Environmental Cess Vs GST

What is the issue?

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- GST has abruptly replaced three environment related cess levies, thus disrupting the budgetary allocations for environmental protection.
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What are the subsumed cesses?

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- GST subsumed several central & state levies under it.
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- It includes Environment cesses - Water Cess, Clean Energy Cess and Swachh Bharat Cess.
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- **Water Cess** was levied on water consumption by industry and local authorities.
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- It was used to augment the resources of the Central and State pollution control boards to address water pollution.
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- **Clean Energy Cess,** a kind of carbon tax was levied on coal produced in India or imported coal at the rate of Rs. 400/tonne in 2016, to finance clean environment initiatives.
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- **Swachh Bharat Cess** was levied on all taxable services, to be used for financing Swachh Bharat initiative.
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What will be the impact?

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- The abolition of these cesses when the Government is projecting itself as a global leader in clean energy seems both symbolically and financially ill-timed.
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- Water cess is the second most important source of revenue for State Pollution Control Boards.
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- Subsuming it under GST will be a huge setback for boards which already suffer from poor technical capacity and autonomy.
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- The loss of revenue can be compensated through additional budget allocations.
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- But the channelling of money through State budgets will make the boards even more vulnerable to the discretion of State, which has poor record of empowering the pollution boards.
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- Funds from Clean Energy Cess benefits Ministry of Water Resources, Environment and Drinking water.
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- It contributes almost 50 per cent of the budget of the Ministry of New and Renewable Energy for 2016-17.
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- The coal cess is being continued at the same rate under the GST but will now contribute to the “GST - Compensation Fund”, a corpus meant for compensating States for revenue losses arising from the shift to GST.
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- Subsuming Swachh Bharat Cess under GST will require significant public expenditure to meet the targets.
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- It remains to be seen if Budget 2018-19 will adequately compensate ministries for the loss of revenue.
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- The fact that these cesses were unceremoniously abolished shows that environmental issues aren’t a policy priority for the government.
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How to approach the future?

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- The Government should ensure that functional schemes aren’t starved for

the need of funds.
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- This opportunity should also be used to introspect on the changes required to encourage more efficiency in resource use, prevention of pollution and management of waste.
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- Perhaps it’s time for a Green Tax Council, at par with the GST Council, to design and implement environmental fiscal reform in India.
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Quick Recap

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Cess

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- Unlike usual tax, a cess is levied to raise funds for a specific purpose.
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- The proceeds are first credited to the Consolidated Fund of India, and the Centre may, after due appropriation by Parliament, utilise such sums of money for purposes designated under the cess.
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Source: Business Line

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