Concerns in Utilization of Cess

What is the issue?

- Just as taxpayers have a responsibility to pay taxes, the government ought to ensure that tax proceeds are appropriately utilized.
- But the picture on utilization of the cess proceeds of the country is far from this ideal.

What is a cess?

- A cess is a tax on tax, levied by the government for a specific purpose.
- It is levied on the tax payable and not on the taxable income.
- In a sense, for the taxpayer, it is equivalent to a surcharge on tax.
- A cess can be levied on both direct and indirect taxes.
- Recent examples of cess are:
    i. infrastructure cess on motor vehicles
    ii. clean environment cess
    iii. Krishi Kalyan cess (for the improvement of agriculture and welfare of farmers)
    iv. education cess
- Unlike a tax, a cess is levied to meet a specific purpose; its proceeds cannot be spent on any other kind of government expenditure.
- E.g. the proceeds from the education cess cannot be used for cleaning the environment and vice versa
- To meet specific socio-economic goals, a cess is preferred over a tax because it is relatively easier to introduce, modify, and abolish.

How is cess proceeds managed?

- The proceeds of all taxes and cesses are credited in the Consolidated Fund of India (CFI).
- The approval of the Parliament is necessary to withdraw funds from the CFI.
- The tax proceeds are shared with the States and Union Territories according to the guidelines by the Finance Commission.
- But the cess proceeds need not be shared with them.
- In order to utilize the cess proceeds lying in the Consolidated Fund of India (CFI), the government has to create a dedicated fund.

What is the current education cess?

- The education cess, at 2%, which was first proposed in 2004, was aimed at improving primary education.
- In 2007, an additional cess of 1% was introduced to fund secondary and higher education (SHEC).
- Recently, in the 2019 Union Budget, a 4% health and education cess was announced.
- This incorporates the previous 3% education cess as well as an additional 1% to provide for the health of rural families.

What are the concerns with education cess?

- **Unutilized Fund** - There has been an increase in the amount of education cess collected via corporation tax and income tax over the years.
- From the inception of the education cess until 2019, the total proceeds have been around Rs. 4,25,000 crore.
- The dedicated fund created for primary education is the 'Prarambhik Shiksha Kosh' (PSK) in 2005.
- Likewise, that for higher and secondary education is the 'Madhyamik and Uchchtar Shiksha Kosh' in 2017.
- It is uncertain why the government set up this dedicated fund for higher and secondary education in 2017, 10 years after the introduction of SHEC.
- But it is contentious that this fund had remained dormant as of March 2018.
- Comptroller and Auditor General audit data show that around Rs. 94,000 crore of SHEC proceeds is lying unutilized in the CFI.
- **Expenditure** - The unspent account, if seen in conjunction with the expenditure on education, reveal the high degree of economic injustice.
- In 2017-18, the public expenditure on school and higher education was estimated to be around Rs. 79,400 crore.
- In other words, the cumulative unutilized SHEC funds far exceeded the expenditure on both school and higher education in 2017-18.

What is the way forward?

- Taxes in democratic societies indicate the presence of a collective socio-economic vision aimed at improving livelihoods.
- Since a cess is introduced with a specific purpose, it is unjustified when the proceeds remain unutilized for so many years.
- Moreover, the current context is that of self-imposed fiscal discipline and the consequent reduction of public expenditure.
- So the opportunity cost of unutilized education cess proceeds is significantly

high.

- It is high time that the government immediately begins utilizing cess proceeds.
- Importantly, it should also publish an annual account of the manner in which they have been utilized.

Source: The Hindu

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