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UNION OF INDIA V. MOHIT MINERALS PVT. LTD.: REDEFINING COOPERATIVE FEDERALISM UNDER THE GST REGIME

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BACKGROUND

The dispute in **Union of India v. Mohit Minerals Pvt. Ltd.**[1] arose at the crossroads of international trade practices and the developing legal framework of the Goods and Services Tax (GST). In maritime commerce, imports are typically governed by two standard Incoterms: Free on Board (FOB) and **Cost, Insurance, and Freight (CIF).** Under an FOB arrangement, the Indian importer is responsible for hiring the vessel and paying the freight directly to the shipping line, making them the main recipient of the transportation service. In contrast, in a CIF contract, the foreign exporter takes on the responsibility of arranging and paying for the freight and insurance, incorporating these costs into the overall price of the goods sold to the Indian buyer.

Before the GST system, ocean freight was subject to Service Tax, and the government wanted to maintain this levy in the new indirect tax system. Through Notifications No. 8/2017 and 10/2017, the Center imposed a 5% IGST[2] on ocean freight using a Reverse Charge Mechanism for all importers. This resulted in a legal crisis. First, it required CIF importers to pay tax on services they did not contractually receive. Second, it led to double taxation since IGST was already paid on the freight component during customs valuation.

This challenge went beyond tax calculations. It led the judiciary to outline the boundaries of executive power and the legislative authority under Article 246A[3]. In the end, the case became an important investigation into whether the "One Nation, One Tax" idea could legally surpass

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[1] *Union of India v. Mohit Minerals Pvt. Ltd.*, (2022) 10 SCC 700.
[2] Integrated Goods and Services Tax Act, No. 13 of 2017, India Code (2017)
[3] The Constitution of India, art. 246A.

the official definitions of "composite supplies" and the financial independence of States in India’s Cooperative Federalism.

FACTS OF THE CASE

- The Transaction: Mohit Minerals (the Respondent) imported coal from various countries on a CIF (Cost, Insurance, and Freight) basis.
- The Levy: The Central Government issued Notifications (No. 8/2017 & 10/2017) under the IGST Act, 2017. These notifications required the Indian importer to pay 5% IGST on "Ocean Freight" (the service of transporting goods by ship) through a Reverse Charge Mechanism (RCM).
- The Conflict: Mohit Minerals contested this, arguing they already paid IGST on the total value of the coal (including freight costs under CIF) at the time of import. Taxing the freight separately meant taxing the same service twice.
- High Court Ruling: The Gujarat High Court nullified the notifications, leading the Union of India to appeal to the Supreme Court.

LEGAL ISSUES FOR DETERMINATION

1. Whether the levy of a separate Integrated Goods and Services Tax (IGST) on "ocean freight" in a CIF contract result in double taxation, considering that the value of the freight is already included in the transaction value of the imported goods for the assessment of IGST at the time of customs clearance.

2. Whether Notifications No. 8/2017 and 10/2017 are ultra vires the IGST Act, 2017 and the CGST Act, 2017[4], by unbundling a "composite supply" and treating the service component as a separate taxable event.

3. Whether the recommendations made by the GST Council under Article 279A of the Constitution possess a binding character on the Parliament and State Legislatures.

4. Whether the "simultaneous power" of legislation conferred by Article 246A mandates a model of Cooperative Federalism.

[4] Central Goods and Services Tax Act, No. 12 of 2017, § 2(93), India Code (2017)

5. Whether the Indian importer can be legally classified as the "recipient" of the shipping service under a CIF contract, despite the absence of a direct contractual relationship (privity of contract) between the importer and the foreign shipping line.

ANALYSIS: CENTER-STATE RELATIONS & COOPERATIVE FEDERALISM

I. The Doctrine of Composite Supply and Double Taxation

The Court's analysis of Issues 1 and 2 focused on the statutory definition of "Composite Supply" in Section 2(30)[5] of the CGST Act.

- In a CIF contract, freight and insurance are closely linked to the delivery of goods. The Court noted that when the Indian importer pays IGST on the "Transaction Value" of the coal at customs, this amount already includes the cost of ocean freight.
- The Court stated that by issuing a separate notification to tax the freight again, the Executive tried to separate a single transaction into two. This was seen as a violation of the GST Act, which treats naturally bundled supplies as one tax event taxed at the rate of the main supply.

II. Privity of Contract and the "Recipient" Dilemma

In Issue 5, the Court examined the definition of a "recipient" in Section 2(93)[6] of the CGST Act.

- Under CIF, the foreign exporter contracts with the shipping company. The Court pointed out that there is no "privity of contract" between the Indian importer and the foreign shipping company.
- Since the importer does not owe payment to the shipping company, they cannot be considered the "recipient" of the service according to the primary definition of the Act. Classifying them as a recipient through a notification was an overreach of executive power.

III. The Status of the GST Council:

In Issue 3, the Supreme Court provided a significant interpretation of Article 279A.

[5] Central Goods and Services Tax Act, No. 12 of 2017, § 2(30), India Code (2017)
[6] Central Goods and Services Tax Act, No. 12 of 2017, § 2(93), India Code (2017).

- The Union argued that the decisions of the GST Council must be binding to ensure uniform taxation across India. The Court disagreed, stating that the Council serves as a body for political contestation and negotiation.
- The Court ruled that the term "recommendations" in Article 279A (4)[7] should be taken literally. Making these recommendations binding would effectively remove the legislative power of the States under Article 246A, which was never the intention of the 101st Amendment. The 101st Constitution Amendment[8] introduced Article 246A, which gave both Parliament and State Legislatures the power to tax goods and services at the same time. This ended the previous system where tax powers were strictly divided between the Center and the States.

IV. Redefining cooperative federalism

For Issue 4, the Court examined the constitutional framework of Article 246A.

- Unlike the traditional "List" system where one legislature usually holds exclusive power (List I or List II), Article 246A gives both the Union and States the power to legislate on GST at the same time.
- The Court introduced the idea that "Cooperative Federalism" does not require complete agreement. It includes the right of States to disagree. The Court held that the GST Council should operate through "harmonious construction" rather than "centralized command."

  The Supreme Court used these observations to dismantle the idea of a "centralized" tax system. The Court explained that while the 101st Amendment encouraged fiscal unity, it did not create a central authority that took away States' independence. Citing cases like **Manohar v. State of Maharashtra**[9] and **Naraindas Indurkhya v. State of Madhya Pradesh**[10], the Court observed that the term "recommendation" in Article 279A(4) should be understood in its straightforward, plain sense, which is persuasive, not mandatory. The Court argued that since the Constitution does not offer any explanation or conditions to make these recommendations binding, treating them as such would be unrealistic.

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[7] The Constitution of India, art. 279A.
[8] The Constitution (One Hundred and First Amendment) Act, 2016, No. 15 of 2016, Gazette of India
[9] *Manohar v. State of Maharashtra*, (2012) 13 SCC 14.
[10] *Naraindas Indurkhya v. State of Madhya Pradesh*, (1974) 4 SCC 788

KEY CONTENTIONS

A. Under Section 2(30) of the CGST Act, a CIF contract is a "composite supply," where the main supply is the goods (coal). Since transport is naturally bundled with the goods, it cannot be separated and taxed as a "service."

B. The Court examined who the "recipient" of the shipping service is. In CIF, the Foreign Exporter signs the contract with the shipping line. The Indian Importer (Mohit Minerals) has no contract with the ship. Therefore, the importer cannot be considered the "recipient" of the service for RCM purposes.

C. The Court applied the "Aspect Theory," explaining that while the Union can tax the shipping aspect, it cannot do so in a way that contradicts the statutory definitions of "composite supply" in GST law.

CONCLUSION

The judgment in **Union of India v. Mohit Minerals Pvt. Ltd.** marks a significant moment in Indian constitutional history. It goes beyond the technical details of indirect taxation and strengthens the foundations of the Republic. The Supreme Court upheld the Gujarat High Court’s decision and invalidated the levy of IGST on ocean freight for CIF contracts. By striking down the levy of IGST on ocean freight in CIF contracts, the Supreme Court provided economic relief to importers from the burden of double taxation. It also aligned the GST system with the constitutional principle of federalism. The Court’s decision to prevent the executive from unbundling a "composite supply" maintains the integrity of the CGST and IGST Acts. This stops the government from creating fake taxable events through notifications that go against the original law.

Additionally, the Court’s interpretation of Article 246A and Article 279A has changed the understanding of Indian federalism. By stating that the GST Council’s recommendations have "persuasive value" instead of being "binding," the judiciary has protected the fiscal independence of State Legislatures from a centralized agency. In summary, the ruling acts as a crucial constitutional check. It ensures that creating a unified national market does not compromise the federal diversity and legislative freedom central to India's democracy. Ultimately, the decision keeps the "One Nation, One Tax" idea as a shared effort instead of an executive order, maintaining the delicate balance of power between the Center and the States for future generations.