

IMPACT OF GREEN TAX REFORMS IN INDIA

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Abstract

Green tax is an environmental tax that aims at ensuring that polluters are duly punished for the activities that deter the environment by charging them a direct taxes to perpetrators on emissions is an economical means to provide them with an incentive to lower their pollution to the extent where further reduction could potentially turn out to be more expensive than paying the tax itself. Global warming has brought a big corner for environmental issues in many countries; including UK difference studies have suggested the need for swift and urgent actions to alleviate the possible costs of climate change. Introducing taxes so called environment taxes, changes trade permits and other economic measures might play on important role to achieve costs effective control of greenhouse gas emissions. This implies that environmental tax revenues have increased expectantly year on year basis, causing doubts to consumer's mind on two aspects. This creates a need to develop to new technologies such as zero per cent CO₂ emission is allowing more reduction at a cost below the rate of tax.

Key words: Green tax, environmental tax, technology, green house, revenue, pollution.

1. Introduction

Pollution is considered as the cost of creating products that is not borne by the producer/polluter. The adverse effects of pollution, such as climate changes, impaired health and noxious odours are forms of an impaired environment borne by everyone whether or not they contribute towards pollution. Indirect taxes, like taxes on alternative policies or related goods such as authorized technology standards have the potential to reduce pollution, but the costs involved may be rather high. For instance, increasing gasoline tax in an effort to lower environmental damage caused by automobile emissions provides no incentive to drivers to ensure that the pollution control equipment in their car is maintained, and making pollution control equipment taxes charged on direct emissions are cost-effective due to the fact that they make sure that those who need to start working towards pollution reduction. Firms and households that find pollution reduction expensive will continue to cause pollution and will have to pay more tax as a result while firms and households that find it less expensive can cut lower their pollution and thus lower their taxes. Another fine alternative to emission taxes is a trade able permit scheme. It is as cost-effective as the levy of direct taxes as these schemes reduce the amount of permissible emissions by issuing a certain amount of emissions permits. These permits can then be traded among polluters. The permit price is similar to tax in the sense that polluters who find it expensive to lower their emissions will instead purchase permits that allow them to continue emitting pollutants while those who can reduce emissions at a lower price can do so before putting up their unused permits for sale.

2. Green tax and reforms

Green tax or pollution tax or environmental tax as it is also called is an excise duty on goods that cause environmental pollutants. According to economic theory, charging taxes on emissions that cause pollution will lower environmental impairment in a cost effective manner by encouraging behaviour changes in households and firms that need to decrease their pollution. Green tax reforms are popular in some circles not only because of their direct effect on reducing pollution but also because their revenue capacity may allow reducing other more distortional taxes. Despite their potential benefits, the political implementation of green tax reforms is not straightforward.

3. Review of literature

World Bank (2005), from the governments and firms' perspective, tax burdens and revenues should further be stable in order to minimize uncertainty. Taxes should minimize resource costs involved in assessing, collecting and paying the taxes administrative efficiency. Tax burdens should be equitable and manageable, meaning that the ability to pay should be an important criterion for the level of the tax and the selection of the tax base.

PWC and World Bank (2011), while it is difficult to find robust empirical evidence, it is generally understood that fiscal frameworks conducive to sustained growth often feature broad-based taxation systems with few exemptions, relatively low marginal rates and efficient public expenditure regimes. While there are many EFR instruments, which fulfill the aforementioned criteria, these fiscal goals are sometimes at odds with the environmental objectives of an EFR. The first goal may be to correct behavior:

Jaeger (2012) brings out the fundamental tension between the fiscal and environmental goal behind a tax. The fiscal goal is to raise money without affecting or distorting behaviour, while the environmental goal is to explicitly correct or stop behaviour in a way that eliminates the inefficiencies from environmental damage.

4. Objectives of the study

1. To study the effectiveness and impacts of environment tax reforms.
2. To examine the environment tax reforms and their economic and social implications.

5. Green tax on vehicles

Green tax on vehicles in India is a relatively new trend, but RFID tags are being given and CCTV cameras have been deployed at border entry points in Delhi to ensure that commercial vehicles that enter the city will be monitored for emissions. Environmental compensation charge will be imposed on pollutants depending upon the vehicle's size. The original fines levied by the government ranged

between Rs.700 and Rs.1300 for two-axle trucks and three- and four-axle trucks respectively, but charges have doubled since with light vehicles and two-axle trucks urged to pay Rs.1400 and three- and four-axle trucks paying Rs.2600 every time they pass through the city.

6. Green tax for cars and two wheelers

The government of Maharashtra decided to impose a green tax on private vehicles that are older than 15 years, while commercial vehicles used for over eight years will also be subject to the tax.

7. Sources and effects of air pollution

There are various sources of air pollution in India such as vehicular pollution, dust, biomass and diesel gen sets among others. The number of acute respiratory infection cases in India is commonly attributed to rising air pollution in the country. Around 3.50 million cases of acute respiratory infection were reported in 2014, according to the National Health Profile. According to WHO estimates, India has the highest number of reported deaths from respiratory ailments.

TABLE 1
Tax to be Paid Every Five Years

The tax applicable to private vehicles older than 15 years	The tax applicable to commercial vehicles older than eight years
Two wheelers: Rs.2000 Diesel vehicles: Rs.3500 Petrol vehicles: Rs.3000	Auto rickshaws: Rs.750 Light good vehicles: Rs.2500 Six-seater taxis: Rs.1250 Vehicles with more than 7500 kg capacity: 10% of annual tax Service vehicles: 2.5% of annual tax Contract buses: 2.5% of annual tax Tourist buses: 2.5% of annual tax

8. Pollution tax in India

Currently there is no tax that is enforced for pollution in India. An environment compensation charge was implemented by the National Green Tribunal to curb the increasing automobile emissions in New Delhi. It is imposed only on commercial vehicles. According to a WHO report, India has 13 out of the 20 most polluted cities in the world. It is important to note that China is in an unenviable position of being the world's largest carbon emitter at 8320 MT followed by US at 5610 MT and India at 5164 MT. According to the report, Delhi is the most polluted city in India based on various parameters such as levels of nitrogen oxide, sulphur dioxide and particulate matter.

9. Carbon tax

The environment compensation charge is the second most important anti-pollution directive of the Supreme Court of India for boosting the ambient quality in Delhi. In 1998, the apex court directed the buses, trucks, auto-rickshaws and taxis to opt for CNG fuel. On coal, the government said there is a need to find balance between taxing pollution and the price of power. The cess on coal mined within the country and imported is expected to boost the efficiency of coal-based power plants. There is a view that excise duty on petrol and diesel also act as an implicit carbon tax.

TABLE 2

The Levels of Particulate Matter Pollution across Various Cities

Cities	Pollution level (particulate matter - ug/m3)
Delhi	261
Amritsar	219
Ludhiana	214
Mumbai	97

10. Pollution tax/environment compensation charge

There is no nation-wide pollution tax currently being enforced in India. The National Green Tribunal initiated an environment compensation charge to rein the rising automobile emissions in New Delhi. Backing the NGT, the Supreme Court, in October 2015, passed an order on levying of ECC on light commercial vehicles (Rs.700) and three-axle vehicles (Rs. 1300). According to reports, emissions from trucks account for over 1/3rd of air pollution in New Delhi given that around 40000 trucks fly in Delhi on a daily basis while around 13000 use the capital city as a transit route. Commercial vehicles which enter the city of Delhi are responsible for 22 per cent of nitrogen oxide and 30 per cent of particulate matter, according to a study by Centre for Science and Environment. Intriguingly, 40-60 per cent of heavy trucks and 23 per cent of commercial vehicles enter Delhi to save on toll charges. The environment compensation charge is levied on heavy duty commercial vehicles and not on private cars. Also, vehicles which carry essential commodities such as oil and food articles and ambulances do not have to pay the environment compensation charge.

11. Merits and Demerits of Carbon Tax and Environment Compensation Charge

- Notwithstanding the introduction of the carbon tax and environment compensation charge, many commentators believe that India has a long way to go in terms of coal and petroleum pricing structures which have to move in tandem with developments in the country's ambitious solar power

programme. Tax on carbon will induce firms/plants to push for green production processes in addition to raising revenue which can be used to promote environment-friendly initiatives.

- It is fairly well established that significant tax and investment reforms can have major effects on business Investments. With the most open economy along with significant tax reforms, Indian government has certainly put India a head of all countries to attract business and thereby creating growth opportunities for global businesses and growth of country.
- While tax reforms were being carried on, Government in the meantime improved power and infrastructure situation. Tax being one of the most important factors in making any country to become more competitive, globally.
- Opening up to the outside world for promoting development without any significant tax and investment reforms may render the whole exercise useless. In present times, tax competitive is more about stable, clear and seamless tax policies instead of only reduction in tax rates.
- In this globalized environment, it is important for government to be innovative, to understand business's needs and to serve the right investment atmosphere with the right policies. Similarly for companies, selection of right country for their manufacturing/ production is essential as they need to justify their capital expansion costs, profitability and decisions. India is scoring on all fronts and with renewed focus on tax reforms; India has been able to create an impression about its prudent tax and investment reforms.

12. Decisions to ensure business friendly approach and tax competitiveness

- Reduction in corporate tax rate for MSMEs to 25 per cent from 30 per cent to make them competitive.
- The profit-linked deduction announced to the start-ups for 3 years out of 7 years.
- Tax holidays to SEZ units for 15 years if these become operational before 31st March 2021.
- Focus on signing advance-pricing agreements to avoid transfer pricing disputes.
- Exchange of information electronically in tax scrutinizes to avoid harassment.
- Revisions in tax treaties with many countries.
- Most advanced online tax filing system in world.
- Implementation of Goods and Service Tax in place of many taxes like VAT, service tax, excise, entry tax, octroi tax thus bringing simplification.

- Focus on non-cash transactions thereby bringing more people under tax system and improve GDP.
- Abolition of Foreign Investment Promotion Board. Instead standard-operating procedures for processing applications have been framed to clear foreign investment in fixed time.
- Focus on black money and curbing cash transactions to enhance GDP.
- Exports incentives like duty drawback, duty exemption/remission schemes, focus products & market schemes.
- Repatriation of funds/investments/profits is very easy.
- India has already rolled out anti-tax avoidance regulations i.e. place of effective management from assessment year 2017-18 and the general anti-avoidance.

13. Rules from 2018-19 to bring more clarity on tax laws

For more than past 2 decades, protectionist tax policies gave undue tax advantage to US MNCs making them bigger than many countries. As per tax regulations in US, companies are allowed to hold foreign profits outside US without paying U.S. corporate tax on these profits. The tax is applicable only when profits are repatriated to the United States. US companies in turn setup businesses in tax free jurisdictions thereby avoiding paying taxes anywhere. This has not only harmed US government but also other countries and companies in other countries. The sheer quantum of profits, which as per estimates is more than \$ 3 trillion, is bigger than economics of many countries together. China exploited this US tax system to their advantage by offering reduced tax rate to these MNCs in lieu of setting manufacturing base there. China further offers reduced tax rate of 15 per cent to high technologies enterprise & encouraged businesses along with 10 per cent tax on small-scale enterprise. India's tax reforms, competitive policies along with major focus on skill development of countrymen offer significant edge in terms of cost competitiveness and future growth.

14. Conclusion

It is useful to underline that impact on GDP as well as increase economic and welfare benefits to the country. Environment pollution is an issue that all political leaders in the world wide are worried about. Day to day, lots of global warming issues are come and go. The government benefits from taxes raised by tax payers. One is technological innovations and no awareness about green tax on tax payers. Hence, creating awareness to the general public and also industries is the need of the hour.

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