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Cess pool

The Centre must keep the faith of Parliament, States and the people, and stop misusing cess

The latest audit of the Union Government's accounts tabled in Parliament this week reveals that the Finance Ministry quietly retained over 40% of all cess collections in 2018-19 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 just around ₹1.64-lakh crore was remitted to the specific reserve funds for which these cesses were levied. This not only helped understate India's revenue and fiscal deficit numbers but also meant that the purposes for which Parliament approved such cesses – be it health, education or infrastructure development – were not met. The CAG of India has, not for the first time, urged the Finance Ministry to take immediate corrective action. Over 10 years, not a paisa of 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 similarly retained in the CFI. The GST Compensation Cess, over which the Centre and several States have now locked horns, was not spared either, with ₹47,272 crore not remitted to its rightful account over the first two years of GST. Worse, compensation cess transfers to States were accounted as Grants-in-aid to States, distorting the Centre-States fiscal math.

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 inadvertent. It is no secret that the Centre's reliance on cesses and surcharges to raise revenue has increased significantly since the States's share of the divisible pool of taxes was raised to 42% in line with the 14th Finance Commission's suggestions. Cess receipts are not part of this pool and 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, provided it is adhered to. With a climate of distrust hovering over India's federal polity – be it over the GST compensation dispute or the passage of Farm sector Bills without taking States on board – it is critical for the Centre to rebuild bridges. Cesses, starting with the excise duties on petrol and diesel, need to be rationalised, even if just to provide succour to a citizenry whose incomes and job prospects have been pummelled by the pandemic and a shrinking economy. Finally, absolute transparency is needed in the management of cess receipts so that Parliament and the people do not need to wait for audit findings to learn of this subterfuge.