

Higher GST on coal may benefit steel, cement sectors; power costs likely to go up slightly

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At its 56th meeting, the GST Council announced sweeping rate reductions across a range of goods and services. However, coal stood out as one of the few exceptions.

The Council decided to raise the GST rate on coal from 5 per cent to 18 per cent, even as the compensation cess of ₹400 per tonne was withdrawn.

The change is aimed at ironing out long-standing distortions in the coal value chain, but its implications vary across sectors. While cement and steel companies stand to gain, power producers may face a modest increase in costs.

MANY ANOMALIES

Previously, outsourced services with respect to coal mining was liable to GST at 18 per cent, but coal supplied to power-generating companies, cement companies and steel companies through traders, washeries, or captive mines attracted just 5 per cent. This led to an inverted duty structure, where input taxes were higher than output taxes, causing blocked credits for the sector.

The new uniform rate of 18 per cent is designed to iron out these anomalies, ease ITC flow for miners and



KEY BENEFITS. The coal GST hike reflects a policy effort to streamline taxation and remove inefficiencies, even if its impact differs across sectors

intermediaries, and reduce compliance complexity.

POWER SECTOR

For power generators, the revision alters the tax mix without significantly changing the cost equation. Under the earlier system, coal purchases attracted 5 per cent GST and a non-creditable ₹400/tonne compensation cess. Now, the cess has been abolished and replaced with an 18 per cent GST. Since electricity remains outside the GST framework, power companies cannot claim ITC. However, the shift may result in a nominal increase in the effective cost of coal, which may translate into marginal tariff adjustments.

- **Earlier Regime:** Coal at ₹3,500/tonne + ₹400 cess + 5 per cent GST (₹155) → ₹575 tax burden

- **New Regime:** Coal at

₹3,500/tonne + 18 per cent GST (₹558) → ₹630 tax burden

Resultantly, power generators will charge higher tariffs to discoms. It will have to be seen if discoms will be able to raise tariffs considering the same is politically sensitive sector.

GAIN FOR CEMENT

Cement and steel manufacturers emerge as clear beneficiaries. Operating within the GST system, these sectors can claim full ITC on coal.

The earlier cess of ₹400/tonne was a non-creditable cost, but with its removal and the alignment of GST at 18 per cent, these industries enjoy smoother credit flow and reduced effective costs, supporting margins.

IMPACT ON COKE

The GST on coke remains

unchanged at 5 per cent, creating a new inverted duty situation since coal (a key input for coke) now attracts 18 per cent especially in case of standalone coke manufacturers.

Although refunds of unutilised ITC may be claimed under the inverted duty structure, the process entails delays and compliance challenges, effectively leading to working capital blockages for coke manufacturers. To cushion domestic producers, the government had extended quantitative restrictions on import of coke, reducing the threat of cheaper inflows from abroad and encouraging domestic procurement of coke by the steel industry. While this policy tilt provided some protection, the GST mismatch complicates tax credits within the steel value chain and ties up cash for coke manufacturers until refunds are processed.

THE WAY FORWARD

The coal GST hike reflects a policy effort to streamline taxation and remove inefficiencies, even if its impact differs across sectors. Yet, with coke continuing at 5 per cent, the inverted duty challenge persists.

Policymakers may therefore need to balance creditability with liquidity considerations in future reforms.

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