

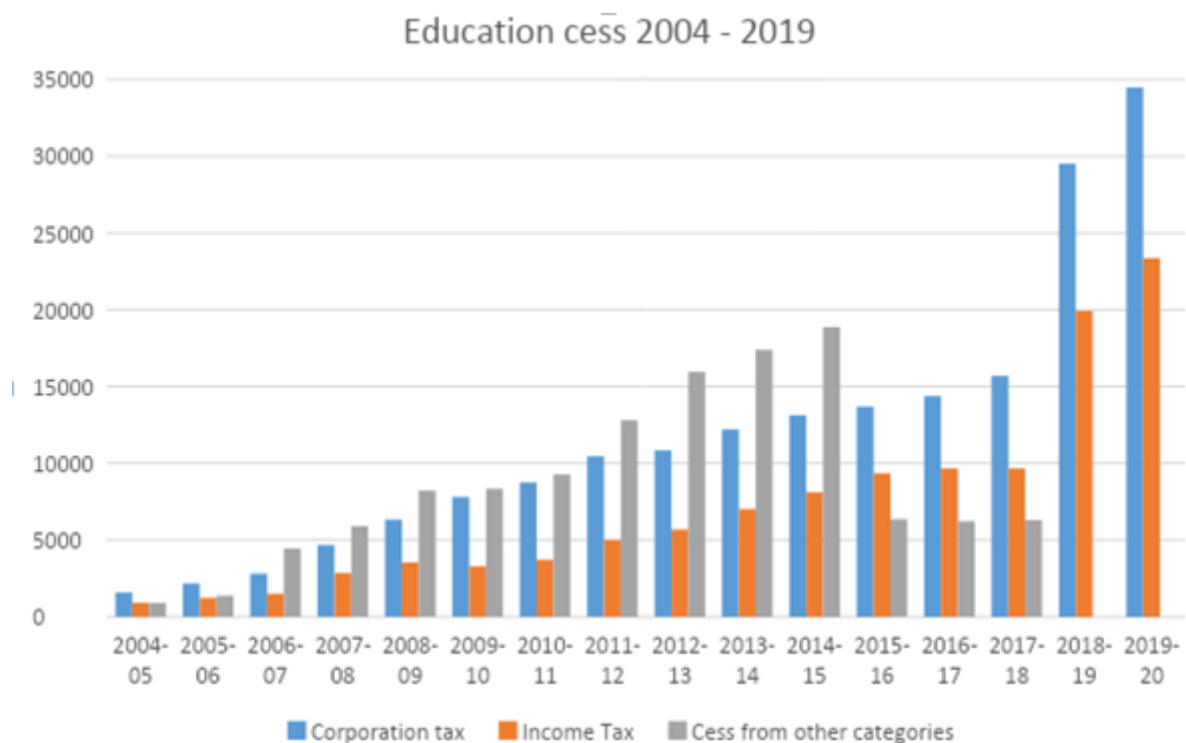


# Education Cess and its Neglect of Education

cbpolicystudies July 1, 2019 No Comments

Towards the end of March, we all rush to complete our investments in the Tax Saving instruments and also furnish our declarations to save tax. There would be very many of you even despite all the exemptions end up paying taxes to the government. Ever wondered what happens to the different taxes collected from you? All taxes that are collected by the government goes to the Consolidated Fund of India (CFI) account which is then allocated for different purposes i.e. building roads, railways, parks etc. Cess is also another form of a tax which is additionally levied by the government to raise monies to meet a very specific expenditure; for example, education cess for education, Krishi Kalyan cess for improving agriculture and so on. Both the normal tax and cess collection finds its way to the government's CFI account. However, the key difference is that a cess can be used only for the purpose it has been collected and be spent through a dedicated reserve account which is set up. For e.g., education cess can be used for education purposes only. Any unspent amount for any particular year should be carried forward and be used in the next year.

## Education Cess



Source: Receipt Budget, *Union Budget*, various years.

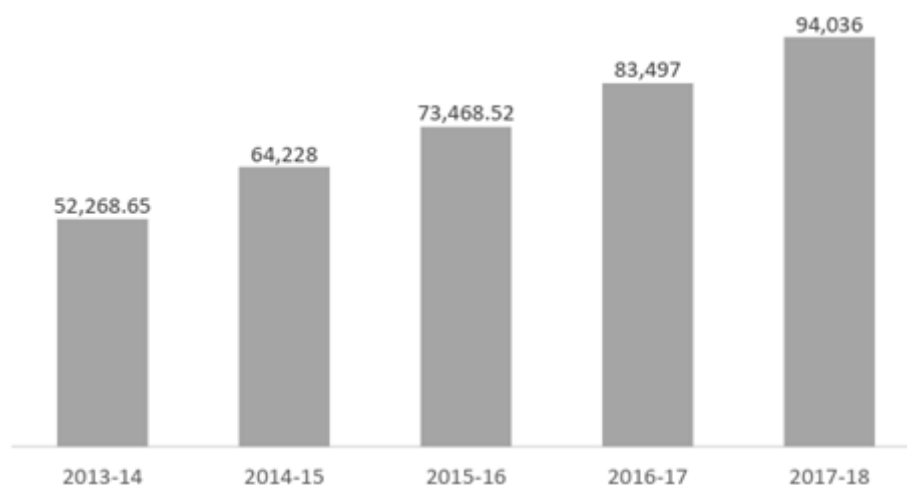
The graph shows the collection of Education Cess (Primary and Higher Secondary cess) from Corporate and Income Tax from 2004-05 to 2019-20.

Education cess collection from Corporate and Income Tax from 2004-05 to 2019-20	Rs. 3,03,400.66 crs
Education cess collection from Customs, Service tax and Union excise Duties from 2004-05 to 2019-20	Rs. 1,22,396.15 crs
Total Cess Collected from 2004-05 to 2019-20	Rs. 4,25,795.81 crs

A 2 % education cess was introduced in 2004 to meet the government's commitment to improving access to education through opening of new schools, providing students with mid-day meals and also for maintenance including payment of salaries and any special programs for improving access to children. A further 1% Secondary and Higher Education Cess was introduced in 2007-08 to take the total education cess at 3%. As mentioned earlier, any cess collected would find its way to the CFI account which then had to be allocated to a dedicated reserve fund account for disbursement to meet the specific expenditure. For primary education, the dedicated reserve fund account was called the 'Prarambhik Shiksha Kosh' (PSK).

The curious case of the Secondary and Higher Education Cess (SHEC)

Unlike the 2% primary education cess which was being spent through the 'Prarambhik Shiksha Kosh' (PSK) account, for the SHEC, there was no designated fund created to utilise the proceeds collected. This effectively meant that the Secondary and Higher education cess which was being collected from 2008 onwards remained unutilised in the Consolidated Fund of India account.



*Unutilised accumulated SHEC*

Source: Reports of the Comptroller and Auditor General of India

This is despite the Comptroller and Auditor General report highlighting the issue of non-utilisation from as early as 2013-14. Their 2017-18 report highlighted a cumulated amount of Rs. 94,036 crores under the SHEC which remained unutilised in the CFI account along with short-transfers/ under-utilisation of Rs. 1977 crores in the PSK account. One of the key reasons for this was the lack of a dedicated fund to utilise the proceeds

collected. However, this leaves one wondering how can such a large amount go unspent despite multiple reports highlighting the issue. *This is at the same time where there has been a consistent cut in the spending on education over the years.* After multiple CAG reports, newspaper articles and Lok Sabha queries, the govt finally decided to set up a Madhyamik and Uchhtar Shiksha Kosh account in August 2017. It wasn't operational until March 2018; we know this from a Loksabha query on the utilisation of funds under the SHEC, where the Minister of state in the ministry of finance responded that *"A separate fund called 'Madhyamik and Uchhtar Shiksha Kosh' is proposed to be operational from 2018-19"*.

From what we know now through the finance bill 2019, the 3% education cess has been replaced by a 4% Education and Health Cess. The mystery of the SHEC and its utilisation (or lack of it) will probably elude us until the next CAG report comes out or a very pointed question is asked in the Rajya Sabha or the Lok Sabha on the SHEC.

As we recently argued in [The Hindu](#), the government ought to utilise the funds immediately and also publish an annual account of the utilisation of education cess.

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