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INCOME-TAX ACT, 2025

D: Profits and gains of business or profession

Section 54 - Business of prospecting for mineral oils.

(1) Where the assessee undertakes specified oil exploration business, then deduction specified in sub-sections (3) and (4) shall be allowed while computing the income under the head “Profits and gains of business or profession”.

(2) For the purposes of this section, “specified oil exploration business” means business consisting of prospecting for or extraction or production of mineral oils where the following conditions are fulfilled:—

(a) the Central Government has entered into an agreement with the assessee;

(b) such agreement is entered for association or participation of the Central Government or any person authorised by it; and

(c) such agreement is laid before each House of Parliament.

(3) The deduction referred to in sub-section (1) shall be––

(a) for the period before the beginning of commercial production, expenditure towards infructuous or abortive exploration incurred in respect of any surrendered area;

(b) for the period after the commencement of commercial production, expenditure (whether before or after such production) in respect of drilling or exploration activities or services or in respect of physical assets used in that connection;

(c) for the tax year of commencement of commercial production and such succeeding tax years as specified in the agreement, towards depletion of mineral oil in the mining area.

(4) The deductions referred to in sub-section (1) shall be––

(a) either *in lieu* of, or in addition to, any allowance admissible under this Act as specified in the agreement; and

(b) computed and made in the manner specified in the agreement and the other provisions of this Act shall be deemed to have been modified to such extent.

(5) Where the business or any interest therein as referred to in sub-section (1) is wholly or partly transferred as per the provisions of the agreement, the profit shall be charged to tax or deduction shall be allowed in the following manner:—

(a) where A is less than C, then (C-A) shall be allowed as deduction in the tax year in which such business or interest is transferred;

(b) where A is greater than C,––

(i) but less than B, then (A-C) shall be the profit chargeable under the head “Profits and gains of business or profession” for the tax year in which such transfer takes place;

(ii) in any other case, only (B-C) shall be the profit chargeable under the said head for the tax year in which such transfer takes place; and

(iii) no deduction shall be allowed for the expenditure incurred remaining unallowed in the tax year in which such transfer takes place or any subsequent tax year,

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where,––

A = proceeds of the transfer (so far as they consist of capital sums);

B = total amount of expenditure incurred in connection with the business or to obtain interest therein;

C = amount of expenditure incurred remaining unallowed.

(6) If the business or interest therein is no longer in existence in the year of transfer, the provisions of sub-section (5) shall apply as if such business is in existence during the said year.

(7) Where the business or interest therein is sold or otherwise transferred in a scheme of amalgamation or demerger and the amalgamated entity or the resulting entity being an Indian company, then the provisions of sub-section (5) shall—

(a) not apply to the amalgamating or demerged company; and

(b) continue to apply to the amalgamated or resulting company as it would have applied to the amalgamating or demerged company as if the transfer had not taken place.

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