

Service tax on railway freight from July 1

Close on the heels of railways increasing parcel rates by 25 per cent, the freight charges will go up by about 3.6 per cent from July 1 with imposition of service tax.

"The government had given service tax exemption on goods carried by railways till June 30, 2012. From July 1 using railways to transport goods will come under service tax net," Central Board of Excise and Customs (CBEC) Chairman SK Goel told reporters on the sidelines an Assocham meet.

When asked whether the Railways has approached the Revenue Department for exemption from service tax, he replied in negative.

Before presentation of Budget in Parliament, the Railways had raised the overall freight charges by 20 per cent. Earlier this month, railways had increased the parcel and luggage rates by 25 per cent.

Besides grains and vegetables, railways transport important items like steel, crude oil, coal and fertiliser. Industry fears high freight charges would fuel inflation. Goel, however, said service tax on freight would have only marginal impact on prices as the state run transporter enjoys 70 per cent abatement on gross freight charges.

"This level of duty is unlikely to be a big burden on consumers and would not fuel inflation," he said. An abatement of 70 per cent means that effective service tax would be only about 3.6 per cent as against 12.3 per cent (including education cess).

In Budget 2009-10, the Centre had proposed service tax on goods carried by the railways. However, the implementation remained deferred for all these years due to opposition by then Railways Minister and Trinamool Congress chief Mamata Banerjee.

The finance ministry has a target to mop up Rs 1.24 lakh crore in the current fiscal from service tax in as compared to Rs 95,000 crore in the last fiscal.

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