

Mess of a Cess

The road industry has been burdened with a number of taxes, one of them being cess on diesel. Many years ago the Government introduced cess on diesel for road development. The amount of cess was a mere 50 paise and the industry did not object to the same as it was happy that road development was being considered seriously by the Government. However the Government shocked the transporters when it also introduced toll tax. The transport industry voiced its concern on having to pay so many taxes for using roads. However Cess on diesel was a very easy mechanism for the Government to collect funds.

After a couple of years the Government increased the cess on diesel to Rs 2 per litre. The purpose of increasing the cess once again was road development. The amount collected as cess was huge by any standards and should have been sufficient to fund the road projects. But that was not to be and toll tax too was growing steadily. The transporters were in a haze on how to collect the same from their customers. While some transporters claim that they are unable to recover these costs from the customers due to excessive competition, there are others who are getting the same

compensated. But at the end of the day the transportation cost is increasing.

All this while, toll tax was increasing steadily and the government was raking in a lot of funds – on account of toll tax and cess. The Modi government was lucky of sorts because when it came into power the international crude price started falling steadily. The government would have done a huge favour to the people of the country if it had passed on the entire drop to the people. However on one hand the government did reduce the prices, on the other hand it increased the cess on diesel. In the financial year ended March 31, 2015, the government collected Rs 21,054.43 crore from cess on fuel. In the previous year In FY 2013-14, the

government collected Rs 16,401.91 crore, which was an increase of 22 percent. In the current year the collection from cess on fuel would be much higher because of the steep hike in cess from Rs 2 per litre to Rs 6 per litre. At the same time fuel consumption too has gone up, which will lead to additional revenue for the Government.

It would be interesting to know what the Government is doing with all this money, which it is collecting for road development. There is no doubt that road development is taking place at a rapid pace across the country. However if so much money is being collected by way of cess, is there a case where toll tax can be reduced? Currently on many routes the average toll tax works out to Rs 5 per km, which is quite



steep considering that the transporters are paying various other taxes for which it is entitled to Good Roads. However it seems that the only criterion for getting good roads is toll tax. The other taxes let the transporters have roads – the condition of which cannot be guaranteed.

A recent report by CAG says that a lot of funds collected by way of cess are lying unused. The Government perhaps doesn't realise these unused funds add up to the economic expenses of the transport industry and can run into crores of rupees. If the Government doesn't intend to use these funds or doesn't know how to use these funds, what is the sense in collecting the same? Instead of keeping the funds in their vaults and later on transferring them for other purposes, the Government can instead bring down the cess on diesel and do a favour on the economy of the country. For years now experts have been pointing

out that logistics costs in India is higher as compared to other developed or developing nations. The experts have specifically pointed out that cost of road transportation is much higher. However nothing is being done to address this issue. There are various hurdles on the highways that lead to additional consumption of time and money. And there are these taxes which add up to the cost of transportation. Why collect this money when it is not going to be used?

The above is something that the Government will have to work out and at the same time also realise that they cannot be burdening the road transport since the impact of the same is felt by the economy as well. The transporters are required to pay huge amount of taxes of different kinds that eventually fall upon the end user – or the AAM AADMI if you may like to call it. Cess has been defined as a last resort tax to garner funds for

a particular purpose. However it seems the Government seems to be enjoying this easy windfall of money and that perhaps explains why it increased cess from Rs 2 to Rs 6. It would be interesting to see how the Government would react once the international crude oil price starts moving northwards. Will it be ready to shed some cess to make sure that fuel prices do not go out of hand?



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