GST & Mining: Crackdown and Taxability

By: Vivek Jalan

FCA, LL.M (Constitutional Law), LL. B, MBA (International Trade), B. Com (H)
Team Tax Connect

Illegal mining has long posed challenges for both resource governance and fiscal compliance. State Mining Authorities frequently detect violations such as unauthorized extraction, illegal transportation of minerals, seizure of vehicles, and suspension or cancellation of mining leases. These activities not only undermine environmental safeguards but also conceal suppression of taxable supplies, non registration, undervaluation, and short payment of GST.

Recognizing the fiscal risks, the government has issued Instruction No. 01/2026 GST, creating a structured mechanism for coordination between State Mining Departments and CGST field formations. Key features include:

- Appointment of Nodal Officers in each CGST Zone to liaise with State Mining Authorities.
- Periodic sharing of information on illegal mining and mineral transportation.
- Joint review meetings to assess the effectiveness of the mechanism and resolve operational issues.
- Action initiation wherever GST evasion is indicated.

The implications are significant:

- Old cases of alleged evasion may be reopened, exposing operators to retrospective liability.
- New violations will automatically trigger GST notices, often followed by Income Tax scrutiny.

Mine operators must therefore adopt robust accounting tools and transparent compliance mechanisms to remain on the right side of the law.

Consequent Income Tax Notices

A critical dimension of the crackdown is the interplay between GST enforcement and Income Tax compliance. Once GST authorities detect suppression of supplies, undervaluation, or non registration, the information is often shared with the Income Tax Department. This leads to consequent Income Tax notices, particularly where unaccounted mineral sales or unexplained cash flows are suspected.

For mine operators, this means that a single violation can trigger dual proceedings: GST notices for indirect tax evasion and Income Tax notices for concealment of income or misreporting of profits. The coordinated approach increases the risk of parallel audits, reassessment proceedings, and penalties under both statutes. In practice, this creates a compliance environment where transparency in accounting and reporting is indispensable. Operators must therefore anticipate scrutiny not only from GST authorities but also from Income Tax officers, making integrated compliance strategies essential.

Taxability of Mining Operations under GST

Mining operations are governed by the MMDR Act, 1957, under which the State, as owner of minerals, grants concessions and collects royalty, dead rent, and fees. The fiscal architecture includes:

- **Royalty** – a variable consideration linked to the quantity of minerals excavated.
- **Dead rent** – a fixed return ensuring regular income for the lessor.
- **District Mineral Foundation (DMF) charges** – statutory contributions fixed at 30% of royalty for older non auctioned leases and 10% for newer auctioned leases.

A landmark Supreme Court judgment in Mineral Area Development Authority vs. Steel Authority of India Ltd. (25 July 2024) clarified that royalty is not a tax, but a contractual consideration arising from mining leases. This distinction is crucial for GST treatment.

Under GST law:

• Leasing of mines with royalty is classified under Heading 9973, sub heading 997337 (licensing services for the right to use minerals).

• Such services attract 18% GST under the Reverse Charge Mechanism, as per Notification No. 13/2017 CT (Rate).

• The liability rests on the mining lessee, reinforcing the need for accurate reporting and timely compliance.

Compliance Outlook

The convergence of enforcement and taxability rules signals a new era of scrutiny for the mining sector. Operators must:

• Maintain transparent records of mineral extraction, royalty, and DMF payments.

• Ensure timely GST compliance under RCM, avoiding exposure to penalties.

• Prepare for cross departmental audits, as GST and Income Tax authorities increasingly coordinate.

This dual approach—tightening enforcement against illegal mining while clarifying tax obligations—underscores the government's intent to secure revenue and promote lawful resource utilization. For mine operators, the message is clear: compliance is no longer optional but a strategic necessity.

LET'S DISCUSS FURTHER!

OUR OFFICES:

MUMBAI

1st Floor, AJ House, Marol Maroshi Rd, Gamdevi, Marol, Andheri East, Mumbai, Maharashtra 400059

Contact Person: Prashant Kumar Jha
Email: prashant.jha@taxconnect.co.in

BENGALURU

Go Spaze, B Narayana Pura, Pura, Mahadevapura, Outer Ring Road, Near HDFC Bank, Karnataka -560016

Contact Person: Tarun Singh Bhadouria
Email: tarun.bhadouria@taxconnect.co.in

DELHI

D-32, Second Floor, Main Vikas Marg, Laxmi Nagar, Delhi – 110092

Contact Person: Poonam Khemka
Email: Poonam.khemka@taxconnect.co.in

KOLKATA

6, Netaji Subhas Road, 3rd Floor, Royal Exchange Building, Kolkata – 700001

Contact Person: Sandeep Mandal
Email: Sandeep.mandal@taxconnect.co.in

KOLKATA

R No 119; 1st Floor; Diamond Arcade; 1/72, Cal Jessore Road, Kolkata – 700055

Contact Person: Uttam Kumar Singh
Email: uttam.singh@taxconnect.co.in

DUBAI

Azizi Feirouz, 803, 8th Floor, AL Furjan, Opposite Discovery Pavillion, Dubai

Contact Person: Rohit Sharma
Email: rohit.sharma@taxconnect.co.in

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