

GST Implications for Quarries -

On Rate Reduction on Granite Blocks from 12% to 5%

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The GST Council's decision to reduce the tax rate on granite blocks from 12% to 5% has been welcomed by the stone industry. While the change reduces the immediate output tax liability, it also creates practical challenges for quarry operators and processors, particularly in managing input tax credits (ITC). This article examines the implications for quarry businesses and the steps they may need to consider to manage compliance effectively.

Key Impact: Accumulation of Input Tax Credit:

- Granite quarries procure raw materials and services such as explosives, spares, consumables, machinery, repairs and maintenance and royalty payments to state governments.
- Most of these inputs are taxed at **18%**, while output (granite blocks) is now taxed at **5%**.
- This leads to **inverted duty structure (IDS)** and **accumulation of ITC**, straining working capital.

Refund Options under IDS:

Quarries making **domestic supplies** should evaluate the option of filing **refund claims under IDS provisions**. However, key considerations are:

- **Refund restricted on capital goods & input services:** IDS refunds are available only for input goods, not for capital goods and input services.
- **Royalty as a key issue:** Royalty payments to State governments (a major cost for quarries) are treated as input services. Refund is not permitted on this under IDS, leading to accumulation of credit.
- It would become mandatory to file the refund application under IDS Category going forward considering the fact of accumulation of credit due to rate reduction.

Exporters and SEZ Sales:

For quarries engaged in zero-rated supplies (direct exports or supplies to SEZ units), the following alternatives exist:

- **LUT Method:** Export under Letter of Undertaking (LUT) without payment of tax and claim refund of accumulated ITC. This route is generally more beneficial, as there is no restriction on refund of input services.
- **With Payment Method:** If zero-rated are made on payment of IGST, only 5% output tax collected can be adjusted against ITC, resulting in continued ITC accumulation. Hence, this method may not be optimal for quarries that predominantly engaged in exports/sez sales post rate change. However, through this route the credit on capital goods can be liquidated which is not available under LUT Route.

Merchant Exports (Domestic Supplies at 0.1%) & Deemed Exports:

Quarries supplying to **merchant exporters** at the concessional rate of **0.1% GST** should consider:

- While the concessional supply rate is attractive, refunds under IDS remain **restricted on Capital goods and input services** including royalty.
- It may be advisable to explore executing supplies at full rate of **5%** and file a refund application under IDS category in case of accumulation of ITC.
- In cases where granite blocks are supplied to recipients eligible for deemed export benefits (e.g., EOUs or Advance Authorisation holders), the refund of tax paid may be claimed either by the supplier or the recipient. We recommend that the supplier should refrain from availing deemed export refund and instead continue charging tax to the buyer, so as to avoid additional refund compliance obligations for the seller.

Factories and Processors:

Quarries or businesses that also operate processing units/factories (for slabs and tiles) face a different scenario:

- Processed granite slabs/tiles continue to attract 18% GST.

- Therefore, businesses with downstream processing can charge 18% on supplies, helping absorb ITC and reducing accumulation.
- This integrated model provides a natural hedge against ITC accumulation compared to quarry-only operations.

Whether ITC reversal required due to reduction of rate:

There has been some uncertainty within the industry on whether Input Tax Credit (ITC) already availed needs to be reversed pursuant to the reduction of GST rate from 12% to 5%. It is clarified that such reversal is not required. The ITC already availed constitutes a vested right of the assessee and cannot be denied merely due to a downward revision in the rate of tax. Reversal of ITC is warranted only in cases where the supply of goods becomes wholly exempt, which is not applicable in the present case. This position has further been clarified in the official FAQs (Question No. 6), thereby reinforcing that no reversal of ITC is mandated in situations of mere rate reduction.

Closing Remarks:

The GST rate reduction on granite blocks from 12% to 5% is a double-edged sword for quarries. While it reduces tax outflow on sales, it also results in ITC accumulation due to the inverted duty structure. Quarry operators must carefully plan their supply structures, refund strategies (IDS vs LUT vs with payment), and treatment of royalty costs to minimize cash flow blockages. For businesses with factories, continuing supplies at 18% remains a practical solution to absorb credits.

A proactive compliance strategy, backed by detailed cost-benefit analysis, is essential for quarry operators to fully leverage the benefits of the rate change while minimizing financial strain.

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