

CESS AND ITS ROLE IN UNION FINANCE – ECONOMY

NEWS: The Comptroller and Auditor General (CAG) has flagged a Rs 3.69 lakh crore shortfall in transferring cess collections to their intended funds, bringing into focus the purpose and proper utilisation of such levies.

Cess – Purpose and Nature

1. A cess is an additional levy on existing central taxes or duties, provided for under Article 270 of the Constitution.
2. Its purpose is clearly defined in the law creating it, and it must be used exclusively for that purpose.
3. Example: *Education Cess (for funding education initiatives), Swachh Bharat Cess (for sanitation programs).*
4. Proceeds are credited to the Consolidated Fund of India (CFI), but unlike general taxes, the revenue is earmarked for the stated purpose and cannot be diverted to general expenditure.
5. Importantly, cess collections are not part of the divisible pool of central taxes, meaning they are not shared with states.
6. This gives the Union Government greater fiscal control, though it has been criticised for limiting states' share in central revenues.

Surcharge – Purpose and Nature

1. A surcharge is a "tax on tax" provided for under Article 271 of the Constitution.
2. It is imposed by Parliament on existing central taxes (like income tax) to raise additional revenue.
3. Unlike cess, surcharge has no earmarked purpose; the proceeds can be used like general central revenue.
4. It is progressive in nature, imposed mainly on high-income individuals and companies, thereby addressing income disparity and social equity.
5. Example: Surcharge on individuals earning more than ₹50 lakh per year, with rates increasing at higher income slabs.
6. Like cess, surcharge proceeds are also credited to the CFI and not shared with states.
7. The 13th and 14th Finance Commissions recommended reducing over-reliance on surcharge revenues, as this practice reduces the resources available to states.

Tax vs. Cess – Differences in Purpose and Usage

Aspect	Tax	Cess
Definition	A compulsory levy by the government on income, property, transactions, or production, forming a broad revenue base.	An additional levy on an existing tax or duty, imposed for a specific, earmarked purpose.
Revenue Use	Proceeds go to the Consolidated Fund of India, used for general expenditure of government (defence, health, education, etc.).	Proceeds go to the Consolidated Fund of India, but must be used exclusively for the designated purpose.
State Sharing	Part of the divisible pool of taxes – shared with states as per the Finance Commission's formula.	Generally not shared with states – retained entirely by the Union Government.
Flexibility of Use	High flexibility – government decides spending priorities.	Low flexibility – funds must be spent only for the purpose specified in the cess law.
Examples	Income Tax, GST, Corporate Tax, Customs Duty.	Education Cess, Krishi Kalyan Cess, Swachh Bharat Cess.

Cess vs. Surcharge – Key Distinction

1. **Common point:** Both are not part of divisible pool → states do not get a share.
2. **Difference in usage:**
 - a. **Cess:** Must be earmarked and spent only on the purpose for which it is levied.
 - b. **Surcharge:** Becomes part of general Union revenues and can be spent like any other tax proceeds.