

# The Karnataka Tax Bill, 2024: Key Highlights and Implications

## SC Ruling: States empowered to collect retrospective Mineral Tax beyond Royalty

Royalty is not tax, a nine-judge Supreme Court bench led by Chief Justice DY Chandrachud held on 25 Jul'24, with one dissenting view.

In an order that would have significant financial repercussions on mining within a federal equation, the SC in an 8:1 majority held that the Mines and Minerals (Development and Regulation) Act 1957 did not limit states' powers to levy a tax above the royalty miners paid, overruling an earlier SC order in favour of India Cements.

The Supreme Court on Wednesday, 14 August 2024, allowed states to collect past dues on royalty on mineral-bearing land from the Centre and mining companies from 1 April, 2005 onwards.

The court also held that the tax arrears can be paid over a staggered period of 12 years from 1 April 2026 and that there should not be levy of interest or penalty for the demand made for the period before 25 July 2024.

## Karnataka government proposes new bill to impose mineral taxes

The Karnataka government has proposed a new bill, which has been passed in the Legislative assembly and currently with council following which it will be presented before the Governor to assert its authority in levying taxes and charges on minerals beyond the royalty rates set by the central government. This bill, introduced in response to the Supreme Court's directives, specifies new taxes and levies for various minerals, directly impacting private miners and Public Sector Undertakings (PSUs).

### Key highlights of the bill

- Applies to minerals such as iron ore, manganese ore, bauxite, limestone, and chromite.
- Proposes a retrospective levy, called as Mineral-Bearing Land Tax, of up to INR 100 per tonne for all miners, effective from April 1, 2005.
- Introduces a Mining Right Tax (MRT) on non-auctioned mines with a differentiated structure for private miners and state-owned entities (refer to the detailed table).
- Auctioned mines will face a charge of INR 1 per tonne, applicable from 2015 onwards.

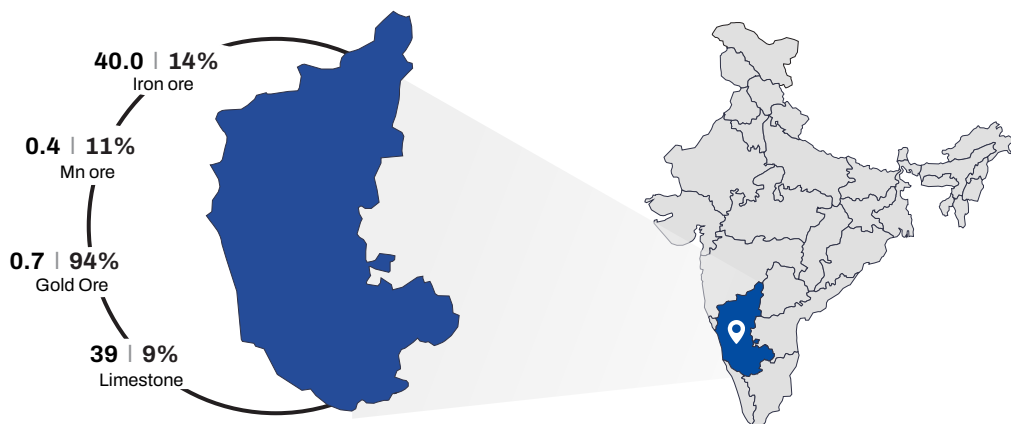
This bill, if passed, could have significant financial implications for both private and public mining entities while redefining Karnataka's approach to mineral taxation.

The Karnataka state government has introduced the Karnataka (Mineral Rights and Mineral Bearing Land) Tax Bill, 2024, in response to a landmark Supreme Court ruling that empowers states to levy taxes on mineral rights and mineral-bearing lands. This legislative move aims to establish a comprehensive framework for mineral taxation, including retrospective taxation provisions and differentiated rates based on mining categories.

| S. No. | Type of Ore   |                         | Rate of Tax on Mineral Bearing Land (Rs/t) | Rates of Tax on Mineral Right wef 12.01.2015 |  |   |   | For leases granted through auction (Rs/t) |
|--------|---|-------------------------|--|--|--|---|---|---|
|        | Main  | Sub                     |  | For leases granted through non-auction (INR) | Govt PSU granted prior to 12.01.2015 & till 50 years of lease period (INR) | Govt PSU granted prior to 12.01.2015 & completed 50 years of lease period (INR) | Govt PSU granted after 12.01.2015 (INR) |   |
| 1      | Bauxite & Laterite                                      | Metallurgical Grade     | 100  | 1.25 X Royalty                               | 1.25 X Royalty   | 0.25 X Royalty  | 0.25 X Royalty                          | 1/-                                       |
|        |   | Non-Metallurgical Grade | 50   | 1.25 X Royalty                               | 1.25 X Royalty   | 0.25 X Royalty  | 0.25 X Royalty                          |   |
| 2      | Chromite  |                         | 100  | 3 X Royalty                                  | 3 X Royalty  | 1.5 X Royalty   | 1.5 X Royalty                           |   |
| 3      | Copper Ore  |                         | 50   | 1 X Royalty                                  | 1 X Royalty  | 0.5 X Royalty   | 0.5 X Royalty                           |   |
| 4      | Gold  | Primary                 | 50   | 1.25 X Royalty                               | 1.25 X Royalty   | 0.5 X Royalty   | 0.5 X Royalty                           |   |
|        |   | By-product gold         | 50   | 1.25 X Royalty                               | 1.25 X Royalty   | 0.5 X Royalty   | 0.5 X Royalty                           |   |
| 5      | Iron Ore(CLO, lumps, fines & concentrates all grades)   |                         | 100  | 3 X Royalty                                  | 3 X Royalty  | 1.5 X Royalty   | 1.5 X Royalty                           |   |
| 6      | Limestone   | LD Grade >1% Silica     | 25   | 1.25 X Royalty                               | 1.25 X Royalty   | 0.25 X Royalty  | 0.25 X Royalty                          |   |
|        |   | Others                  | 20   | 1.25 X Royalty                               | 1.25 X Royalty   | 0.25 X Royalty  | 0.25 X Royalty                          |   |
| 7      | Limeshell   |                         | 20   | 1.25 X Royalty                               | 1.25 X Royalty   | 0.25 X Royalty  | 0.25 X Royalty                          |   |
| 8      | Magnesite   |                         | 100  | 1.25 X Royalty                               | 1.25 X Royalty   | 0.25 X Royalty  | 0.25 X Royalty                          |   |
| 9      | Manganese Ore   | Ore of all grade        | 100  | 1.25 X Royalty                               | 1.25 X Royalty   | 0.25 X Royalty  | 0.25 X Royalty                          |   |
|        |   | Concentrate             | 100  | 1.25 X Royalty                               | 1.25 X Royalty   | 0.25 X Royalty  | 0.25 X Royalty                          |   |
| 10     | All other major minerals in not herein before specified |                         | 40   | 1.25 X Royalty                               | 1.25 X Royalty   | 0.25 X Royalty  | 0.25 X Royalty                          |   |

Karnataka is fairly well endowed with a wide variety of minerals. It is the major producer of primary gold metal in the country. Its resources of a few other valuable metals like iron, manganese and chromium are considerable. Non-ferrous metals such as aluminum, copper, lead and zinc, although not abundant, can still meet the limited requirements of the state.

## Mineral production in Karnataka in FY24

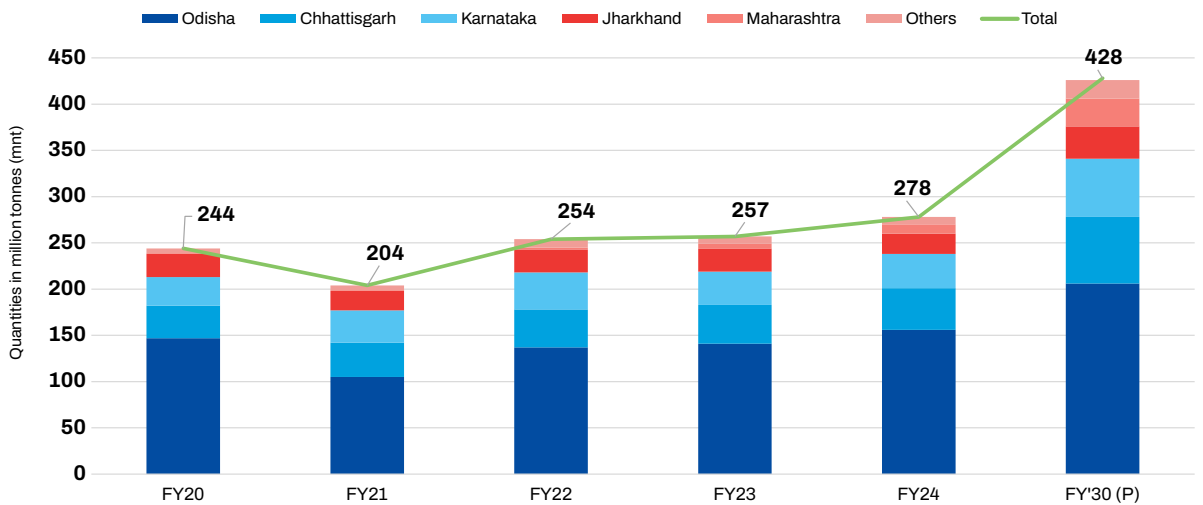


Quantity in mnt | % to India's production

India's iron ore production reached a record high of 280 mnt in FY'24, marking a 10% increase from 255 mnt in FY'23. Karnataka contributed 14%, amounting to 40 mnt of the country's total production in FY'24.

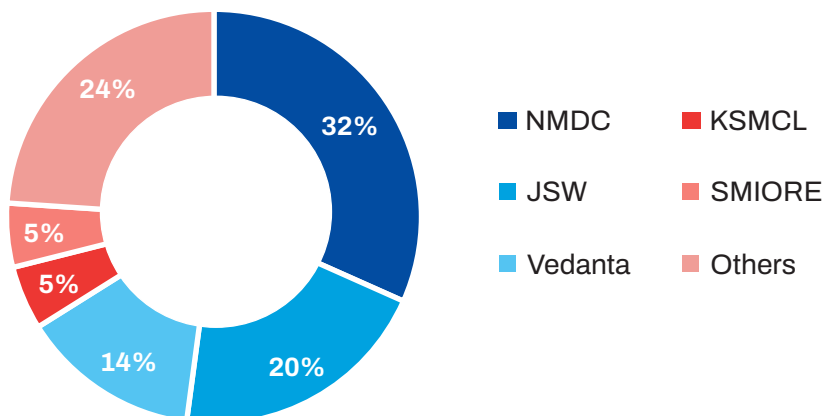
The state's top iron ore producing companies were - NMDC with 12.67 mnt, JSW with 8.2 mnt, Vedanta with 5.6 mnt followed by KSMCL & SMIORE with 2 mnt each.

### India state-wise iron ore production trend



Source: BigMint

### Karnataka mine-wise iron ore production in FY'24



Note: Fig in mnt

## Iron ore

| Miner         | Location                                 | Auction/non auction | Capacity    | Production |
|---------------|--|---------------------|-------------|------------|
| NMDC          | Kumaraswamy                              | Non auction         | 10.0        | 6.7        |
| NMDC          | Donimalai                                | Non auction         | 7.0         | 6.0        |
| JSW Steel Ltd | Sandur & Chitradurga                     | Auctioned           | 13.7        | 8.2        |
| Vedanta       | Chitradurga                              | Non auction         | 6.0         | 5.6        |
| KSMCL         | Karnataka State Minerals Corporation Ltd | Non auction         | 4.1         | 2.0        |
| SMIORE        | Sandur                                   | Non auction         | 3.8         | 2.0        |
| Other         | Sandur                                   | Auctioned           | 1.6         | 0.9        |
| Other         | Sandur                                   | Non auction         | 11.7        | 8.7        |
| <b>Total</b>  |  |                     | <b>57.9</b> | <b>40</b>  |

## Manganese ore

| Miner        | Location | Auction/non auction | Capacity   | Production |
|--------------|----------|---------------------|------------|------------|
| SMIORE       | Sandur   | Non auction         | 0.5        | 0.3        |
| Other        | Sandur   | Non auction         | 0.2        | 0.1        |
| <b>Total</b> |          |                     | <b>0.7</b> | <b>0.4</b> |

## Implications

**Exports-** With exports at around 6 mnt (including pellets) last year, the proposed bill may raise miner costs, potentially reducing exports and encouraging imports by steelmakers if global prices align. Domestic taxation clarity, however, is still awaited.

## Tax calculation - Existing & proposed post implementation of Karnataka Bill, 2024

### Auctioned mines

| Particulars                | Existing    | Proposed    |
|----------------------------|-------------|-------------|
| IBM ASP                    | 1000        | 1000        |
| Royalty (15% on IBM price) | 150         | 150         |
| DMF (10% of Royalty)       | 15          | 15          |
| NMET (2% of Royalty)       | 3           | 3           |
| Premium (suppose 100%)     | 1000        | 1000        |
| SPV                        | 100         | 100         |
| MRT (State Govt)           | -           | 101         |
| <b>Total</b>               | <b>1268</b> | <b>1369</b> |
| <b>Difference</b>          | <b>101</b>  |             |

## Non-auctioned mines

| Particulars                    | Existing          |               |            | Proposed          |            |
|--------------------------------|-------------------|---------------|------------|-------------------|------------|
|                                | Central/State PSU |               |            | Central/State PSU | Private    |
|                                | Non-renewed       | Mines Renewed | Private    |                   |            |
| IBM ASP                        | 1000              | 1000          | 1000       | 1000              | 1000       |
| Royalty (15% on IBM price)     | 150               | 150           | 150        | 150               | 150        |
| DMF (30% of Royalty)           | 45                | 45            | 45         | 45                | 45         |
| NMET (2% of Royalty)           | 3                 | 3             | 3          | 3                 | 3          |
| Premium                        | -                 | 225           | -          | 225               | -          |
| SPV                            | 100               | 100           | 100        | 100               | 100        |
| Lease granted tax (State Govt) | -                 | -             | -          | 225               | 450        |
| MRT (State Govt)               | -                 | -             | -          | 101               | 101        |
| <b>Total</b>                   | <b>298</b>        | <b>523</b>    | <b>298</b> | <b>849</b>        | <b>849</b> |
| <b>Difference</b>              | <b>551</b>        | <b>326</b>    | <b>551</b> |                   |            |

Based on tentative calculation of ASP in INR/t | MRT- Mineral right tax | SPV- Special Purpose Vehicle | DMF- District Mineral Fund  
 NMET- National Mineral Environment Trust | Premium added for those PSU mines renewed without auction

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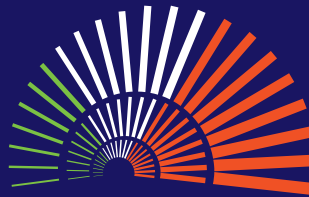
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