

We need a Union Budget that works for bus users, not private car owners: CSE

New Delhi: “Tax our cars, Mr. Finance Minister, not our buses”: this is – once again -- the message that Centre for Science and Environment (CSE) has for Pranab Mukherjee, as he gets set to present the new government’s first Budget.

In a pre-budget letter to the Union finance minister, CSE director Sunita Narain says: “We strongly believe that fiscal and regulatory policies can play a significant role in minimising the social, health and environmental costs of motorisation. They can prove to be critical in promoting sustainable mobility as well as clean air in our cities. And this needs to be adequately addressed in the coming Budget.”

CSE’s concerns are well founded. According to Anumita Roychowdhury, head of CSE’s Air Pollution team, “personal vehicle ownership is rising in India. In coming years, there will be a few million more cars -- small as well as big, and many of them driven on diesel -- jostling for that limited space on our limited roads. Air quality will get worse, energy use will go up, and instead of moving ahead, people will actually grind to a stop due to congestion.”

In the letter, CSE has set out a charter of demands which, if met, will lead to the promotion of more sustainable means of mobility in cities. Notably, CSE has been working for some years to draw the finance ministry’s attention to these issues.

Exempt excise duty on buses, give cities new fiscal package to buy buses

Last year, the government had reduced excise duty on buses – first from 16 per cent to 12 percent, and then again to 8 percent. While these steps have certainly helped the cause of public transport, much more needs to be done.

CSE, therefore, has called on the minister to completely waive off the excise duty on passenger buses. Says Narain: “This is important for two reasons. One, because even now, passenger buses, which carry many more people in our cities, are still being charged the same excise duty as small cars and two wheelers, which transport fewer people and are so inefficient with fuel and money. Two, this fiscal change is important because high capital cost is deterring cities from buying buses to augment their fleets. Unless the capital cost of the bus is reduced, the city cannot run an affordable yet modern and convenient bus service.”

CSE has argued that our existing taxation policies end up meeting the interests of the rich, and not the poor. In Delhi, for instance, if the one-time road tax on cars is amortized over the life of the vehicle, then the owner would end up paying only about Rs 500 per year as tax. On the other hand, a city bus is taxed annually, and on the basis of passenger seats. Going by this, in Delhi, the minimum tax payable is Rs 13,000 per bus a year – roughly 26 times more than a car!

Do not reduce excise duty on private cars

Roychowdhury says: “It is extremely worrying that the Indian auto industry has begun lobbying for a reduced excise tax rate for mid- to large-sized passenger cars, similar to that for small cars introduced last year. We believe the current rates of 8 per cent excise on small cars and 20 per cent on bigger cars and SUVs, and the special duty, must be maintained in the budget and even increased.”

This is important, says CSE, because car owners enjoy enormous hidden subsidies in Indian cities. They do not pay adequately for the disproportionately higher usage of road space. At the same time, they use up expensive real estate for parking for a pittance. If parking charges are adjusted to reflect the cost of investment of parking structure or the cost of real estate, then each car owner would have to pay a minimum of Rs 30 to Rs 40 per parking space per hour, points out Roychowdhury.

CSE's letter to the finance minister also points out that across the world, governments are increasing taxes on bigger cars to minimise their energy and pollution impacts. In Shanghai, China, the number of vehicles is capped; in Shenzhen, a substantially increased parking fee has led to a huge shift towards public transport.

Stop dieselisation, increase Central excise duty on diesel vehicles

"Official policies in India are encouraging massive dieselization of the car fleet, even as 'clean' diesel (diesel with less than 50 ppm of sulphur) is not available in the country. This will worsen pollution levels that are fast deteriorating not only in big cities, but also in smaller cities and towns of India," says Roychowdhury.

The market share of diesel cars is currently over 30 per cent of new car sales, and is expected to be 50 per cent of all new sales by 2010. This overwhelming growth, points out the CSE letter, can be devastating. According to international regulatory and scientific agencies, diesel particulates are carcinogens.

It is equally important to note that the government is incurring huge revenue losses due to dieselization of the private car fleet. The price of diesel is kept lower because of its use to transport goods and people (in buses). But car companies are using this price differential to sell cars which run on the cheaper diesel, to private (and often exceedingly rich) individuals. The government has to absorb colossal revenue losses on account of this 'luxury' consumption of diesel. The Union government earns more than three times higher excise revenue from every litre of petrol used by a petrol car compared to a litre of diesel used by a diesel car.

Revenue losses are increasing also because of the special allowance made for small compact diesel cars under the 2006 Union budget. This Budget had allowed a reduction in excise duty (for small cars) to 16 per cent from 24 per cent. But this segment has been defined as a car of length not exceeding 4,000 mm and with an engine capacity not exceeding 1,200 cc for petrol cars and 1,500 cc for diesel cars. The more relaxed limit for diesel cars has resulted in a large number of mid-segment diesel cars to qualify for the tax cut.

Says Narain: "In view of these environment and economic concerns, urgent steps are needed to rationalise taxation policy to remove incentives for diesel cars. The option we propose is to increase the Central excise duty on small diesel cars to 24 per cent and on bigger diesel cars to 32 per cent. This will provide an important disincentive, and give the right signals to city governments to increase taxes on diesel vehicles."