Need for Environmental Tax Reforms - Eco Tax

What is the issue?

- The increased need for spending on health and the mounting fiscal deficit makes sustained health financing in India a huge challenge.
- In this context, here is a look at the what and why of environmental tax as alternative sources of revenue.

How is household spending on health?

- As per WHO data, in India in 2011, 17.33% of the population made more than 10% of their income as out-of-pocket payments on health.
- The percentage was higher in rural areas compared to urban areas.
- Globally, the average was 12.67%.
- Similarly, 3.9% of the population in India made more than 25% of out-of-pocket payments on health, with 4.34% in the rural areas.

What is the policy suggestion?

- The National Health Policy of 2017 suggested increasing the public spending on health from 1% to 2.5-3% of GDP.
- The Economic Survey 2019-20 noted that doing so could decrease out-of-pocket expenditure from 65% to 30% of overall healthcare expenses.
- The COVID-19 pandemic necessitated countries to rethink climate change and the need for preservation of the environment.
- Considering these two, the need for alternate sources of health financing through 'fiscal reforms for managing the environment' is increasingly felt.

What are the available options?

- Environment regulation may take several forms:

i. command and control
ii. economic planning/urban planning
iii. environmental tax (eco tax)/subsidies
iv. cap and trade

- India currently focuses majorly on the command-and-control approach in tackling pollution.

- So, environmental tax reforms could now be considered as an option.
- This generally involves three complementary activities:

1. eliminating existing subsidies and taxes that have a harmful impact on the environment
2. restructuring existing taxes in an environmentally supportive manner
3. initiating new environmental taxes / eco tax

How about the eco tax?

- An eco tax involves evaluation of the damage to the environment based on scientific assessments.
- This would include the adverse impacts on the health of people, climate change, etc.
- Ideally, the eco tax rate should be equal to the marginal social cost arising from the negative externalities of a project.
- This applies to externalities associated with the production, consumption or disposal of goods and services.

How should eco tax be in India's case?

- The success of an eco tax in India would depend on its architecture i.e. how well it is planned and designed.
- In India, eco taxes can target three main areas:

1. differential taxation on vehicles in the transport sector purely oriented towards fuel efficiency and GPS-based congestion charges
2. in the energy sector, taxing fuels which feed into energy generation
3. waste generation and use of natural resources

- There is also a need to integrate environmental taxes in the GST framework.
- It is also essential that the eco tax regime remains credible, transparent and predictable.

What is the likely effect?

- The implementation of an environmental tax in India will have three broad benefits: fiscal, environmental and poverty reduction.
- It an mobilise revenues to finance basic public services.
- It can also be used to reduce other distorting taxes such as fiscal dividend.
- In developing countries like India, it can be used for the provision of environmental public goods and addressing environmental health issues.

- It helps internalise the externalities, and the said revenue can finance research and the development of new technologies.
- But, environmental regulations may also have significant costs on the private sector in the form of slow productivity growth and high cost of compliance, possibly resulting in price increase.
- However, global experiences suggest negligible impact on the GDP, though such revenues have not necessarily been used for environmental considerations.
- Considering all these, this is the right time for India to adopt environmental fiscal reforms.

Source: The Hindu

