

56th GST Council Decisions to Benefit both Coal Producers and Consumers

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The 56th meeting of the GST Council held in New Delhi has brought significant changes to the taxation structure of the Coal sector. Earlier, Coal attracted 5% GST along with a compensation cess of Rs. 400 per ton. The Council has now recommended the removal of GST Compensation cess and an increase in the GST rate on coal from 5% to 18%.

The new reforms reduce the overall tax on coal grades G6 to G17, which is in the range of Rs.13.40 per ton to Rs.329.61 per ton. The average reduction for power sector is Rs.260 per ton, which will reduce the cost of generation by 17 to 18 paise /kWh.

The reforms will also help in rationalization of tax burden on coal vis-à-vis its pricing. Previously, a flat rate of Rs. 400 per tonne was imposed as GST compensation cess without considering coal quality. This disproportionately affected low-quality and low-priced coal. For example, G-11 non-coking coal, which is the majority coal produced by Coal India Limited, had a tax incidence of around of 65.85% compared to G2 coal where incidence was 35.64%. With the cess removed, tax incidence across all categories of coal has now been rationalized to a uniform of 39.81%.

The reforms will also help in promoting Aatmanirbhar Bharat by import substitution. Earlier, due to flat rate of GST compensation cess at Rs. 400/ton, landing cost of High Gross Calorific value imported coal was lesser as compared to Indian Low-grade Coal. This used to place Indian Coal in disadvantageous position. The removal of cess levels the playing field, strengthening India's self-reliance and curbing unnecessary imports.

The reforms also remove the Inverted Duty Anomaly by raising GST Rate to 18%. Earlier Coal attracted 5% GST but the input services used by coal companies used to attract higher GST rates, normally at 18%. This, meant that huge amount of unutilized tax credit was standing in the books of these coal companies as output GST liability was lower.

Since, the outward GST liability of Coal companies was lower as compared to GST paid on input services, this amount was continuously increasing and with no refund of this amount, this implied blockage of funds of coal companies. Now this unutilized amount can be used for some years to pay of the GST tax liability, leading to release of blocked liquidity. This will also help in staving off loss of coal companies due to accumulation of such unutilized GST credit.

Despite increase in GST Rates from 5% to 18%, the reforms will have lower overall tax incidence on final consumer, due to removal of GST compensation Cess. Similarly, the removal of cess, rationalization of duty, and correction of the inverted structure release liquidity, eliminate distortions, and prevent large accounting losses for coal producers. The decisions of the GST council represent a balanced reform that benefit both coal producers and consumers alike.

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