



## GST AND INDIAN RAILWAYS

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### 1. ABOUT INDIAN RAILWAYS (IR)

Indian Railways is India's national railway system operated by the Ministry of Railways. It manages the fourth-largest railway network in the world by size, with 121,407 kilometres (75,439 mi) of total track over a 67,368-kilometre (41,861 mi) route. IR runs more than 20,000 passenger trains daily, on both long-distance and suburban routes, from 7,349 stations across India. In the freight segment, IR runs more than 9,200 trains daily. There are Production units like DLW, CLW, ICF, RCF, DMW, RWF, RWP, RE etc. and 17 Zonal Railways which operate under the administrative control of Railway Board and each of the Railways have multiple Divisions, Carriage Repairing Work Shops (Diesel Locomotive Works) and a Head Quarter.

### 2. APPLICABILITY OF GST LAW TO IR

IR is registered under GST law as Central Government though it is a business entity. A PAN was taken by IR only for registration under GST law for each State and UT. Today IR has 36 registrations and each State/UT has been assigned with a Nodal Officer who is responsible for compliance to GST law. Though a particular Zonal Railways are independent and operates in more than one State, for GST purpose, only state wise transactions are captured and reported for payment of tax, return filing and compliance to GST law.

Transportation of passengers and transportation of goods are the two principal outward supply of services that IR is engaged with. Sl. No. 17 of Notification No. 12/2017, Central Tax (Rates), dated 28.06.2017, service of transportation of passengers, with or without accompanied belongings, by railways in a class other than (i) first class; or (ii) an air-conditioned coach, are taxable. It means travel by passengers in general class, sleeper class or non-AC coaches are not subject to GST. The applicability GST rate for passenger travel and transportation of goods except the following goods attract GST @ 5%.

- a) relief materials meant for victims of natural or man-made disasters, calamities, accidents or mishap;
- b) defence or military equipments;
- c) newspaper or magazines registered with the Registrar of Newspapers;
- d) railway equipments or materials;
- e) agricultural produce;
- f) milk, salt and food grain including flours, pulses and rice; and
- g) organic manure.

### Forward Charge and Reverse Charge Mechanism (RCM)

As per Sl. No. 5 of Notification No. 13/2017, Central Tax (Rates), dated 28.06.2017, services supplied by Railway (Central Government) to a business entity excluding renting of immovable property and transport of goods and passengers shall come under Reverse Charge Mechanism. Sl. No. 5(a) of Notification No. 3/2018, Central Tax (Rates), dated 25.01.2018 further brought in under RCM renting of immovable property services supplied by Railway (Central Government) to a person registered under the CGST Act, 2017. As per this provision, services relating to passenger and freight service and any other service rendered to unregistered

persons only come under forward charge and services like land licensing, parking contracts, renting out of immovable properties, Way leave charges etc. comes under RCM.

### **3. ACCOUNTING SYSTEM THAT IR FOLLOWS**

IR maintains the following CRIS managed soft wares which are customised to the need of IR and also records the transactions relating to all payments and receipts.

1. PRS (Passenger Reservation System)
2. PRS-Catering
3. PMS (Passenger Management System)
4. UTS (Unified Ticketing System)
5. FOIS (Freight Operating Information System)
6. IREPS (Indian Railway e-Procurement System)
7. EPS ( Electronic Payment System)
8. WARR
9. IPAS (Integrated Pay Roll Accounting System)

There are a few manual transactions like Parcel Way Bill, sundry earnings etc. which are recorded using Offline Utility.

### **4. ITC PROVISIONS AS APPLICABLE TO IR**

IR is eligible to ITC on services only and the applicable provision is as under:

T1 – Non-business related

T2 – Exempt

T3 – Restricted

T4 – Eligible fully can only be related to services

C2 – Partial Credit/Common Credit can only be related to services

All input services used for business purpose are apparently available for ITC except restricted items under T3 subject to availability of Original and Valid Tax Invoice. Goods are not eligible for any ITC i.e it can be either T1, or T2 or T3. However, sleepers purchased by IR for onward supply to RVNL, where tax invoice is raised on RVNL, ITC is available only in respect of purchase of such sleepers against the tax liability arise in form of supply of sleepers to RVNL.

#### **T1 (Non-business supply)**

- a. Hospital/Health/Clinical related services
- b. School/education related services
- c. Colony cleanliness/maintenance related services
- d. Staff welfare related services

#### **T2 (Exempt supply related)**

- a. Goods or Services which are used exclusively for exempt supplies like non-AC Coach/ Sleeper/ Second class passenger service;
- b. Goods or Services which are used exclusively for exempt supplies;

#### **T3 (Restricted items)**

- a. Motor vehicles/Hiring charges of vehicles
- b. Food/Catering services
- c. Works Contract (except services in respect to plant and machinery)
- d. Motor vehicles
- e. Life insurance and health insurance of employees
- f. LTC benefit given to employees

**T4- Full Credit in respect of exclusive taxable supply like AC Coach and taxable Freight**

- a. AC Coach Maintenance
- b. Linen services/Bed Roll Services for AC Coach
- c. AC maintenance/AMC in AC Coach
- d. On-board housekeeping services in AC Coach

**C2 (Partial Credit)**

Input services except T3 items like

- a. Telephone
- b. Mobile phone
- c. Mechanising Station cleaning
- d. Cleaning of equipment's
- e. Running room
- f. Consultancy charges
- g. OBHS
- h. Bank charges
- i. AMC of all types
- j. Maintenance Contracts
- k. Courier Service
- l. Data Transmission services
- m. Goods Transport Agency Services
- n. Security Services
- o. Police and Fire Protection Services
- p. Hotel stay by employees/staffs/officers inside Odisha where Invoice contain GSTIN of Ministry of Railway-Odisha

**5. DEBIT NOTE & CREDIT NOTE ISSUED BY IR**

IR issues Debit Note for the following:

- a. Excess Fare Ticket
- b. Railway Receipts
- c. Monet Receipts

IR issues Credit Note for the following:

- a. Cancelled Tickets
- b. Cancelled Railway Receipts
- c. Cancelled Money Receipts

**6. PROVISIONS OF e-WAY BILL AS APPLICABLE TO IR**

As per provisions of Rule 138 (2A), where the goods are transported by railways (whether goods train or passenger train), the e-way bill shall be generated by the registered person, being the supplier or the recipient, who shall, either before or after the commencement of movement, furnish, on the common portal, the information in Part B of FORM GST EWB-01. Where the goods are transported by railways, the railways shall not deliver the goods unless the e-way bill required under these rules is produced at the time of delivery.

As per provision of Rule 138A, copy of e-Way Bill is not mandatory to carry when goods are in movement by rail. However, copy of Invoice or Bill of Supply or Delivery Challan is to be carried for movement of goods by rail. e-Way Bill is not required if Railway is transporting its own goods by rail i.e. when Railway is the Consignor of goods {Rule 138 (14)(I)}

## 7. TAX NEUTRALIZATION

Railways apart from Railway Electrification Divisions, Railway Construction Divisions and Wagon Manufacturing Units (Rail Coach Factory) usually outsource many of their services and award hundreds of contracts at each Division and Office. Contracts in Railways are awarded for Supply of Goods or under Works Contract every year. Usually Works Contracts are awarded on all inclusive basis and payment of all taxes and duties is the responsibility of the Contractor. After implementation of GST, Railway Board advised all Railways to make an impact analysis of GST on the Works Contracts which were awarded before 01.07.2017 (administered date for GST) but execution/payment of which is pending in part or full after this date. Each of the Railway issued an extensive guideline (Joint Procedure Order) for making such impact analysis and tax neutralisation thereof. In a recent Circular bearing No. 2017/CE-I/CT/7/GST, dated 16.04.2017, Railway Board has considered Practicing Cost Accountants to certify the Work Sheet of tax liability before GST and after GST. A Contractor can engage a Practicing Cost Accountant for such tax impact analysis and certification which is required to make a supplementary agreement based on which payments will be released to the Contractor.

An in-depth study of the Contract Agreement awarded to the Contractor along with Supplementary Agreements or Revised Agreements, if any needs to be studied by the CMA to understand the type of work, period covered, cost elements in respect to manpower, material, machines and tax components etc. under each Schedule. Payments made upto 30.06.2017 can be ascertained from the last Bill cleared by the Railway or considering period of completion if the pricing is firm and can be ascertained in terms of period left.

All the taxes and duties which the Contractor was liable to pay during the pre-GST regime like Excise Duty on material and equipment, CST/VAT on material which was levied at different stages in the value chain, VAT on Works Contract, Entry Tax, Service Tax liability of the Contractor etc. needs a detailed analysis. Rate of taxes and duties, exemption, abatement are to be considered as per their applicability during pre-GST regime. Purchase Invoice, Quotations, Scheduled Rate of material of different authorities are the likely sources to know the unit rate and applicable tax rates in many cases. VAT Returns, CST Returns, Entry Tax Returns, Service Tax Returns, Excise Returns filed during the pre-GST regime can help one to understand the applicable tax rate for inward and outward supply made by a Contractor in the erstwhile tax regime.

Input Tax Credit (ITC) available to the Contractor (whether availed or not by the Contractor by filing return), both in pre-GST and GST regime on the balance value of Works Contract is to be adjusted while making such tax impact analysis.

### Reference

1. [https://en.wikipedia.org/wiki/Indian\\_Railways](https://en.wikipedia.org/wiki/Indian_Railways)
2. [http://www.indianrailways.gov.in/railwayboard/view\\_section\\_new.jsp?lang=0&id=0,1,304,366,498,1891](http://www.indianrailways.gov.in/railwayboard/view_section_new.jsp?lang=0&id=0,1,304,366,498,1891)
3. <http://www.cbic.gov.in/htdocs-cbec/gst/central-tax-rate-notfns-2017>
4. Circulars issued by Railway Board from time to time as available in public domain