

Rupee payment for Iranian crude oil exempted from tax

The government has exempted refiners from paying withholding tax on the purchase of crude oil from Iran. This would reduce costs for Indian refiners, while facilitating payments to Iran in rupees.

The finance ministry issued a notification under the Income tax Act to exempt "in the national interest" the National Iranian Oil Company from paying taxes of up to 40 per cent. Indian refiners were required to withhold the tax while making payments to the Iranian company. This would raise costs of importing crude oil from Iran.

The Central Board of Direct Taxes (CBDT) said the exemption would be provided as long as the foreign company did not engage in any activity in India, other than the receipt of income under the agreement between the Indian government and the Central Bank of Iran in January.

"This notification shall be deemed to have come into effect from the 1st day of April 2012, and shall, accordingly, apply in relation to the income of the assessment year 2012-13 and subsequent years," it added.

In December 2010, the Reserve Bank of India had scrapped a long-standing mechanism for payments to Iran. The issue of payment to Iran was resolved through UCO Bank's rupee payment mechanism earlier this year.

India would pay 45 per cent of the value of its oil exports from Iran in rupees, while the rest would continue to be paid in euros through a bank in Turkey. India is set to import 15.5 million tonnes of crude oil from Iran this financial year, against 17.44 million tonnes in 2011-13.

In Budget 2012-13, Finance Minister Pranab Mukhejree had announced exemption of taxes on payments to Iran.

Sanctions on Iran by the US had disrupted Iran's trade with many countries, including India, the third-largest importer of oil from Iran.

(Business Standard)