

All eyes on PM as service tax on rail freight comes into force from July 1

Come July 1, rail freight users will have to fork out service tax on transport of goods by rail.

The existing service tax exemption, which is due to expire on June 30, will not be extended beyond the end of this month. This is because the Finance Ministry has gone ahead and notified a 70 per cent abatement on transport of goods by rail from July 1 – when a negative list regime for services taxation will come into force.

Simply put, freight users will have to pay 3.6 per cent service tax on the total bill if the Railways decides to pass this tax on to the customer. The hike would impact the price of electricity, steel, cement, and real estate, say economy watchers.

All eyes are on Dr Manmohan Singh to see whether he spares the common man from this levy, which many contend would fuel another round of inflation.

A decision on the negative list postponement will be one of the first key decisions that Dr Singh may have to take as Finance Minister.

The erstwhile Finance Minister, Mr Pranab Mukherjee, had in 2009 announced the introduction of service tax on rail freight, but had since then deferred its implementation seven times.

Many industry representatives hope that the levy is not implemented, now that the Prime Minister, Dr Manmohan Singh, is holding additional charge of Finance.

Some of industry chambers have also written to the Finance Minister that the negative list regime should be postponed by three months.

The Railways moves bulk commodities such as coal, iron ore and other inputs for the steel and cement industries. An effective service tax of 3.6 per cent will be levied, when the new service tax regime with negative list comes into effect.

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