

Unable to pass on Karnataka's mineral levy, steel firms face profit pressure

Suresh P Iyengar
Mumbai

The new levy on minerals mined in the State by the Karnataka government is set to push up steel prices and squeeze margins even as large-scale cheap imports are threatening the survival of the industry. Steel companies' inability to pass on the costs to customers will dent their profitability.

TWO-PART LEVY

Karnataka proposes to levy taxes on minerals in two parts. A mineral-bearing tax of ₹100 a tonne on all miners will be levied retrospectively, from April 1, 2005. The second part will vary among different categories of miners, effective January 2015.

For auctioned mines, the

State levy will be ₹1 per tonne of iron ore mined (JSW Steel falls in this category). For non-auctioned mines (Vedanta and a slew of private miners), the new tax will be three times the royalty rate that works out to 45 per cent of the price fixed by the Indian Bureau of Mines.

For PSUs, whose lease was renewed before and after January 12, 2015 (NMDC) and completed 50 years of operations, the new tax will be 22.5 per cent each.

The levy on the fifth category of PSUs whose lease was renewed before January 12, 2015 for 50 years, the new tax will be 45 per cent.

TOP COURT'S RULING

The State government is targeting ₹4,200 crore of additional revenue through mineral rights tax and ₹506 crore from taxes on mineral-bearing

land. The new Bill follows a landmark July ruling by a nine-member Constitutional Bench of the Supreme Court, which clarified that States have the authority to tax minerals and mineral-bearing land in their territory. The court also permitted States to recover past tax dues on mined minerals from April 2005 in instalments over 12 years.

A steel company executive said that it will be difficult for the industry to pass on the additional cost to consumers even as cheap imports are rising, and this will increase the production cost and erode margins for steel companies.

Some private miners may reduce or cease operations in Karnataka altogether, he added. JSW Steel, Vedanta and NMDC are the large iron ore miners in Karnataka.