‘Farm in’ Expenditure

Recently, the Central Board of Direct Taxes (CBDT) has clarified that **‘farm in’ expenditure** incurred by oil Exploration and Production (E&P) companies would be treated as an **‘intangible asset’** and thereby it would be **eligible for claim of depreciation.**

- After this Farm-in expenditure will become **unamortised expenses.**
    - Unamortised Expenses are those expenses that are **written off** to the company's **Statement of Profit/Loss periodically.**
    - The unamortised expenditure is **allowed as a deduction** and the surplus is taxed.
    - Hence, **this will boost domestic and foreign investment and enhance the domestic production of oil and gas.**
- Farm in expenditure is incurred when an entity in the oil and gas business acquires a **Participating Interest (PI)** from another entity in oil/gas block(s) and **becomes part of the Production Sharing Agreement (PSC).**
- Participating interest is like holding equity (shares) in a company.

    A holding of 20% or more of the shares of an undertaking is presumed to be a participating interest.
- The CBDT has also acknowledged that it is common international practice for (E&P) companies to buy (farm-in) and sale (farm-out) their PI in the PSC to **share the risk, bring new and niche expertise and technologies**

Central Board of Direct Taxes (CBDT)

- It is a **statutory authority** that functions under the **Central Board of Revenue Act, 1963.**
- It is a part of the Department of Revenue in the **Ministry of Finance.**
- It provides inputs for policy and planning of direct taxes in India and is also responsible for the administration of direct tax laws through the Income Tax Department.
- Direct Taxes include income tax, corporation tax etc.

Production Sharing Contract

- It is a term used in the Hydrocarbon industry and refers to an agreement between Contractor and Government whereby Contractor bears all exploration risks, production and development costs in return for its stipulated share of (profit from) production resulting from this effort.
- Production Sharing Contracts became widely adopted as part of the **New Exploration and Licensing Policy (NELP)** launched by the Government in 1997 for enhanced exploration of oil and gas resources in the country.
- PSC allows the contractor to recover his cost, before giving Government its share in the contractor's revenues. Until a profit is made, no share is given to the Government, other than royalties and cesses.

Source:THBL