

## Education Cess\*

### **Background**

To give a boost to primary education in the country and in conformity with the Common Minimum Programme of the UPA government, Finance Minister P Chidambaram on July 2004 proposed to levy a Educationcess of two per cent on income tax, corporation tax, excise and customs duties and service tax. The new cess was expected to yield about Rs 4,000-5,000 crore (Rs 40-50 billion) per annum and the entire amount will be earmarked for education including provision of nutritious cooked mid-day meal. The education cess will be a 2 per cent surcharge on the total payable tax, and not 2 per cent of total income.

### **Prarambhik Shiksh Kosh**

Following the imposition of the Education cess @ 2% on all major Central Taxes through the Finance (No. 2) Act, 2004, Prarambhik Shiksha Kosh (PSK) has been established with effect from 14.11.2005 as a dedicated non-lapsable fund to receive the proceeds of the cess.

Though the cess was imposed in 2004, it was only in November 2005 that the Prarambhik Shiksha Kosh was constituted. Since budgetary allocation was not fixed at the 2004-05 level, what happened in real terms was that once the outlay for SSA and mid day meal was approved by the Planning Commission, the finance ministry simply deducted the projected cess amount to determine the budgetary support.

*The estimated receipts of Rs. 8,746.00 crore for the year 2006-07, Rs. 10,393 crore for the year 2007-08 and Rs 12817 crore for the year 2008-09 has been transferred to the Kosh.*

The shifting of the burden onto the education cess has been a gradual one. In 2006-07, the education cess accounted for Rs 8,746 crore, which nearly 55% of the total expenditure on programmes financed by the cess—SSA and mid day meal—Rs 15,723 crore.

For 2007-08, the cess accounted for 57.7% (Rs 10, 393 crore) of the Rs 17,995.02 crore dedicated for the two programmes. For the financial year (2008-09), the cess will account for 60.7% (Rs 12817 crore) a sizeable portion of the Rs 21,100 crore allocated for SSA and MDM.

So even as allocations in the Budget for these programmes increase, the gross budgetary support provided for the programmes has been on the decline. The 2% education cess was levied in the Budget 2004-05, ostensibly to ensure that more money flowed into the basic education segment as promised in the UPA government's common minimum programme.

Each year after exhausting the funds provided by way of Gross Budgetary Support for the schemes of Sarva Shiksha Abhiyan and Mid-Day Meal, subsequent expenditure on these schemes is been financed from Prarambhik Shiksha Kosh.

*The funds in the Kosh is utilised exclusively for Sarva Shiksha Abhiyan and National Programme for Nutritional Support to Primary Education (NP-NSPE) MDM.*

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\* This is a review article and is based on various sources. (Articles, Press Releases (PIB), Union Budget (govt. of India), Annual Reports MHRD, Selected educational Statistics MHRD). Prepared by Apeejay Stya Education Research Foundation. [www.aseerf.in](http://www.aseerf.in)  
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### **Comparison: Cess vs Govt. spending**

The education cess is rapidly outstripping the Budget allocations for primary education with the latter getting smaller and smaller each year with the allocation for this year even less than 2004-05 when there was no cess.

A comparison with allocations made before the 2 per cent primary education cess was introduced in the Budget of 2004-05 shows how the funds have been falling ever since. The Budget allocations for primary education last year, according to the revised estimates, was Rs 18,439 crore, of this, mid-day meal programme and Sarva Siksha Abhiyan account for Rs 11,128 crore. The latter amount was fully paid by the primary education cess of Rs 12,998 crore. So, the government's contribution for primary education in 2007-08 was Rs 5,441 crore.

**Table: 1, Cess-Pool**

Year	Revised estimate for Primary Education	2 % primary Education cess allocated to PSK	Govt. allocation minus cess
2003-04	5,219	No cess	5,219
2004-05	7,227	4,910	2,317
2005-06	11,219	6,975	4,244
2006-07	15,370	8,186	7,184
2007-08	18,439	12,998	5,441
2008-09 BE	19,777	14,844	4,933

*All figures in crores (data compiled from Union budget Document 2003-04 to 2008-09)*

In the 2008-09 Budget, the share of cess in the primary education allocation of Rs 19,777 crore is Rs 14,844 crore. If allocations for primary education before the introduction of cess are considered, then the figures are higher. In 2003-04, the government's revised estimate for primary education was Rs 5,219 crore. In the following year when cess was introduced, the government spent just Rs 2,317 crore. In 2005-06, the amount spent on primary education other than the cess remained low at Rs 4,244 crore. In the 2008-09 Budget, the allocation minus the cess is just Rs 4,933 crore, much lower than what the government spent five years ago.

### **Amount collected so far from educational cess and the Variations**

There have been variations on the amount collected from the education cess. There is confusion on how much money has been actually collected as education cess, because the ministry of finance till recently was not able to come up with one figure. *The variation in the amount collected ranges from about Rs 200 crore to Rs 500 crore.*

**MHRD:** In November 2007, minister for state for human resource development MAA Fatmi informed Parliament on the basis of information provided by the department of revenue that Rs 4,159.39 crore, Rs 7,117.07 crore and Rs 9,037.23 crore had been collected as education cess for 2004-05, 2005-06 and 2006-07, respectively. These figures are substantially different from the ones provided by the government's official accountant, the Controller General of Accounts.

**CAG:** The 2% education cess, according to figures from the Controller General of Accounts, is Rs 5,557.58 crore in 2004-05, Rs 7,322.82 crore in 2005-06, and Rs 9,466.5 crore in 2006-07. To make matters a little more ambiguous, figures available with the HRD ministry show cess amount to be Rs 4,318.51 crore in 2004-05, and Rs 7,637.75 crore in 2005-06. For the year 2006-07, the HRD ministry only had figures till February - Rs 6,833 crore.

**Finance Ministry:** As per information furnished by Department of Revenue, Ministry of Finance, the amount collected on account of Education Cess @ 2 per cent on major Central Taxes is as follows:

Year	Amount (Rs. in crores)
2004-05	4176.51
2005-06	7134.32
2006-07	9196.26
2007-08 (April-Dec, 2007)	3725.06 (amount collected on account of Education Cess on Direct Taxes)
2007-08 (April 2007-Jan 2008)	3646.00 (amount collected on account of Education Cess on Indirect Taxes)

“Education Cess is not a part of the net proceeds of the divisible pool of sharable taxes based on constitutional provisions and as per the recommendations of the Twelfth Finance Commission. The proceeds of Education Cess credited into a non-lapsable fund called Prarambhik Shiksha Kosh (PSK) are utilized exclusively for Sarva Shiksha Abhiyan (SSA) and Mid-Day Meal (MDM) Scheme. Expenditure on SSA and MDM Scheme is incurred from PSK after the funds provided by way of Gross Budgetary Support (GBS) are fully utilized. No specific allocation is made separately to States/UTs against the amount collected through Education Cess. Assistance under PSK is released to States/UTs as per the schematic pattern and budgetary allocation for SSA and MDM Scheme.” This information was given by the Minister of State for Human Resource Development Shri M.A.A. Fatmi in a written reply in Lok Sabha on (Tuesday, March 18, 2008)

### **Why the amount remained unspent**

The move to raise the cess, levied on the tax amount and not the total income, comes even as almost two-thirds of the money into the education fund remained unspent in the first eight months of the last fiscal year.

According to data from the ministry of human resource development, which oversees education programmes, the Centre and state governments released 55% of the funds for Sarva Shiksha Abhiyaan (SSA) in 2005-06. But data available for last fiscal year, through November, shows that only 39% of the funds had been released.

- The government estimated to raise Rs 5,212 crore from the additional 1% cess
- The 2% edu. cess was estimated to raise Rs 9,178.38 crore the 05-06 financial year
- It has spent only 39% of the cess funds in the first eight months of 2006-07

In the last fiscal year, the tax yielded Rs11,000 crore for SSA. The reason why much of it remains unspent, even though it gets rolled over, is because states need to spend Rs25 for every Rs75 that the Center gives. Relatively poor states, such as Bihar, Jharkhand, Uttar Pradesh and West Bengal have had trouble allocating such funds and actually make requests for less money than the Centre can give. Ironically, many of these states have the highest number of out-of-school children, meaning the SSA is primarily aimed at such states.

Over Rs 10,300 crore has been collected in a span of one year from the two per cent education cess introduced in the Union Budget 2005-06. This information was provided by Minister of State for HRD M A A Fatmi while replying to a question in Lok Sabha on the amount earned as a result of the cess in the last three years. He said a total of Rs 10,393 crore was collected in one year since the cess was introduced, adding the revenue being earned as a result of the levy was being spent on improving the standard of primary education, universal education and in implementing and expanding the mid-day meal scheme in schools.

Bureaucratic hurdles are also to blame for the funds not being utilized. "In states like Bihar, red tape is a problem," M.A.A. Fatmi, minister of state for human resource development, had earlier told. HRD officials maintain they expect fund utilization will speed up as the last fiscal year draws to a close.

The number of out-of-school children in India has fallen to 70 lakh in March 2006 from about 1.34 crore in July 2005, according to numbers compiled by states. The starting figure was compiled in a joint study by the government of India and independent market research agency Indian Market Research Bureau.

Observers say the lack of funding for government schools has forced children to remain uneducated, or resort to low-quality private schools. A study by Pratham, an NGO tracking rural education, showed a shift towards private education across the country. While 16.3% of rural children were in private schools in 2005, the number increased to 18.8% in 2006..

### ***One percent cess on Secondary and Higher Education***

An additional 1% Secondary and Higher Education cess was imposed in 2007 to help fund new seats in higher education that are required to implement the 27% reservation of seats for other backward classes. *"It has been introduced to fund secondary and higher education as well as for the expansion of capacity by 54% for reservation for socially and educationally backward classes."*

*The increase in cess will fund secondary and higher education, particularly the shortfall in the recommendations of the Moily Committee report. The committee said this implies a 54% rise in student admissions at an estimated expenditure of Rs16,563 crore spread over five years.*

The question is, where does the secondary education cess of 1 per cent that has been levied for the last two years go?

The allocations for secondary education in this year's Budget do not reflect the cess anywhere, while the primary education cess of 2 per cent is not reflected in toto. The total amount of cess collected, according to the government's Budget documents on tax collections during 2007-08, was Rs 2,210 crore (Rs 22.10 billion) and the secondary education cess for 2008-09 is Rs 2,480 crore (Rs 24.80 billion).

### ***Discrepancies***

The Ministry of Human Resource Development has been allocated Rs 5,139.70 crore (Rs 51.39 billion) for secondary education in 2008-09. However, ministry officials admit that the Budget allocations do not mention secondary education cess anywhere or specify under what head it is spent either last year or this year. They say "It may not be shown in the Budget allocations, but it is coming to the ministry and is being spent along with the rest of the money."

The revised Budget allocation for secondary allocation last year was Rs 1,472 crore (Rs 14.72 billion), which the secondary cess collected was more at Rs 2,210 crore (Rs 22.10 billion). This means that the cess took care of the entire government programme for secondary education, leaving some funds in balance.

There are other discrepancies in the government's collections and expenditure numbers. Revised estimates for last year show allocations of primary education cess of Rs 11,128 crore (Rs 111.28 billion) accruing to education programmes through the Prarambhik Shiksha Kosh. But the sum of receipts of all the primary cess collections in various

departments reflected in Budget documents show an amount that is far greater -- Rs 12,998 crore (Rs 129.98 billion).

Similarly, this Budget gives a figure of Rs 12,817 crore (Rs 128.17 billion) as money coming from primary education cess. But the total of the collections from all the heads like corporation tax, import duties and excise duties give a figure of Rs 14,844 crore (Rs 148.44 billion) in the Receipts Budget documents. Officials in the ministry have no explanation for this.

### **Conclusion**

Education cess continues to be imposed but its utilization is unclear. There is no accountability about how the education cess has been used. The irony is that none of the ministry either Ministry of Finance or HRD are coming out with one clear figure. The total amount of cess collected seems to vary, depending on where the information is being given.