# MINERAL ECONOMICS AND BUSINESS


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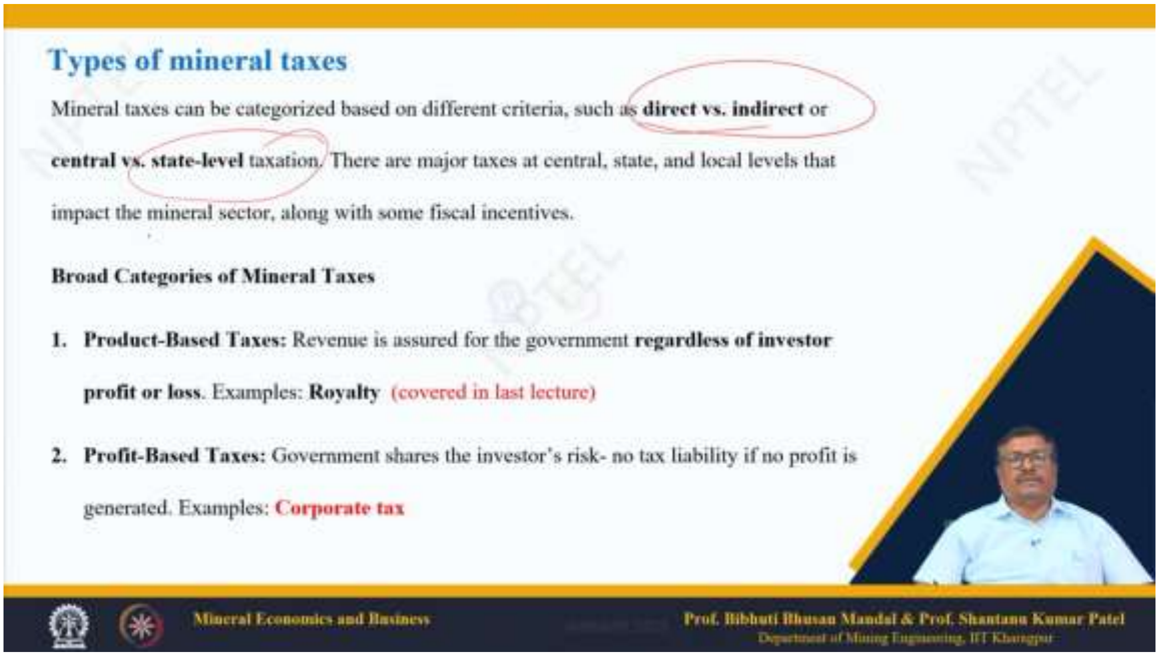
**Week 11**

## Lecture 54 : Royalty and Taxes - II

Hello, welcome everybody. In today's class, I will be discussing the second part of royalties and taxes. In the first part, we had a lot of discussions on the types of taxes and the royalty. So, we have understood the differences between the profit-based taxes and also those taxes which are not based on profit. Today, mostly we will be talking about the profit-based taxes and what are the different types of profit-based taxes.


We will give some examples, not in too much detail, but you will have at least some idea of which taxes would be attached to or connected to the mining business. Most of them are common, but in certain cases, you will see that they are not obvious. We will try to recall what we said in the first lecture on royalties and taxes. So, the taxes can be based on different criteria, like direct or indirect, or you can say what taxes are imposed by the central government, what taxation is imposed by the state level. Now, there are major taxes in the central, state, and local levels that will impact the business of the mineral sector, and of course, in certain cases, the fiscal incentives are given by reducing the taxes temporarily or in certain cases for the long term.



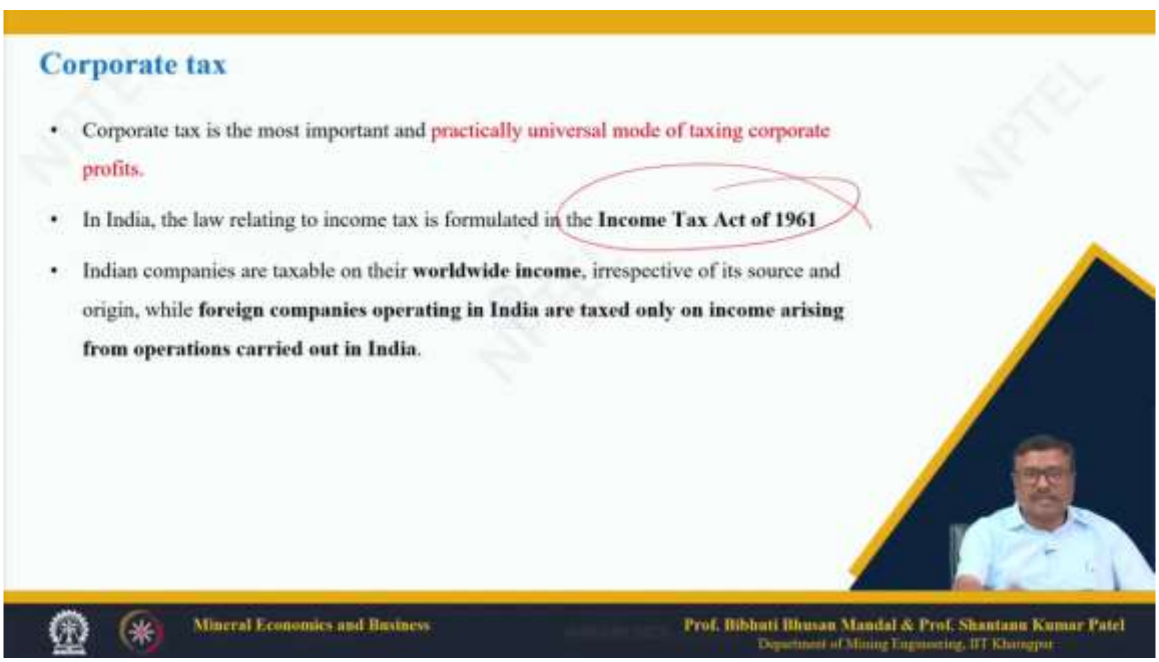

The broad category of the mineral taxes means the mineral taxes can be broadly divided into the following. Number one is the product-based taxes, that means this revenue earned by the government is assured whether the investor is making any profit or loss. For example, royalty depends on the production that you are selling or consuming by yourself. So, this is not related to any kind of profit or loss; this depends on the production.

This we have discussed at length in the previous lecture on the tax and royalty and then we come to the profit based taxes. So, there the government is sharing the investors risk like no tax liability if no profit is generated. So, that means, if you are having a loss or ah then you do not have to pay this corporate tax. So, corporate tax is one example good example on of the profit based tax. The ah others are regulatory taxes like government can encourage beneficial activities by lowering the taxes or ah by providing some incentives.

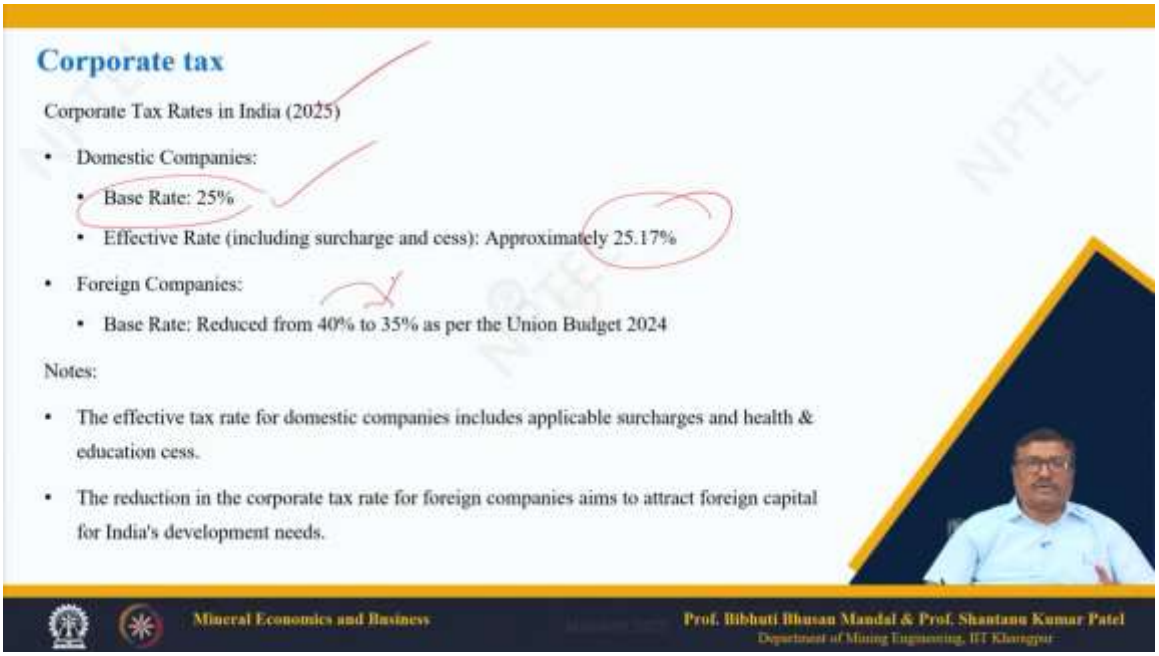

Or conversely, we can also discourage certain undesirable activity by increasing imposing more taxes. There are of course, fixed contribution taxes or the levies that the government earns through the application fees and the license fees. We are coming to now the profit based tax. these are imposed on the net income or surplus revenue generated by the mining companies. So, unlike this product based taxes which are actually levied on the quantity or the value of mineral that we extract, this profit based tax are imposed on the net income or the surplus revenue you can say in that language also.

So, these taxes ensures that the government fair share of the economic benefit that means, the company is earning. So, a fair share is claimed by the government from the mining operation while allowing the companies to recover cost and earn reasonable profit that means, the tax should not be so much that the whole income goes as   as as as taxes not at all. So, we have a fair share that we are supposed to give to the government right. Now what are the key types of profit based taxes like the corporate tax, windfall profit tax, then withholding tax or TDS tax deducted as source, GST very well known tax, then there is something called the minimum alternative tax and the capital gains tax.

The corporate tax is a very important and practically universal mode of taxing the corporate sector. So, the mining companies will have to pay corporate tax following these rules related to corporate taxation in India. So, this is formulated under the Income Tax Act of 1961, and companies are taxable on their worldwide income—remember, worldwide income irrespective of its source and origin. But foreign companies operating in India are taxed only on income arising from operations carried out in India—that is the difference. In India, Indian companies are taxed on their worldwide income, while foreign companies operating in India are taxed only on income arising from their business carried out in India.

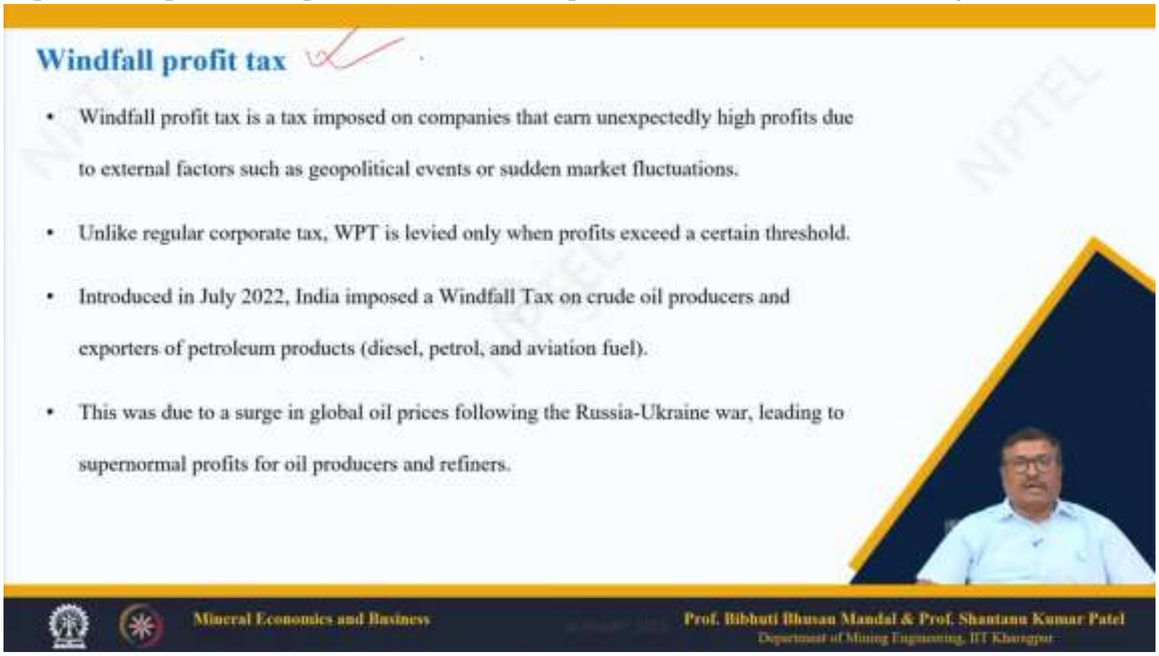



For domestic companies, as of 2025, the base rate is 25 percent, and the effective rate, including surcharges and cess, will total around 25.17 percent, including the cess and surcharges. For foreign companies, this has been reduced from 40 to 35 percent as per the Union Budget in 2024. So, the effective tax rate for domestic companies includes applicable surcharges and health and education cess—there are different cesses related to it. Now, the reduction in the corporate tax rate for foreign companies aims to attract foreign capital as an incentive. So, for India's development needs, it has been slightly reduced to encourage foreign direct investment in India.



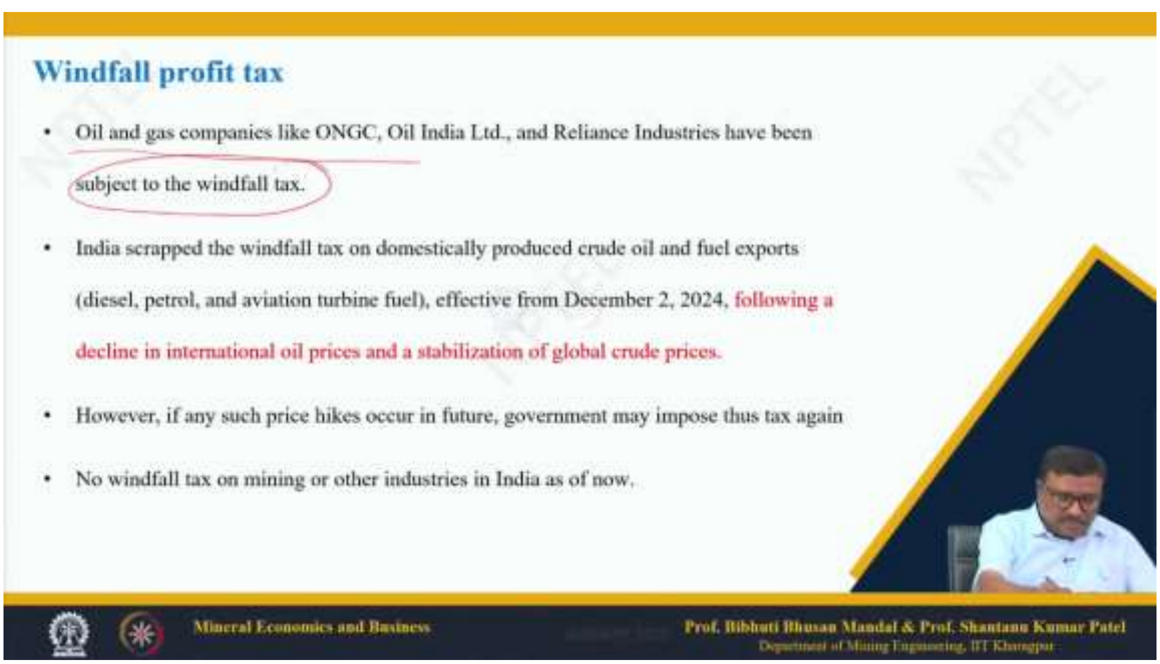

Now, there is something called the windfall profit tax. This is a tax imposed on companies that earn unexpectedly high profits due to certain external factors—for example, geopolitical events or a sudden upsurge in the market. So, unlike corporate tax, windfall profit taxes apply only when profits exceed a certain threshold. That means, for normal or ordinary cases, you pay a percentage of the profit as corporate tax. But if the profit is too high—meaning it exceeds a threshold—then the country imposes a windfall tax.

For example, in July 2022, India imposed a windfall tax on crude oil producers and exporters of petroleum products like diesel, petrol or the aviation fuel. Why? Because this

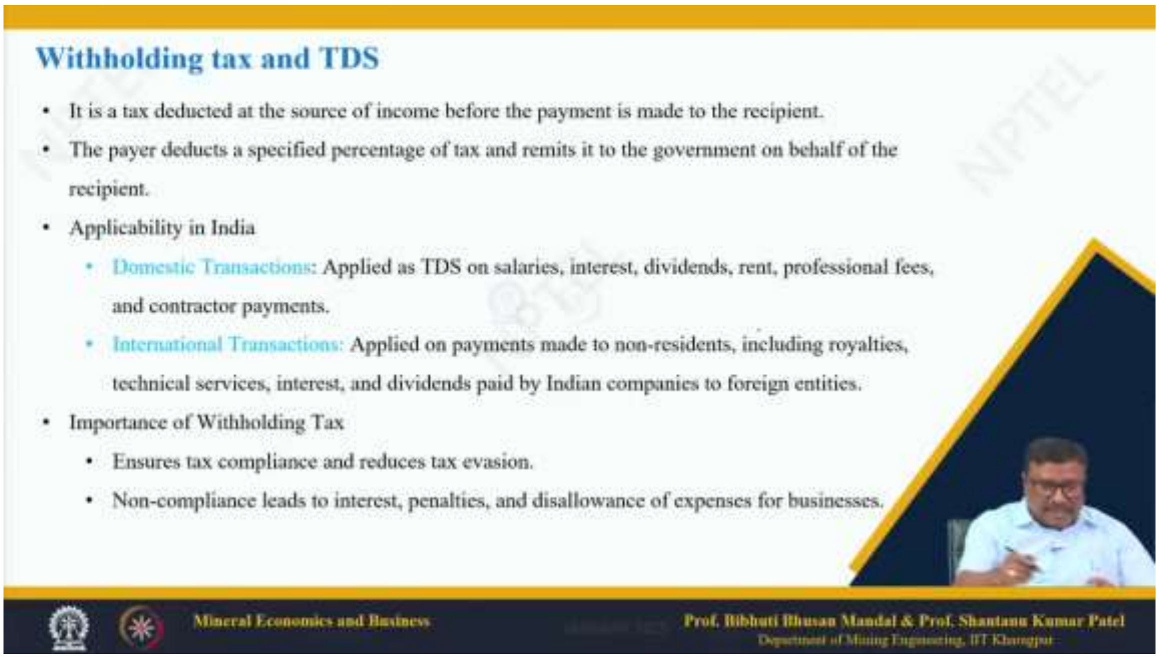



was due to a surge in global oil prices following the Russia-Ukraine war leading to super normal profits for oil producers and refiners. So, in that case you have to pay the windfall profit tax. Like say in our case in mining, so oil and gas companies like ONGC, Oil India Limited, Reliance Industries have been subject to the windfall tax.

But India of course, scrapped the windfall tax on domestically produced crude oil and fuel exports ah that is effective from December 2, 2024 following a decline in international oil price and the stabilization in the market. So, the case of windfall does not arise here.



But of course, the case is open in such if any such price hike occur in future and the companies make super normal profit as I have said earlier, then the government may impose that tax once again. So, for other mining companies no windfall tax on ah these things mining and ah other industries as of now, unless they make that kind of ah profit ah then definitely government will government may impose the windfall tax on mining companies as well. Now this is TDS withholding tax, this I think almost everybody who are salaried person or making we we we have to pay the TDS at regular intervals.

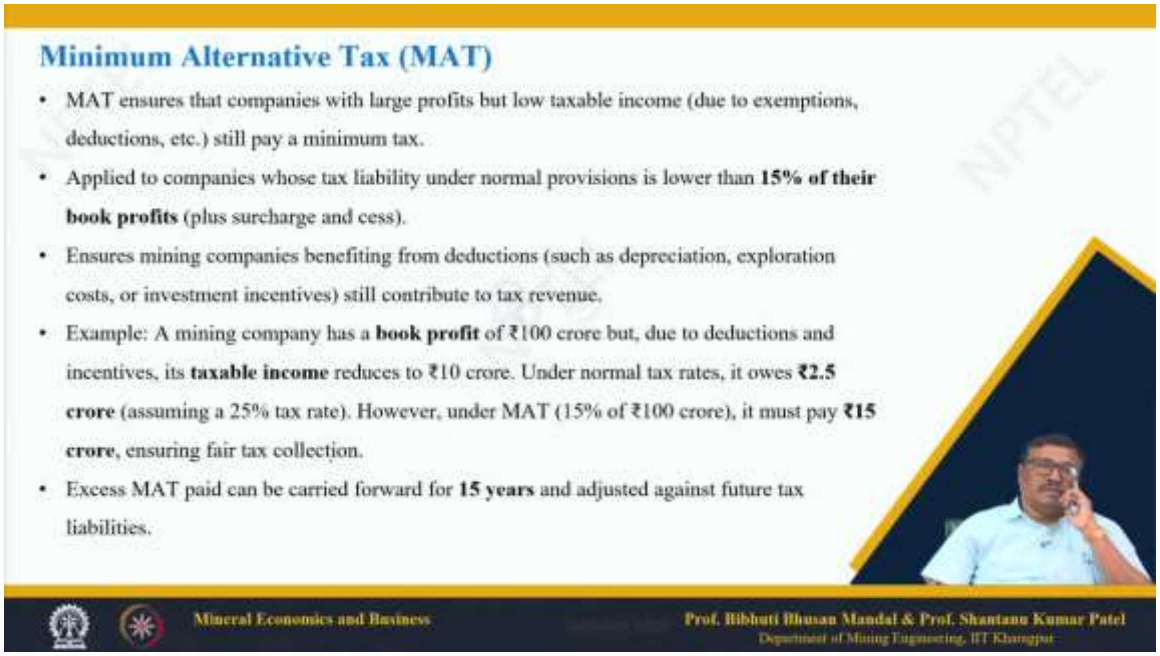



So, this is a tax deducted at the source of income before the payment is made to the recipient. So, if somebody is getting a payment from you, we deduct the tax ah beforehand. So, the payer deducts a specific percentage of the tax and remits to the government on behalf of the recipient. That means I am paying to somebody. So, I am paying income tax in advance on behalf of the the receiver on the other side.

So, in our case for domestic transactions, we apply this as a TDS on salaries, interest, dividends, rent, professional fees, or contractor payments. For international transactions, we apply these payments on non-residents, including royalties, technical services, interest, and dividends paid by Indian companies to foreign entities. The importance of this withholding tax is that, since we are paying these things in advance. So, we are not delaying things; rather, we are paying them, helping the compliance of such regulations, and it reduces tax evasion. So, by the time the year is over, you may be almost done, as by that time, you have already paid the TDS.

If you have not paid, then you can add something; if you have paid more, then you can claim a refund. But, I mean, more or less, that amount is already paid to the government of India, which is the good aspect of the TDS. We also have something called the minimum alternative tax. The minimum alternative tax ensures that companies with large profits but low taxable income due to different exemptions and deductions. So, you see that the low taxable income part has become—it is shown as low, but the profit, if you go with the number, is very high. So, like, these are applicable to the companies where the tax liability under normal provisions is lower than 15 percent of their book profits.

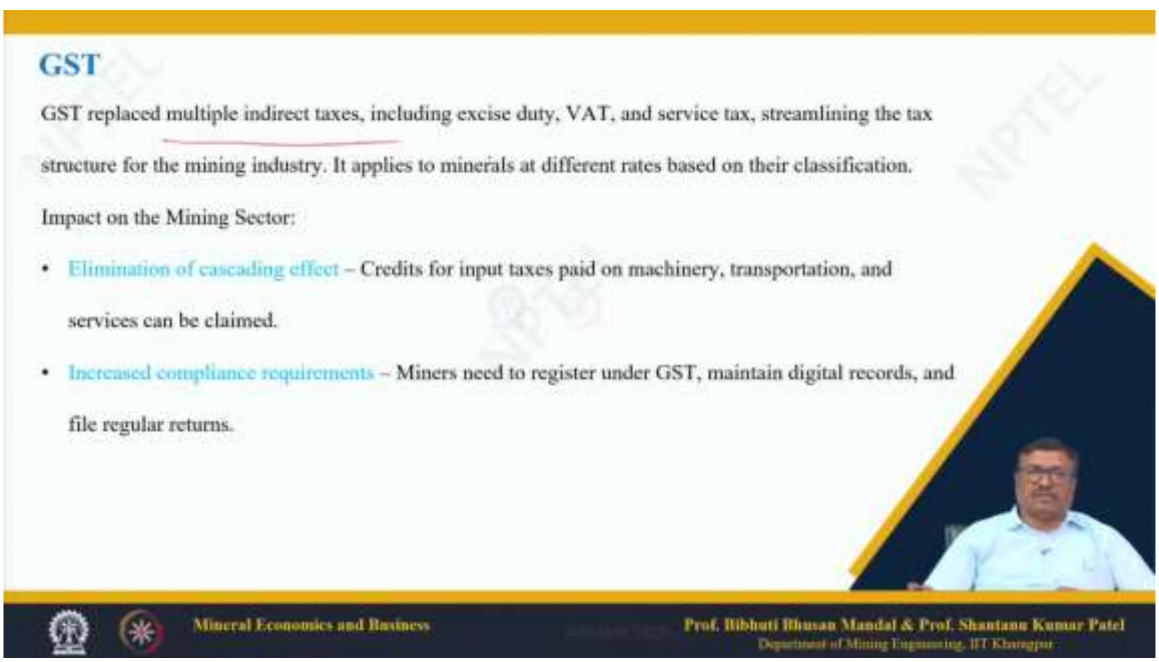
It falls on that slab, plus surcharges and cess. So, this ensures the mining companies benefiting from deductions, like we have depreciation in the beginning—a high level of depreciation, exploration cost is shown as a deduction. So, and investment incentives are also provided. So, if you deduct all these, then the taxable income will be less. So, in that case also, we can still contribute to the tax revenue.




For example, if your mining company has a book profit of, say, 100 crore, but due to certain deductions and incentives, the taxable income reduces to 10. So, under normal taxes, it owes only 2.5 crore, as you make a 25 percent tax rate, we will have only 2.5 crore to pay. But under MAT (Minimum Alternative Tax) at 15 percent, you have to pay that, meaning 15 percent of 100 crore will be 15 crore. So, even if it is less than 25 percent, it is more than 2.5 crore, which is the normal tax rate for the conditions they have fulfilled and based on the taxable income. But the Minimum Alternative Tax is calculated, and it is found to be 15 crore, so the company has to pay that 15 crore. Of course, this excess MAT paid can be carried forward for 15 years and can be adjusted against future tax liabilities, as there is a provision for it. Now, the very well-known tax is GST.

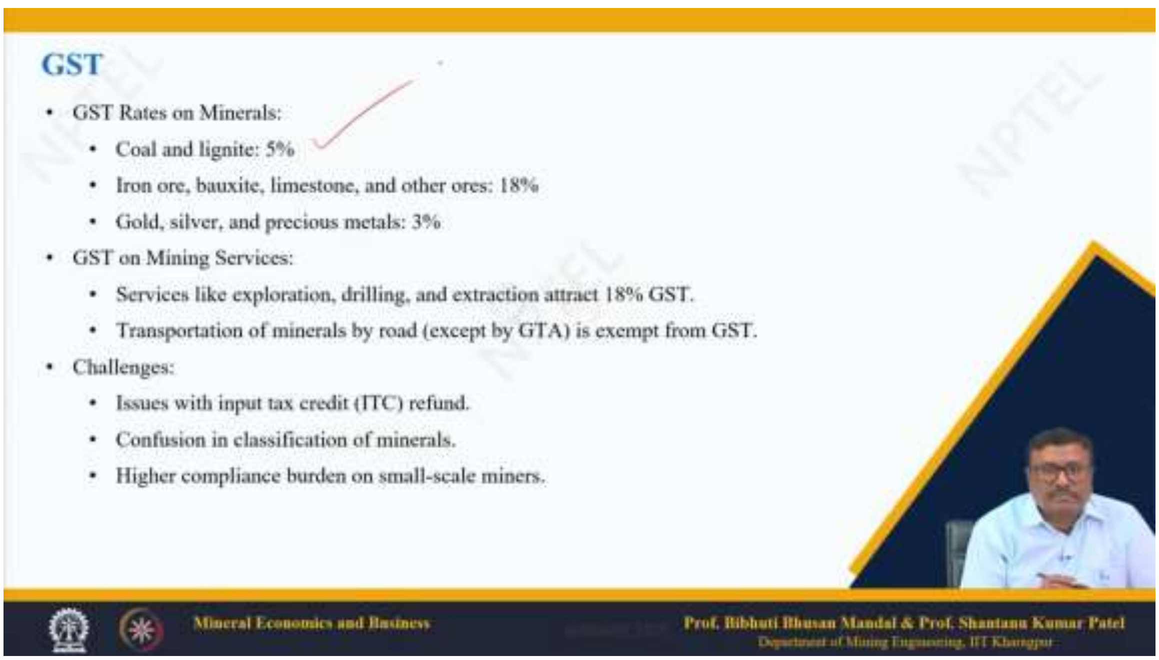
This has replaced multiple indirect taxes like excise duty, VAT, and service tax, streamlining the tax structure for the mining industry and other industries as well. So, it applies to minerals at different rates based on their classification. So, what is the impact on this mineral—the mining sector? Elimination of the cascading effect, credits for input taxes paid on machinery, transportation, and services that can be claimed. I mean, at different levels, different taxes—this effect is removed.

Secondly, it has increased the compliance requirements. So, the GST payment system is so streamlined that when miners are registered under GST, they are supposed to maintain digital records and file regular returns. So, the Tax compliance is much better under GST than when it was under different taxes—sales tax, this tax, that tax. So, it was difficult to control.

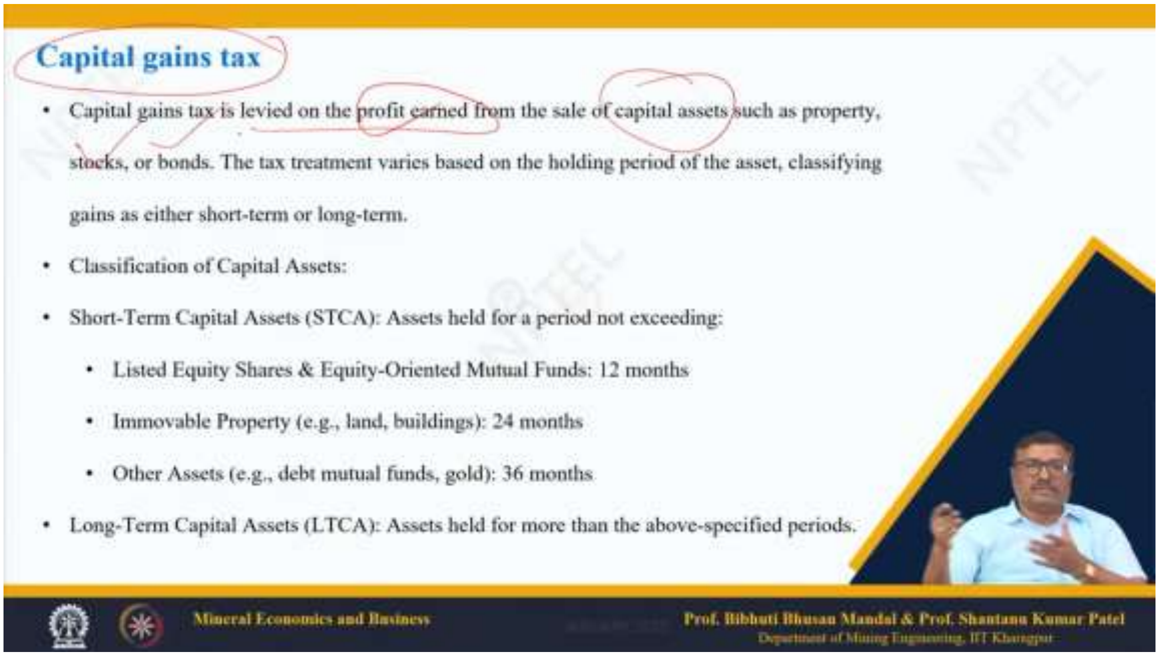


So, why not have a well-defined goods and services tax called the GST, which is definitely very helpful in streamlining the payment and receipt of taxes. For minerals, for example, we have fixed now 5 percent for coal and lignite, iron ore, bauxite, limestone 18 percent, gold, silver, and precious metals at 3 percent. For mining services, we have for exploration, drilling, and extraction; this will attract 18 percent GST service tax, and transportation of minerals by road is exempt from GST. Now, what are the challenges? These issues with input tax credit refund—sometimes paying in advance and then getting it refunded—are a little tricky and take time. Secondly, confusion in the classification of minerals, like in different types of minerals where the tax rates are different.

So, it will still take some cooling time before we better understand how to make the tax slabs for different minerals and how to define them. And for small-scale miners, they say that they are under a little stress in compliance because they do not always have the cash to pay so easily. For big companies, it is not an issue; for small companies, they have to think a little bit more than others. Now, this one is not directly related to the mining business. So, here what is happening? We are talking about the capital gains tax, but unless we have a diversified mining business that is investing somewhere else, then this cannot be directly applicable.

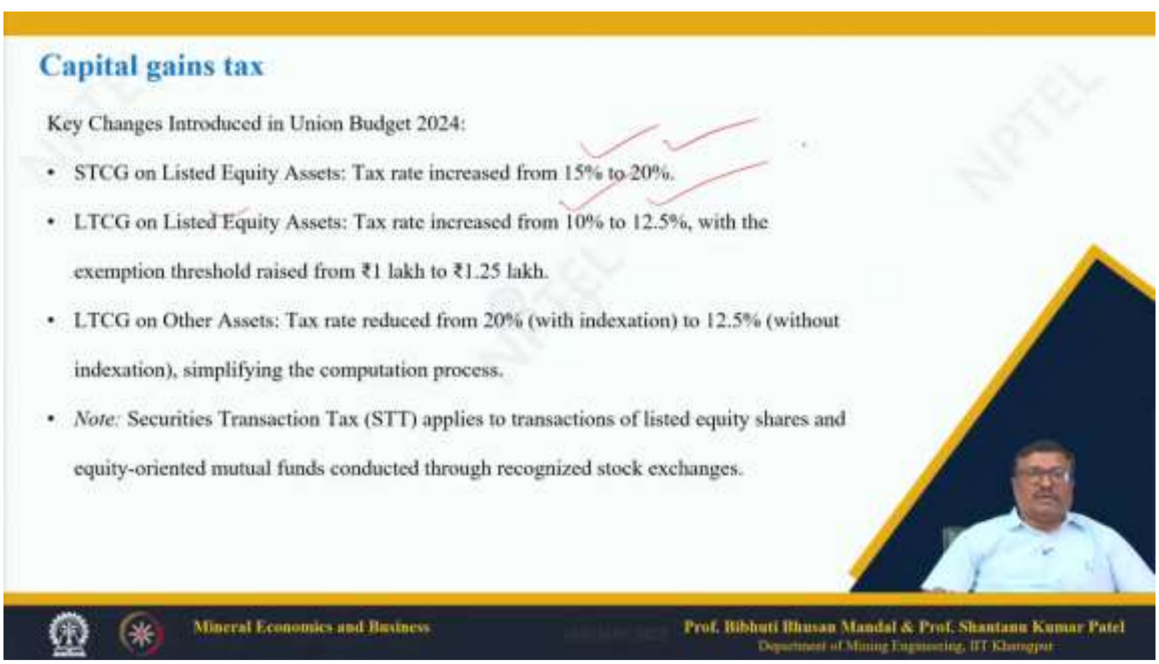



Because the capital gains tax is levied on the profit earned from the sale of capital, such as property, stocks, or bonds. So, unless you have another—nowadays, this has become




common—this is not a pure mining company or a pure pharmaceutical company. So, people have their different sections and divisions to do business. So, if one side is not doing well, the other side will be expected to make up for that.

The tax treatment varies based on the holding period of the asset. So, classifying them as short-term or long-term capital gains. So, the short-term capital assets like assets held for a period not exceeding 12 months for listed equity shares and equity. For immovable property, it is 24 months. For other assets, it is 36 months and long-term capital assets.



So, assets held for more than the above-specified period will be called long-term capital gains. Now, what are the changes that have been introduced last year in 2024? The STCG on listed equity assets increased from 15% to 20%. For listed equity assets, LTCG long-term is slightly increased from 10% to 12.5%, and long-term capital gain on other assets is reduced from 20% to 12.5%. So, this is some idea about the capital gains tax as may be applicable to those companies which have added divisions where the capital gains are applicable. To understand more about the taxation in detail, you can go to the sites of the Ministry of Finance at their budget.gov.in for the changes in the current year.


Or you can know these things also from the Ministry of Mines. For better understanding of income tax, you can go through the Tax Act and the rules thereunder and also the well-known GST or Goods and Services. Tags, which you will better understand if you go through gst.gov.in, and from there you can understand how much they are applicable and important for our mining industry. With this, we come to an end of the discussion on the taxes and royalties in part 1 and part 2 lectures. I hope I could make some introductory ideas clear to you, so that you can understand their importance in the context of the mining business.

Thank you.