



Cess and its Role in Union Finance

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Why in 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**.

What is the Purpose of Levying a Cess?

- **About:** A cess, recognized under **Article 270** is an **additional tax levied by the Government of India** for a **specific purpose**. It is levied on top of existing taxes or duties listed in the **Union List**.
- **Purpose:** Cess is distinct from regular taxes as it is **earmarked for a designated purpose**. The purpose of a cess must be clearly stated in the law imposing it and should be for a Union purpose, outside List II (State List) of the [Seventh Schedule](#).
 - Cesses are **named after their purpose** (like **Education Cess** or **Swachh Bharat Cess**) and must be used only for that purpose, **without being diverted for general government expenditure**.
- **Role in Union Finance:** Proceeds from a cess, along with surcharges levied by the Union, are credited to the **Consolidated Fund of India** and are excluded from the divisible pool of taxes, remaining under the Union's control.

Surcharge

- **About:** **Article 271 of the Indian Constitution** empowers Parliament to impose a surcharge on certain taxes and duties for Union purposes.
 - This surcharge is in addition to the existing taxes and duties, often referred to as a **"tax on tax."**
- **Applicability:** Applied to individuals, companies, and other taxpayers in certain income brackets. Usually applicable when income exceeds Rs 50 lakh in a financial year.
 - The rate **varies** based on income level and type of income.
- **Purpose and Nature:** It is progressive in nature (higher earners contribute more), it promotes social equity and addresses income disparity
 - **Increases total tax liability** for high-income taxpayers.
- **Cess vs. Surcharge:** Both Cess and surcharge are credited to **Consolidated Fund of India (CFI)** and are not shared with the states but differ in usage.
 - Surcharge is spent like other taxes, while cess must be allocated separately and used only for its specific purpose.

The **13th and 14th Finance Commissions** upheld the exclusion of surcharge from the divisible tax pool, but recommended reducing the Centre's dependence on surcharge revenues.

How do Tax and Cess Differ in Purpose and Usage?

Aspect	Tax	Cess
Definition	Government levy on income, property, etc.	Additional levy on an existing tax or duty for a specific purpose
Revenue Use	Goes to Consolidated Fund, used generally	Credited to Consolidated Fund but used only for designated purpose
State Sharing	Shared with states	Generally, not shared with states
Examples	Income Tax, GST, Corporate Tax	Swachh Bharat Cess, Education Cess, Krishi Kalyan Cess

UPSC Civil Services Examination Previous Year Question (PYQ)

Prelims

Q. The sales tax you pay while purchasing a toothpaste is a (2014)

- A. tax imposed by the Central Government
- B. tax imposed by the Central Government but collected by the State Government
- C. tax imposed by the State Government but collected by the Central Government
- D. tax imposed and collected by the State Government

Ans: (D)

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