M/s N M D C LIMITED (referred to in the order body as M/s N.M.D.C Ltd), Donimalai Township, Donimalai, Sandur Taluk, Ballari District; GSTIN 29AAACN7325A1ZR

Authority for Advance Ruling — Karnataka

Advance Ruling No. KAR ADRG 69/2019, dated 21st September 2019 (Or… Dated **21.09.2019**

Q Questions Before the Authority

- Whether the royalty paid in respect of a mining lease can be classified as licensing services for the right to use minerals including its exploration and evaluation under Heading 9973, attracting GST at the same rate as applicable on supply of like goods involving transfer of title in goods.
- Whether statutory contributions made to the District Mineral Foundation (DMF) and the National Mineral Exploration Trust (NMET) under the MMDR Act, 1957 amount to a supply, and whether they are liable to GST under reverse charge.
- Added by the applicant after filing: whether royalty is a 'profit a prendre' and therefore not a supply under Section 7 of the CGST Act, 2017.

F Facts

The applicant is a State-controlled mineral producer that operates the Donimalai iron ore mine under Mining Lease ML No. 2396, for which the State Government has given in-principle approval for renewal. It pays royalty under Section 9 of the MMDR Act, 1957, calculated on the quantum of mineral removed or consumed. It also pays 30% of royalty to the DMF and 2% of royalty to the NMET under Sections 9B and 9C of that Act.

H Ruling

Whether royalty on a mining lease is licensing services for the right to use minerals (Heading 9973) and what rate applies	****Royalty is part of the consideration for the licensing service.** Taxable at the rate applicable on supply of like goods involving transfer of title in goods up to 31.12.2018, and at 9% CGST and 9% SGST from 01.01.2019 under the residual entries of Serial No. 17 of Notification No. 11/2017-CT(Rate)**	The order treats the service as falling under the residual entry, not under the specific entry for licensing services for the right to use minerals (SAC 997337). The ruling does not endorse the applicant's 5% rate argument based on iron ore.

Whether DMF and NMET contributions under the MMDR Act are part of the consideration for supply	****Yes.** Both contributions are part of the consideration payable for the licensing services for the right to use minerals, including exploration and evaluation.**	The Authority reasoned that the payments are compulsory, linked to royalty as a fixed percentage, and are a condition for the State Government to issue the mineral permit.
Value of the supply, i.e. whether royalty, DMF and NMET are included	****The value of supply includes royalty, DMF and NMET contributions.****	Based on Section 15(2)(b) and Rule 27 of the CGST Rules as read by the Authority.
Whether the tax is payable under reverse charge	****Yes, liability is on the recipient, the applicant, under reverse charge.****	Based on Serial No. 5 of Notification No. 13/2017-CT(Rate), since the State Government supplies services to a business entity in the taxable territory. The Authority also decided that royalty is not a profit a prendre and so is a supply.

The Authority held that royalty is part of the consideration for licensing services for the right to use minerals, falling under Heading 9973 and taxed under the residual entries of Serial No. 17 of Notification No. 11/2017-Central Tax (Rate). The DMF and NMET contributions are also part of that consideration, and the value of supply includes all three payments. Because the State Government supplies these services to a business entity, the applicant is liable to pay tax under reverse charge.

R Reasoning

The Authority rejected the applicant's profit a prendre argument because the lease is for extraction of mineral ore, the main activity, and royalty is payable on minerals removed or consumed under Section 9(1) and 9(2) of the MMDR Act, so royalty is consideration for an activity rather than a share of land profit. It classified the service under the residual entry of Serial No. 17 of Notification 11/2017-CT(Rate), as amended, and applied the rate for like goods involving transfer of title up to 31.12.2018 and 9% thereafter. It treated DMF and NMET payments under Sections 9B and 9C as part of the value of a single composite supply under Section 15(2) and Rule 27, relying on the fact that they are compulsory and calculated as percentages of royalty. It fixed reverse charge liability on the recipient under Serial No. 5 of Notification 13/2017-CT(Rate) because the supplier is the State Government.

P Provisions Relied On

- Section 7, CGST Act, 2017 (scope of supply) and Section 15 (value of taxable supply) with Section 15(2)(a) and (b) and Rule…
- Section 9(1) and 9(2), Mines and Minerals (Development and Regulation) Act, 1957 (royalty)
- Section 9B, MMDR Act, 1957 (District Mineral Foundation)
- Section 9C, MMDR Act, 1957 (National Mineral Exploration Trust)

Notification No. 11/2017-Central Tax (Rate) dated 28.06.2017, Heading 9973, Serial No. 17 (as amended by Notifications 31/…

Notification No. 13/2017-Central Tax (Rate) dated 28.06.2017, Serial No. 5 (reverse charge)

Schedule II, Entry 2(a), CGST Act, 2017 (lease of land is supply of services)

CBEC sectoral FAQ on licensing services for exploration of natural resources (not binding, relied on by the applicant)

! For the Practitioner

This order is useful to mining lessees and to State-owned miners who pay royalty and DMF/NMET contributions. It settles that royalty is taxable as a service under reverse charge and that DMF and NMET payments form part of the taxable value, and it gives the rate position for the period up to 31.12.2018 and from 01.01.2019. It does not bind other authorities, and it may be challenged on the valuation of DMF and NMET payments and on whether royalty can be treated as a profit a prendre. Anyone relying on the 5% iron ore rate argument should note that the Authority did not accept it.

Source

Summary prepared from the published order, which is a scanned document. It is a reading aid and not the authority: where the two differ, the order governs. Verify every provision against the original before relying on it.

Original order: www.gstcouncil.gov.in -> kar_aar_69_2019_nmdcl_21.09.19.pdf

Prepared 09-11-2026.

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