CAG Report

Why in news?

The latest audit of the Union Government's accounts reveals that the Finance Ministry retained over 40% of all cess collections in 2018-19.

How much was retained?

- The Finance Ministry retained the cess collections in the Consolidated Fund of India (CFI).
- As many as 35 different cesses, levies and charges yielded ₹2.75-lakh crore in the year.
- But only ₹1.64-lakh crore was remitted to the specific reserve funds for which these cesses were levied.

What does this reveal?

- This helped understate India's revenue and fiscal deficit numbers.
- It also helped to understand that the purposes for which Parliament approved such cesses were not met.

Is the urge for a corrective action new?

- The Comptroller and Auditor General (CAG) of India has urged the Finance Ministry to take immediate corrective action.
- This is not the first time.
- Over 10 years, the ₹1.25-lakh crore of cess collected on crude oil was transferred to an oil industry development body it was meant to finance.
- Part of the hefty cess collected as additional excise duties on petrol and diesel, ostensibly to finance roads and infrastructure, was retained.

What were the other cesses retained?

- A new 4% Health and Education Cess on income tax was partly deployed towards education, but no fund was created for health.
- Ditto with a Social Welfare surcharge levied on customs.
- None of these lapses can be considered unintentional.

What is the issue with the GST Cess?

- The GST Compensation Cess, over which the Centre and several States have now locked horns, was not spared either.
- Around ₹47,272 crore was not remitted to its rightful account over the first two years of GST.
- The compensation cess transfers to States were accounted as Grants-in-aid to States, distorting the Centre-States fiscal math.

What should the Centre do?

- As per the 14th Finance Commission's suggestions, the States' share of the divisible pool of taxes was raised to 42%.
- After this, the Centre's reliance on cesses and surcharges to raise revenue has increased significantly.
- Cess receipts are not part of this 42% pool.
- Though it is arguable whether such levies are in sync with a nation trying to simplify its tax regime, their intended use to fund specific public spending needs serves as an acceptable rationale.
- With a climate of distrust hovering over India's federal polity, it is critical for the Centre to **rebuild bridges**.

What is needed?

- Cesses, starting with the excise duties on petrol and diesel, need to be **rationalised**.
- Absolute **transparency** is needed in the management of cess receipts so that Parliament and the people do not wait for audit findings to learn of this subterfuge.

Source: The Hindu

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