electricity generators	10%		5%	

Exemptions from Customs duty

- BCD and CVD on Re-gasified LNG for supply to Pakistan
- BCD on Liquefied Propane and Butane mixture, Liquefied Propane, Liquefied Butane and Liquefied Petroleum Gases (LPG) for supply to non-domestic exempted category (NDEC) customers by IOCL, HPCL, BPCL
- BCD on specified raw materials used in the manufacture of solar backsheet and EVA sheet for use in manufacture of solar PV cells/ modules
- BCD on flat copper wire used in the manufacture of PV ribbons (tinned copper interconnect) for solar PV cells/ modules

Exemption from Special additional duty

- Parts and raw materials required for use in the manufacture of wind operated electricity generators

Retrospective exemption

- Liquefied Propane and Butane mixture, Liquefied Propane, Liquefied Butane and Liquefied Petroleum Gases (LPG) imported by IOCL, HPCL or BPCL for supply to non-domestic exempted category (NDEC) customers is fully exempted from customs duty with effect from 8 February 2013 upto 10 July 2014

Indirect tax proposals

Miscellaneous

- Concessional BCD of 5%, provided on machinery, equipment, etc. required for setting up a compressed biogas plant (Bio-CNG)
- Benefit of ad valorem 5% BCD and NIL CVD extended to machinery, equipment, etc., required for setting up projects engaged in the production of solar energy

Contact us

To know more about Grant Thornton India LLP, please visit www.grantthornton.in or contact any of our offices as mentioned below:

NEW DELHI

National Office
Outer Circle
L 41 Connaught Circus
New Delhi 110 001
T +91 11 4278 7070

BENGALURU

“Wings”, 1st floor
16/1 Cambridge Road
Ulsoor
Bengaluru 560 008
T +91 80 4243 0700

CHANDIGARH

SCO 17
2nd floor
Sector 17 E
Chandigarh 160 017
T +91 172 4338 000

CHENNAI

Arihant Nitco Park, 6th floor
No.90, Dr. Radhakrishnan Salai
Mylapore
Chennai 600 004
T +91 44 4294 0000

GURGAON

21st floor, DLF Square
Jacaranda Marg
DLF Phase II
Gurgaon 122 002
T +91 124 462 8000

HYDERABAD

7th floor, Block III
White House
Kundan Bagh, Begumpet
Hyderabad 500 016
T +91 40 6630 8200

KOLKATA

10C Hungerford Street
5th floor
Kolkata 700 017
T +91 33 4050 8000

MUMBAI

16th floor, Tower II
Indiabulls Finance Centre
SB Marg, Elphinstone (W)
Mumbai 400 013
T +91 22 6626 2600

NOIDA

Plot No. 19A, 7th Floor
Sector – 16A,
Noida – 201301
T +91 120 7109001

PUNE

401 Century Arcade
Narangji Baug Road
Off Boat Club Road
Pune 411 001
T +91 20 4105 7000

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