



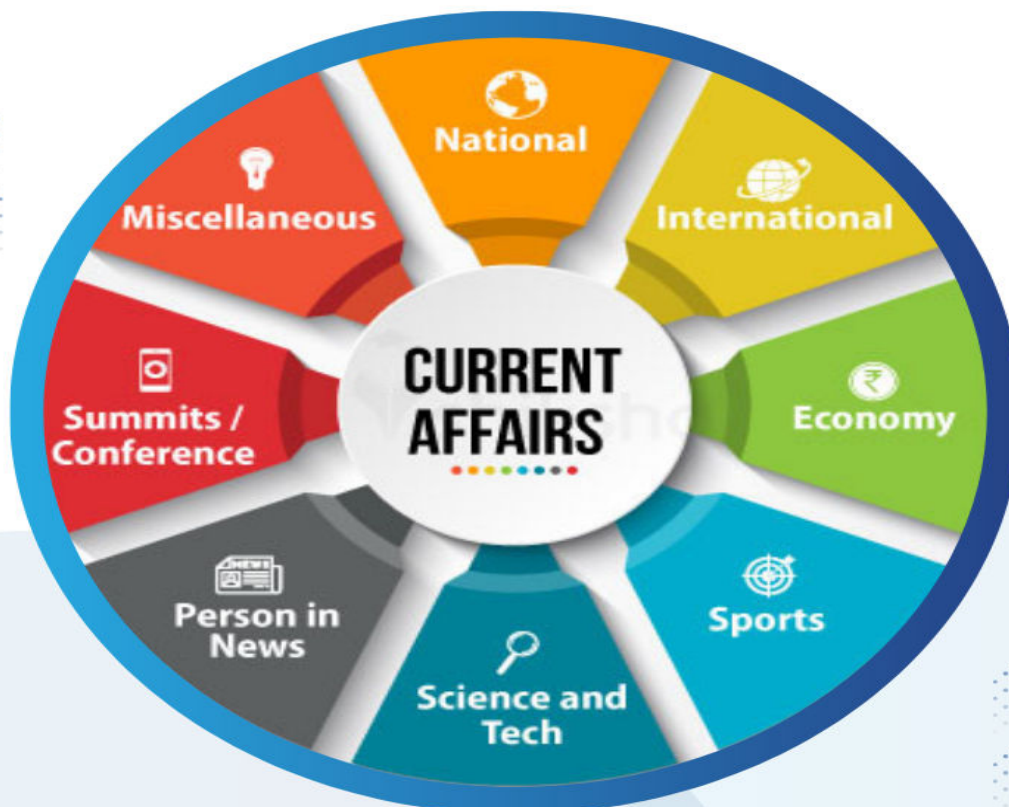
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VIDHVATH IAS KAS ACADEMY & STUDY CENTRE

DAILY CURRENT AFFAIRS

FOR UPSC CIVIL SERVICE EXAMINATION

DATE: 26/08/2026 (WEDNESDAY)



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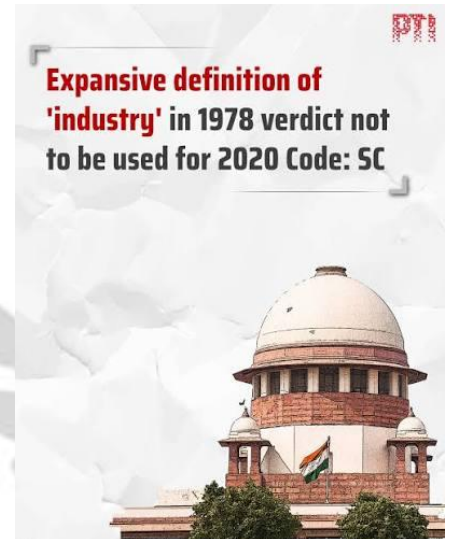
VIDHVATH IAS ACADEMY



1. Supreme Court Ruling on the Definition of 'Industry' under Labour Laws

Key Highlights & Summary

- **Majority Verdict:** A nine-judge Constitution Bench of the Supreme Court, in a 6:3 majority decision led by Chief Justice Surya Kant, ruled that pending labour disputes under the old Industrial Disputes Act will continue to be decided using the 1978 definition of "industry".
- **Retention of Triple Test:** The court retained the core 1978 *Bangalore Water Supply* "Triple Test" while refining its application to include evaluating whether goods/services possess a "discernible commercial character" similar to trade or business.
- **Profit Motive Excluded:** Profit-making remains unnecessary to classify an entity as an industry. Being a charity, university, hospital, or government body does not automatically exclude or include an organization.
- **Dominant-Nature Test:** Courts must assess the actual nature of activities, using the dominant-nature test when an organization carries out multiple varied operations.
- **Dissenting View:** Justice B.V. Nagarathna noted that reopening the 1978 precedent was unnecessary since the old law was repealed by the Industrial Relations Code, 2020.
- **Worker Safeguards:** The decision protects existing workers in pending disputes from arbitrary termination and unfair labor practices, particularly across non-profits, healthcare, and educational institutions.



Essential Definitions

- **Triple Test:** A judicial framework established in 1978 specifying that an entity qualifies as an "industry" if there is systematically organized activity, cooperation between employer and employee, and production/distribution of goods and services.
- **Dominant-Nature Test:** A legal test used to determine the primary function of an enterprise when it engages in diverse activities, ensuring its central objective decides its legal status under labor regulation.

Legal and Constitutional Framework

- **Constitutional Basis:** Article 39(e) and Article 42 of the Directive Principles of State Policy (DPSP) mandate state action toward securing humane working conditions, fair wages, and worker protection. Article 145(3) empowers a Constitution Bench (minimum 5 judges, extended to 9 here) to decide substantial questions of law interpreting the Constitution or binding precedents.
- **Statutory Laws:** Governed historically by the Industrial Disputes Act, 1947, and transitioning toward the statutory consolidation under the Industrial Relations Code, 2020.

Conclusion The Supreme Court's verdict provides legal continuity and safeguards labor welfare rights for ongoing disputes while refining judicial tests to align with modern economic realities. However, by separating pending cases under the 1947 Act from future disputes under the 2020 Code, it leaves room for fresh litigation regarding how new statutory definitions will be applied across non-profit and welfare sectors.



UPSC Relevance

- **GS Paper II:** Structure, organization, and functioning of the Judiciary; Judicial precedents; Constitution Benches; Devolution of statutory labor codes.
- **GS Paper III:** Issues relating to planning, mobilization of resources, growth, development, and employment; Industrial relations and labor regulatory reforms.

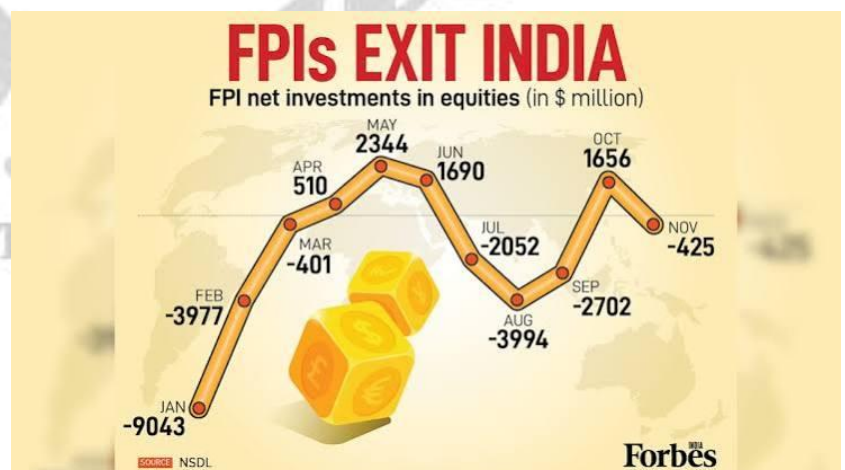
2. Foreign Portfolio Investments (FPIs) Rebuild Exposure in Indian Equities

Key Highlights & Summary

- **Surge in Inflows:** Foreign Portfolio Investors (FPIs) invested over ₹25,000 crore in Indian equities between August 1 and 24, marking the strongest monthly inflow since September 2024.
- **Consecutive Buying Streak:** Following net inflows of ₹20,200 crore in July, August marks the first instance this year of net positive buying for two consecutive months, reflecting a sharp reversal from the record monthly outflow of nearly ₹1.2 trillion in March.
- **Selective Sectoral Betting:** Investment remains concentrated in specific sectors with improved valuations and earnings visibility—such as financial services (₹6,535 crore), automobiles (₹4,405 crore), and consumer services (₹3,398 crore)—rather than indicating a broad market endorsement.
- **Outflows in Specific Segments:** While financial services and auto sectors witnessed strong buying, capital goods, power, and telecom sectors faced sustained FPI sell-offs during the same period.
- **Global Caution:** Despite domestic recovery, India emerged as Asia's least-preferred equity market in Bank of America's August survey due to macroeconomic concerns over global growth, US bond yields, and valuation premiums.
- **Role of Domestic Earnings:** Strong quarterly earnings results and recent price corrections have improved the risk-reward ratio, encouraging foreign investors to rebuild exposure selectively.

Essential Definitions

- **Foreign Portfolio Investment (FPI):** Investments consisting of securities and other financial assets held by foreign investors, representing passive holdings without direct control over the management or operational decisions of companies.
- **Hot Money:** Foreign capital that moves rapidly between financial markets to take advantage of short-term interest rate differentials or high asset returns, making asset markets vulnerable to sudden capital flights.



Legal and Constitutional Framework

- **Securities and Exchange Board of India (SEBI) Act, 1992:** Grants SEBI statutory authority to regulate foreign institutional portfolio investments, enforce registration norms, and maintain market integrity in India.



- **SEBI (Foreign Portfolio Investors) Regulations, 2019:** Establishes operational guidelines, category-wise classification, investment caps (such as the 10% single-FPI threshold in listed Indian companies), and mandatory KYC disclosures.
- **Foreign Exchange Management Act (FEMA), 1999:** Regulates foreign exchange flows, cross-border equity movements, and portfolio investment limits to ensure macroeconomic and balance-of-payments stability.

Conclusion

The revival of FPI inflows into select sectors highlights foreign investors' confidence in India's resilient corporate earnings and strategic market corrections. However, since capital flows remain selective and sensitive to global macroeconomic shifts, sustaining domestic liquidity and regulatory transparency remains critical for capital market stability.

UPSC Relevance

- **GS Paper III:** Indian Economy and issues relating to planning, mobilization of resources, growth, and development; Financial markets, stock exchanges, and capital market regulations under SEBI.
- **GS Paper III:** Foreign Direct Investment (FDI) vs Foreign Portfolio Investment (FPI), external sector management, and Rupee volatility influenced by cross-border capital flows.

3. India Driving South Asian Economic Growth and Regional Trade Dynamics

Key Highlights & Summary

- **Regional Growth Engine:** India accounts for 80-90% of South Asia's population and GDP, serving as the primary driver of regional economic expansion despite global macroeconomic uncertainties.
- **Upward Growth Revision:** The World Bank revised India's growth forecast upward to 6.6% in June from 6.5% in January, driven by strong Q1 incoming economic performance.
- **Sluggish Export Growth:** Indian merchandise exports grew marginally by 0.86% to \$441.45 billion in FY26, trailing competitor nations like Vietnam (17% growth) and Cambodia (14.6% growth) under the "China+1" diversification strategy.
- **Extremely Low Intra-Regional Trade:** South Asian intra-regional trade stands at just 0.7% of regional GDP, significantly lower than other developing areas such as Latin America and the Caribbean (3%).
- **Low Trade Integration:** Most South Asian economies rank in the bottom quartile of developing nations by trade-to-GDP ratios, reflecting a highly closed regional market structure.
- **AI Transformation Potential:** Approximately 22% of jobs in South Asia are exposed to Artificial Intelligence, with 15% benefiting from AI as a productivity-enhancing complementary tool.



Essential Definitions

- **China+1 Strategy:** A global supply chain strategy where businesses diversify operations beyond China by investing in alternative manufacturing hubs like India, Vietnam, and Cambodia.



- **Intra-Regional Trade Ratio:** The total value of goods and services traded among neighboring countries within a defined geographical bloc, calculated as a percentage of the total trade or GDP of that region.

Legal and Constitutional Framework

- **Article 253 of the Constitution:** Grants Parliament exclusive legislative authority to enact laws implementing international treaties, trade covenants, and regional commercial agreements.
- **Foreign Trade (Development and Regulation) Act, 1992:** Provides the statutory architecture for developing, regulating, and executing India's Foreign Trade Policy (FTP) and external economic engagements.
- **South Asian Free Trade Area (SAFTA), 2004:** The multilateral framework designed to reduce intra-regional tariffs and facilitate economic integration among SAARC member nations.

Conclusion

While India continues to power South Asia's economic trajectory, leveraging the global supply chain shift demands lowering domestic trade barriers and bolstering export competitiveness. Integrating advanced technologies like AI while deepening intra-regional economic ties remains essential to driving long-term, resilient regional development.

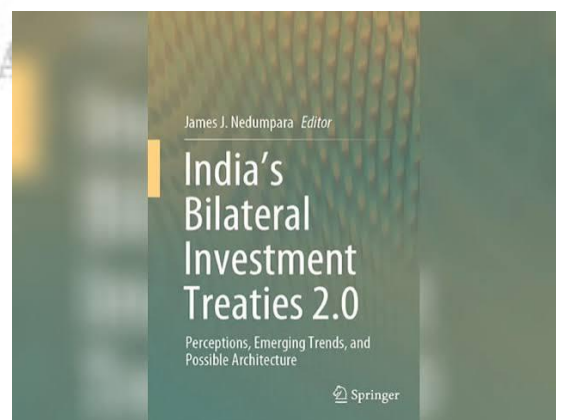
UPSC Relevance

- **GS Paper II:** India and its neighborhood-relations; Regional groupings and agreements involving India and affecting India's interests (SAARC, SAFTA, BIMSTEC).
- **GS Paper III:** Indian Economy—issues relating to planning, mobilization of resources, growth, development, and employment; Foreign Trade Policy, exports, and impacts of Artificial Intelligence on the labor market.

4. Bilateral Investment Treaty: Rethinking India's Model Framework

Key Highlights & Summary

- **Push for Reform:** The 2025–26 and 2026–27 Union Budgets highlighted the need to streamline dispute resolution and create an investor-friendly investment framework for foreign and domestic capital.
- **Marginal FDI Role:** Foreign Direct Investment accounts for approximately 2% of India's GDP, whereas domestic Gross Fixed Capital Formation (GFCF) stands near 30%, stressing that nurturing domestic capital is as vital as attracting FDI.
- **Flaws in 2015 Model BIT:** The 2015 Model BIT was designed to limit Investor-State Dispute Settlement (ISDS) risks after high-stakes international losses (e.g., retrospective taxation cases and the Antrix-Devas dispute). However, its rigid requirement to exhaust domestic remedies for 5 years made it overly defensive and led to delayed negotiations.
- **The Brazil Alternative:** India's Investment Cooperation and Facilitation Treaty with Brazil offers a alternative to traditional ISDS, relying on a joint state committee and a national ombudsman for dispute prevention, keeping international arbitration only as a final resort.





- **Decoupling ISDS and FDI:** Empirical evidence confirms that absence of ISDS or termination of old BITs does not inherently depress FDI inflows; policy stability and domestic governance drive investor confidence.
- **Balanced Framework:** Re-evaluating the Model BIT requires moving away from ad-hoc offshore tribunals toward state-to-state mediation, protecting sovereign rights without alienating foreign investors.

Essential Definitions

- **Bilateral Investment Treaty (BIT):** An agreement between two countries establishing terms and conditions for private investment by nationals and companies of one state in another state.
- **Investor-State Dispute Settlement (ISDS):** A neutral, international arbitration mechanism allowing foreign investors to institute dispute proceedings directly against a sovereign host state.

Legal and Constitutional Framework

- **Article 253 of the Constitution:** Authorizes Parliament to make laws for implementing international treaties, agreements, and conventions.
- **Article 298 of the Constitution:** Empowers the Union and State governments to carry on trade, enter into contracts, and acquire property.
- **Arbitration and Conciliation Act, 1996:** Regulates domestic and commercial arbitration in India, providing the statutory basis for enforcement of foreign and domestic arbitral awards.

Conclusion

India's foreign investment landscape needs a shift from defensive risk mitigation to proactive investment facilitation. Adopting alternative models like the Brazil pact—focused on state-level ombudsmen and domestic legal systems—can safeguard sovereign regulatory space, prevent costly international litigation, and maintain investor confidence.

UPSC Relevance

- **GS Paper II:** Bilateral agreements involving India; Dispute redressal mechanisms; Effect of policies of developed and developing countries on India's interests.
- **GS Paper III:** Indian Economy—mobilization of resources, foreign direct investment (FDI), and regulatory reforms governing international capital flows.

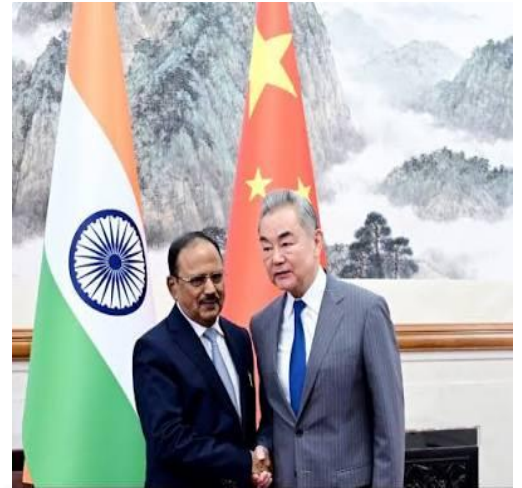
5. India-China Special Representatives Dialogue on Border Delimitation

Key Highlights & Summary

- **25th SR Dialogue Round:** National Security Adviser Ajit Doval and Chinese Foreign Minister Wang Yi held the 25th round of Special Representatives (SR) talks on the boundary question in Beijing.
- **Focus on Border Delimitation:** Both nations conducted in-depth discussions on advancing negotiations for delimiting parts of the disputed Line of Actual Control (LAC) and establishing political settlement frameworks.
- **Peace and Tranquillity Mandate:** The delegation reaffirmed that maintaining peace, stability, and mutual trust along border areas remains the fundamental baseline for restoring broader bilateral normalcy.



- **Institutional Mechanisms and Early Harvest:** Talks focused on strengthening border control mechanisms, improving dispute management infrastructure, and operationalizing working groups for "early harvest" delimitation along specific sectors.
- **Transboundary Cooperation:** Discussions covered expanding bilateral engagements, maintaining cross-border river data sharing, and reviving institutional mechanisms for transboundary water management.
- **High-Level Engagement Pipeline:** The dialogue aligns with leadership directions from Prime Minister Narendra Modi and President Xi Jinping, setting a constructive background ahead of upcoming multilateral forums including the BRICS Summit.



Essential Definitions

- **Line of Actual Control (LAC):** The 3,488-km demarking line separating Indian-controlled territory from Chinese-controlled territory, broadly divided into Western (Ladakh), Middle (Himachal/Uttarakhand), and Eastern (Arunachal/Sikkim) sectors.
- **Special Representatives (SR) Mechanism:** A bilateral institutional framework established in 2003 between India and China to explore a fair, reasonable, and mutually acceptable political resolution to the boundary dispute.

Legal and Constitutional Framework

- **Article 253 of the Constitution:** Empowers Parliament to make laws implementing international treaties, agreements, or conventions executed with foreign nations.
- **Article 73 of the Constitution:** Outlines the executive power of the Union, extending to all international affairs, treaty negotiations, and diplomatic engagements.
- **1993, 1996, and 2005 Bilateral Agreements:** Key legal protocols establishing confidence-building measures (CBMs), political guiding principles (2005), and military disengagement parameters along the LAC.

Conclusion

The 25th Special Representatives dialogue marks an essential step toward stabilizing India-China relations through structured diplomatic engagement. Prioritizing boundary delimitation while sustaining peace along the LAC ensures strategic clarity, mitigates operational friction, and provides a framework for resolving long-standing territorial disputes.

UPSC Relevance

- **GS Paper II:** India and its neighborhood-relations; Bilateral, regional, and global groupings involving India and affecting India's interests.
- **GS Paper III:** Linkages between border management, internal security, strategic infrastructure creation, and international border security mechanisms.



6. Supreme Court Consideration of Special Bench on OBC Creamy-Layer Criteria

Key Highlights & Summary

- **Special Bench Request:** The Supreme Court agreed to consider constituting a special Bench to hear the Centre's plea for clarification on its March 11 judgment regarding OBC creamy-layer criteria for Civil Services Examination candidates.
- **Application to 2025 Candidates:** The Department of Personnel and Training (DoPT) sought approval to proceed with service allocation for 958 UPSC-recommended candidates based on pre-verdict wealth/income criteria.
- **Precedent of Rohith Nathan Case:** The Centre's clarification plea stems from *Union of India v. Rohith Nathan*, which directed that parental salary income should not be the sole basis to exclude OBC candidates.
- **Concerns Over Retrospective Impact:** The DoPT cautioned that retrospective implementation would trigger extensive contestations and destabilize settled service allocations across various categories since 2012.
- **Supernumerary Posts Mandate:** The March 11 ruling ordered the Centre to create supernumerary posts for candidates excluded from OBC reservation solely due to parental salary computations.
- **Disruption of Seniority Landscape:** The government emphasized that applying the new criteria retrospectively would alter the settled administrative seniority landscape and open past recruitments to litigation.



Creamy layer: Centre asks Supreme Court to clarify its order to consider claims of 100-odd OBC candidates



Essential Definitions

- **Creamy Layer:** A social and economic exclusion mechanism within Other Backward Classes (OBCs) that denies reservation benefits to socially advanced individuals based on parental status or non-salary income thresholds.
- **Supernumerary Posts:** Temporary posts created over and above the sanctioned strength of a cadre to protect rights or accommodate candidates affected by judicial directions.

Legal and Constitutional Framework

- **Article 14 of the Constitution:** Guarantees equality before the law and equal protection of laws, prohibiting hostile discrimination between government and PSU employees regarding reservation benefits.
- **Article 16(4) of the Constitution:** Empowers the State to make provisions for the reservation of appointments or posts in favor of any backward class of citizens not adequately represented in public services.
- **1993 DoPT Office Memorandum:** Establishes the foundational criteria for identifying the creamy layer, prioritizing parental occupational status and excluding salary and agricultural income from the general income test.



Conclusion

The Supreme Court's deliberation on forming a special Bench underscores the delicate balance between enforcing constitutional equality in OBC reservations and preserving administrative stability in public recruitment. Resolving the creamy-layer determination methodology is essential to safeguard genuine beneficiaries while preventing prolonged litigation over settled civil service allocations.

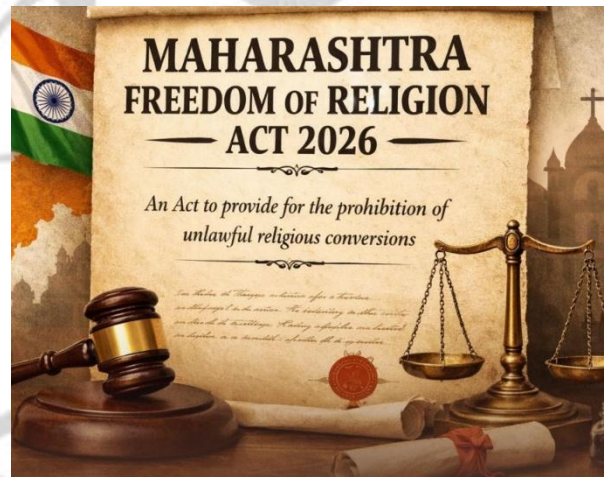
UPSC Relevance

- **GS Paper II:** Indian Constitution—structural features, Fundamental Rights (Article 14 & Article 16), and reservation policy frameworks.
- **GS Paper II:** Governance—Role of Civil Services, functioning of the UPSC, Department of Personnel and Training (DoPT) guidelines, and judicial review of administrative actions.

7. Civil Society Opposition to Maharashtra Freedom of Religion Act, 2026

Key Highlights & Summary

- **Civil Society Pushback:** Joint Civil Society, a broad coalition of women's groups, human rights activists, and religious organizations, mounted strong opposition demanding a stay on the Maharashtra Freedom of Religion Act, 2026.
- **Intrusive State Oversight:** Activists highlighted that requirements for mandatory prior notices, declarations, and police inquiries convert personal choices regarding faith and inter-faith marriage into subjects of state surveillance.
- **Broad Definition of Allurement:** Opponents expressed concern over vague definitions of "allurement," warning that legitimate charitable, educational, and healthcare services run by non-profit entities could be criminalized.
- **Reversal of Burden of Proof:** The legislation shifts the evidentiary burden onto the accused to prove that a religious conversion was not fraudulent or coerced, raising significant legal and procedural concerns.
- **Disproportionate Social Impact:** Concerns were raised that the law disproportionately impacts consenting adults, women, Dalits, and Adivasis by restricting their personal autonomy and freedom of choice.
- **Demand for Judicial Stay:** The coalition urged that the enforcement of the state law be deferred until the Supreme Court delivers its final verdict on pending challenges to similar state anti-conversion statutes.



Essential Definitions

- **Freedom of Religion Act (Anti-Conversion Law):** State legislation enacted to prohibit and penalize religious conversions effected through misrepresentation, force, undue influence, coercion, or financial allurement.
- **Reversal of Burden of Proof:** A legal standard where the onus to prove innocence rests on the accused person rather than requiring the prosecution to establish guilt beyond reasonable doubt.

Legal and Constitutional Framework

- **Article 25 of the Constitution:** Guarantees all persons equal entitlement to freedom of conscience and the right to freely profess, practise, and propagate religion, subject to public order, morality, and health.
- **Article 21 of the Constitution:** Protects the Fundamental Right to life and personal liberty, which encompasses the right to privacy, personal autonomy, and individual choice of life partner (*K.S. Puttaswamy* and *Shafin Jahan* precedents).
- **Article 14 of the Constitution:** Mandates equality before the law, ensuring that statutory provisions avoid arbitrary or discriminatory state action against specific communities or individuals.

Conclusion

The friction surrounding the Maharashtra Freedom of Religion Act highlights the delicate constitutional balance between preventing deceptive conversions and safeguarding individual fundamental freedoms. Harmonizing regulatory measures with privacy, personal liberty, and freedom of conscience remains imperative to preserve constitutional democracy and social harmony.

UPSC Relevance

- **GS Paper II:** Indian Constitution—Fundamental Rights (Articles 14, 21, and 25), judicial review, and the doctrine of basic structure.
- **GS Paper II:** Governance and Civil Society—Role of NGOs, civil society groups, pressure groups, and state regulations governing personal liberties.

8. Transfer of Missile Technology to Domestic Defence Industry

Key Highlights & Summary

- **Landmark Decision:** Defence Minister Rajnath Singh approved the transfer of technology (ToT) for all conventional missile systems developed by DRDO to Indian defence companies for domestic production.
- **Private Industry Participation:** The move opens up indigenous missile production to private players and MSMEs, shifting away from sole reliance on Defence Public Sector Undertakings (DPSUs) like Bharat Dynamics Limited (BDL).
- **Included Missile Systems:** The initiative covers tactical systems such as the ASTRA air-to-air missile, RUDRAM anti-radiation missile, VSHORADS, NAG anti-tank guided missile, and Naval Anti-Ship Missile (NASM).
- **Exclusion of Strategic Missiles:** Strategic nuclear-capable missiles (e.g., Agni and K-series) and joint ventures involving foreign partners (such as BrahMos and MRSAM) remain outside the ambit of this ToT framework.
- **Boosting Aatmanirbharta:** The policy aims to reduce import dependence, enhance domestic value addition, expand local manufacturing capacity, and create a robust defence supply chain.
- **Focus on R&D:** Shifting industrial production to domestic partners allows the DRDO to focus primarily on advanced research and development for next-generation systems.





Essential Definitions

- **Transfer of Technology (ToT):** The sharing of technical know-how, engineering designs, manufacturing processes, and quality assurance standards from a research entity to industrial partners to enable mass production.
- **Conventional Missile Systems:** Guided tactical weapons designed for non-nuclear precision strikes against air, land, or sea targets during military operations.

Legal and Constitutional Framework

- **Article 298 of the Constitution:** Grants executive power to the Union and State governments to carry on trade, business, and enter into contracts for defense procurement and industrial partnerships.
- **Defence Acquisition Procedure (DAP) 2020:** Governs defense procurement in India, prioritizing the 'Make in India' initiative through categories such as Buy (Indian-IDDMM) and ToT provisions.
- **Industries (Development and Regulation) Act, 1951:** Provides the regulatory framework for licensing and developing defense manufacturing units, including private sector entry into arms and armament production.

Conclusion

Allowing domestic private industry to manufacture DRDO-designed conventional missiles represents a transformative step toward self-reliance in defense manufacturing. By expanding indigenous production capabilities, India strengthens its domestic defense industrial ecosystem, reduces import reliance, and builds a resilient supply chain for its armed forces.

UPSC Relevance

- **GS Paper III:** Science and Technology—developments and their applications in defense; Indigenization of technology and developing new technology.
- **GS Paper III:** Security challenges and their management; Various Security forces and agencies and their mandate.

9. NITI Aayog Report Flags Weak Job Linkages in Generic Undergraduate Degrees

Key Highlights & Summary

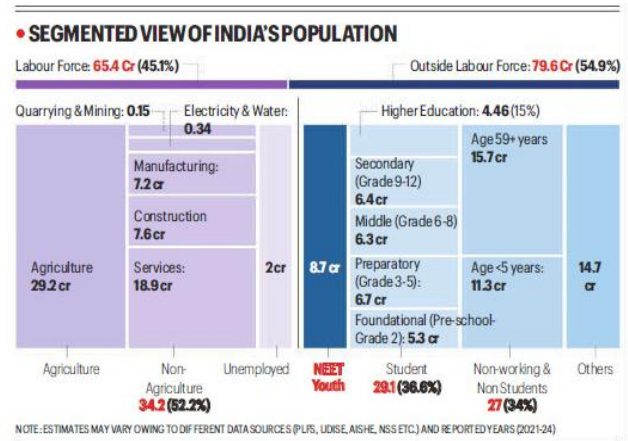
- **Structural Mismatch in Higher Education:** NITI Aayog's report, *Reimagining Skilling for Viksit Bharat@2047*, reveals a severe disconnect between tertiary education and market demands, with only 8.25% of graduates employed in roles aligned with their qualifications.
- **High Educated Unemployment Rates:** Graduate unemployment stands at 13%, rising to 20.4% among graduate women—significantly higher than the national overall unemployment rate of 3.2%.
- **Over-concentration in Generic Degrees:** Out of 3.4 crore undergraduate students in India, over 2 crore are enrolled in traditional B.A., B.Sc., and B.Com. programmes, with B.A. alone accounting for 1.13 crore enrolments.
- **Understanding the NEET Segment:** The report identifies 8.7 crore youth (aged 15–29) in the Not in Education, Employment, or Training (NEET) category, though NITI Aayog clarified this cohort primarily represents non-job-seekers outside the active labor force.



- **Social Stigma around Vocational Tracks:** Alternative vocational and technical education pathways (such as ITIs and diploma courses) face deep-seated societal stigma, often being perceived by parents and peers as low-trust, secondary options.
- **Skilling Wage Premium:** Boston Consulting Group data cited in the report shows skilled generic graduates earn an average starting salary of ₹29,000 per month compared to ₹22,000 for non-skilled generic graduates.

Essential Definitions

- **NEET Youth (Not in Education, Employment, or Training):** A demographic classification encompassing individuals aged 15–29 who are currently disengaged from formal education, paid employment, or structured skill development.
- **Apprenticeship-Embedded Degree Programmes (AEDP):** Higher education curricula that integrate structured, industry-aligned work apprenticeships directly into formal degree frameworks to enhance practical employability.



Legal and Constitutional Framework

- **Article 21A of the Constitution:** Right to Education, providing free and compulsory education for children aged 6 to 14 years.
- **Article 41 of the Constitution (DPSP):** Directs the State to make effective provision for securing the right to work, to education, and to public assistance in cases of unemployment.
- **National Education Policy (NEP) 2020:** Promotes the integration of vocational education into mainstream school and higher education, advocating for multi-disciplinary learning and the National Credit Framework (NCrF).

Conclusion

Addressing India's educated unemployment requires shifting from degree-centric credentials to demand-driven, outcome-linked skilling models. Mainstreaming apprenticeship-embedded degrees and aligning curricula with emerging sectors like green technology and electric vehicles will be vital to capitalizing on India's demographic dividend.

UPSC Relevance

- **GS Paper II:** Issues relating to the development and management of Social Sector/Services relating to Education, Human Resources, and Government Policies.
- **GS Paper III:** Indian Economy and issues relating to employment, mobilization of resources, skill development, and demographic dividend.

10. Simpler Mining Tax Model: Expanding State Revenue Through Fiscal Rationalization

Key Highlights & Summary

- **Laffer Curve Principle:** The recent passage of the Mines and Minerals (Development and Regulation) Amendment Act, 2026 aligns with Arthur Laffer's economic principle, demonstrating that rationalizing high tax rates boosts overall production and expands revenue collections.



- **Shift to Competitive Allocations:** Over the last 12 years, India's mining sector transformed from opaque, discretionary allotments to transparent e-auctions, generating over ₹7 lakh crore for mineral-bearing states since 2015.
- **Protecting State Revenue Share:** Under the updated fiscal framework, states retain the core revenue-sharing formula, continuing to collect 90 paise of every rupee generated from domestic mineral extraction through royalties, auction premiums, and District Mineral Foundation (DMF) funds.
- **Tackling Tax Fragmentation:** The amendment addresses a complex landscape where mineral producers faced up to 14 separate state-level taxes, cesses, and fees, creating a unified, predictable national mineral market.
- **Enhancing Industrial Competitiveness:** By preventing uncompetitive and divergent taxation across states, the reform protects critical downstream sectors—such as steel, cement, power, and manufacturing—from inflated input costs.
- **Strategic Autonomy and Supply Chains:** Rational tax structures incentivize long-term, capital-intensive exploration of critical minerals, conserving foreign exchange and reducing reliance on imports amid global geopolitical volatility.



Essential Definitions

- **Laffer Curve:** An economic concept illustrating the inverted-U theoretical relationship between tax rates and total government tax revenue, holding that cutting excessively high tax rates can increase total revenue by stimulating economic activity.
- **District Mineral Foundation (DMF):** A non-profit statutory trust established in mining-affected districts to work for the interest and benefit of local communities affected by mining-related operations.

Legal and Constitutional Framework

- **Seventh Schedule (List I Entry 54 & List II Entry 23):** Grants Parliament the power to regulate mines and mineral development to the extent declared by law to be expedient in the public interest, while states regulate mines subject to central laws.
- **Article 246 & Entry 50 (List II):** Governs state legislative competence regarding taxes on mineral rights, subject to limitations imposed by Parliament relating to mineral development.
- **Mines and Minerals (Development and Regulation) Amendment Act, 2026:** Streamlines mineral taxation, establishes rule-making mechanisms to limit arbitrary state cesses, and strengthens national regulation over mineral-bearing lands.

Conclusion

Simplifying India's mineral taxation architecture balances fiscal predictability for long-term investors with steady revenue streams for mineral-producing states. Reconciling national market integration with cooperative federalism ensures that domestic mining remains globally competitive, fostering resource security and downstream industrial expansion.



UPSC Relevance

- **GS Paper III:** Indian Economy—mobilization of resources, fiscal policy, infrastructure, and issues relating to growth and investment models.
 - **GS Paper II & III:** Federal structure, Centre-State financial relations, mineral security, and indigenization of critical technological supply chains.
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