

The forgotten funds

The government must utilise cess proceeds and publish an annual account of how they have been spent



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The season of filing tax returns brings with it an increased emphasis on the accountability of the private sector towards the government. In this period of accounting and accountability, as citizens, it is equally important to apply the same principles to the working of the government. A key area is the social accounting of the education cess, which is a compulsory contribution made by all taxpayers, both individuals and firms.

The difference

A cess 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. Direct taxes on income are compulsory transfers of private incomes (both individual and firm) to the government to meet collective aims such as the expansion of schooling infrastructure, an increase in health facilities, or an improvement of transportation infrastructure. A cess can be levied

on both direct and indirect taxes. The revenue obtained from income tax, corporation tax, and indirect taxes can be allocated for various purposes. Unlike a tax, a cess is levied to meet a specific purpose; its proceeds cannot be spent on any kind of government expenditure. Recent examples of cess are: infrastructure cess on motor vehicles, clean environment cess, Krishi Kalyan cess (for the improvement of agriculture and welfare of farmers), and education cess. To make the point clear, the proceeds from the education cess cannot be used for cleaning the environment and vice versa.

From the point of view of the government, the proceeds of all taxes and cesses are credited in the Consolidated Fund of India (CFI), an account of the Government of India. It constitutes all receipts, expenditures, borrowing and lending of the government. The CFI details are published annually as a part of the Union Budget documents. And the approval of Parliament is necessary to withdraw funds from the CFI. While the tax proceeds are shared with the States and Union Territories according to the guidelines by the Finance Commission, the cess proceeds need not be shared with them.

To meet specific socioeconomic

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goals, a cess is preferred over a tax because it is relatively easier to introduce, modify, and abolish.

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). And recently, in the 2019 Union Budget, a 4% health and education cess was announced which incorporates the previous 3% education cess as well as an additional 1% to provide for the health of rural families.

What data show

Data from various years of the Union Budget show an increase in the amount of education cess collected via corporation tax and income tax. Initially, the education cess was also levied on customs, excise, and service taxes. When tax proceeds increase, the cess collected also rises. From the inception of the education cess until 2019, the

total proceeds have been ₹4,25,795.81 crore.

In order to utilise the cess proceeds lying in the CFI, the government has to create a dedicated fund. As long as a dedicated fund is not created, the cess proceeds remain unutilised. The dedicated fund for primary education is the 'Prarambhik Shiksha Kosh', or PSK, (created in October 2005, a year after the cess was introduced) while that for higher and secondary education is the 'Madhyamik and Uchchatar Shiksha Kosh' (set up in August 2017). It is baffling why the government set up the dedicated fund for higher and secondary education in 2017, 10 years after the introduction of SHEC; it is also shocking that this fund has remained dormant as of March 2018.

Moreover, data from the 2017-18 annual financial audit of government finances conducted by the Comptroller and Auditor General (CAG) show that ₹94,036 crore of SHEC proceeds is lying unutilised in the CFI. In fact, it appears that the government finally set up the 'Madhyamik and Uchchatar Shiksha Kosh' after consecutive CAG reports, repeated Lok Sabha queries, and newspaper articles.

The degree of economic injustice becomes sharper when the unspent account is seen in conjunction with the Central govern-

ment's expenditure on education; for example, in 2017-18, the public expenditure on school and higher education was estimated to be ₹79,435.95 crore. In other words, the cumulative unutilised SHEC funds far exceeded the expenditure on both school and higher education for the year 2017-18.

Going forward

Taxes in democratic societies indicate the presence of a collective socioeconomic vision aimed at improving livelihoods. Just as taxpayers have a responsibility to pay taxes, the government ought to ensure that tax proceeds are appropriately utilised. Since a cess is introduced with a specific purpose, it is completely unjustified when the proceeds remain unutilised for so many years. Moreover, in the current context of self-imposed fiscal discipline and the consequent reduction of public expenditure, the opportunity cost of unutilised education cess proceeds is significantly high. Finally, it is imperative that the government immediately begins utilising cess proceeds and also publishes an annual account of the manner in which they have been utilised.

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