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Learning from practice: Examples of fiscal reform in cities to deal with pollution and congestion

Several cities in India including Ahmedabad, Bangalore, Chennai, Hyderabad, Kolkata, have begun to take steps to implement fiscal measures to address the problem of air pollution and congestion. The key focus of the fiscal measures are clean fuels and technologies including CNG, LPG and zero emissions technologies; disincentives for older vehicles; and creation of dedicated fund from taxes on polluting fuels to pay for pollution control efforts.

Measures in Delhi

Air Ambience Fund to generate resources for pollution control in Delhi

In the wake of strong public concerns over the rising numbers of diesel vehicles and diesel related pollution in Delhi's ambient air, the Delhi government has finalized plans to cut diesel emissions in the national capital region. To achieve this Delhi government has announced a multi-pronged strategy in the month of January 2008. This strategy aims to phase out in-use light duty diesel commercial vehicles, introduce pollution checks for incoming diesel traffic from outside the city, and proposes to introduce Euro IV standards in advance in the entire national capital region. An important component of this plan is environment cess on diesel fuel.

The decision to impose 'environment cess' on diesel fuel is the first ever step to apply polluter pay principle and generate fund for pollution control. Air Ambience fee of 25 paise per litre on sale of diesel fuel has been already implemented on March 28, 2008. The Delhi Pollution Control Committee (DPCC) administers and collects this cess. The revenue collected through this cess is being used to create Air Ambience fund to meet the cost of Delhi's clean air action plan.

Air Ambience Fund has been created by the Finance department vide their office memorandum number dated March 27, 2008. Air Ambience Fund account has been opened in the DPCC and about Rs. 10 crore has been collected. DPCC administers and collects this cess.

Normally, cess is imposed by the Central government under the Finance Act to raise funds for special purpose. To be able to implement this cess Delhi government has taken the lead to exercise the power that has been conferred on the state boards – Delhi Pollution Control Committee – under section 31 (A) section 17 (1) of the Air (Prevention and Control of Pollution), Act 1981. It states that "Notwithstanding anything contained in any other law subject to the provision of this Act, and to any direction that the Central government may give in this behalf a board may in the exercise of its power and performance of its functions under this Act issue any directions in writing to any person, officer or authority, and such person, officer or authority shall be bound to comply with such direction."

This is an overarching provision that can be effectively utilized by the state governments to take steps for pollution control.

Subsidy on battery operated vehicles to be funded by the Air Ambience Fund:
The first scheme that is to be funded from the Air Ambience Fund is the programme to give subsidy to battery operated vehicles. This will help to promote zero emissions vehicles in the city. The Delhi government has decided to extend relief to the tune of 30 per cent of costs to those opting for battery operated vehicles. Prospective buyers of these vehicles will get 15 per cent subsidy and 12.5 per cent VAT reimbursement. In addition, the registration charge and one-time road tax levied at the time of registration will also get reimbursed. This scheme started in 2008 will be funded entirely under the Air Ambience Fund. This is expected to encourage expansion of the zero emissions vehicles in the city.

VAT subsidy to phase out diesel light commercial vehicles
The Delhi government has taken the decision to phase out 15-year old diesel light commercial vehicles (LCVs). This is complemented by a fiscal incentive scheme that has been prepared to encourage voluntary phase out the vehicles that are less than 13 years old. To enable the transition the Delhi government has announced a subsidy scheme.

The subsidy will be equivalent to VAT (12.5 per cent) that will be provided on purchase of new LCVs. Owners of LCVs below 13 years of age can avail benefit of the VAT subsidy. This is a voluntary programme. This programme has started in 2008.

Fiscal support for CNG fuel
Delhi government has implemented one of the largest CNG programme. To make this programme cost effective Delhi government has implemented fiscal measures targeted at the CNG fuel and also at conversion of the vehicles fleet. These measures have been implemented in the beginning of the programme during 2000-2001 under the Supreme Court directive of July 28, 1998. These measures include the following:

a. CNG fuel for automotive use has been fully exempted from sales tax: This has helped to maintain an effective differential with diesel fuel that CNG has replaced in public transport buses and petrol used earlier in three-wheelers. The CNG prices have dropped further by 2 per cent in 2008 on account of adjustment in central excise duty announced in the Union Budget. The revised price stands at Rs. 18.90 per kg. The current price of diesel is Rs. 31.76. It is important to maintain this differential to promote clean fuels. This differential between CNG prices and diesel ad petrol prices is also working as a very powerful incentive among the car owners. About 3000 to 4000 cars are estimated to be converting to CNG every month in Delhi. This has certainly helped in the expansion of the programme.

b. Subsidized loan for conversion of auto rickshaws and taxis: The Supreme Court order of July 28, 1998, had directed fiscal incentives for three-wheelers and taxis. Loan with 4 per cent subsidized interest was granted to the beneficiaries. There was no provision for fiscal incentive for the bus owners except a late decision to offer subsidized loan to the owners of lower socio economic classes from the fund created from the penalty collected from the diesel bus owners from April 2002 onwards until the complete phase out of the stage carriage diesel buses. Only 80 bus owners were able to avail of this scheme.

However, it is important to learn from Delhi's experience. The fiscal incentive for the taxi and auto rickshaws could not be utilized effectively as the three-wheelers owners often could not meet the criteria for loan. About 5000 to 6000 three-wheeler owners were able to avail of this incentive. The market was beset with middle men who facilitated purchases. The most important incentive that worked for them was the wide differential between petrol and CNG prices and the fares that were linked to the higher prices of petrol. This made cost recovery easy.

Bangalore

Green tax: Bangalore has taken the lead to introduce Green tax that is imposed on the older vehicles. This was introduced on April 1, 2002. The tax schemes are different for transport and personal vehicles. The transport vehicles that are more than 7 years pay the green tax at the rate of Rs. 200 at the time of the annual renewal of their permits.

Two-wheelers and cars that are more than 15 years old are taxed at the rate of Rs.250 and Rs.500 respectively at the time of the renewal of their registration after 15 years from the date of purchase and first registration.

Fiscal incentive for LPG conversion: Bangalore has launched one of the largest LPG three-wheeler programmes. One of the key elements of this programme is fiscal incentive for conversion. The city government has offered a subsidy of around Rs 2000 to three-wheeler owners to help bear the cost of conversion. Nearly 70,000 autorickshaws have already converted to LPG.

Tamil Nadu

Green tax on old vehicles: The state of Tamil Nadu has also enforced green tax that is quite similar to the Bangalore model. This was enforced in August, 2003. Transport vehicles including autorickshaws and other commercial vehicles that have completed 7 years of age from the date of its registration have to pay Rs. 200 and Rs. 500 per annum respectively as green tax.

Personal vehicles, cars and two-wheelers, that have exceeded the age of 15 years, pay Rs. 500 and Rs. 1,000 respectively as green tax for 5 years. According to status report of Chennai city submitted to EPCA in May 2008, more than Rs 15 crore can be generated from this green tax in a year. As of now revenue from this tax has not been earmarked for any special purpose.

Hyderabad

Exemption of motor vehicles tax on vehicles running on CNG, battery and solar power: In order to promote alternate fuels and technologies, the Andhra Pradesh Motor Vehicles Taxation Act, 1963 provides for exemption of motor vehicles tax for a period of 5 years from the date of registration of motor vehicles using CNG, battery and solar power.

Most of these measures have been introduced recently. It is therefore, not yet possible to assess the impact of these schemes. Implementation of these schemes should be publicized adequately to make the target groups aware and to encourage them to avail of the benefits. It is also important to monitor the impact from time to time to assess if the schemes are making the desired impact.

Kolkata

Life time tax on cars increased: West Bengal government has announced one-time increase in registration tax that will range from Rs 2,000 to Rs 8,000, depending on the engine capacity. The new rates will cover registration of cars, buses and battery-operated vehicles. The one-time revised tax is valid for five years after which the owner of the vehicle can pay the levy at the old rates. For those who are paying a five-year road tax for old cars, there will be no change in the structure. A special tax for vehicles with air-conditioners remains unchanged but a new category has been introduced for engine capacity beyond 2500cc.

Surat

Dedicated urban transport fund: Surat is the first city in India to have set up a dedicated urban transport fund. The city did not have any public transport system. That led to phenomenal increase in the number and usage of personal vehicles. The city's vehicular population increased from 4 lakh in 1994 to 13 lakh in 2007 accounting for a yearly growth rate of 11.89 per cent. To reverse this trend the city government has recently finalized a comprehensive urban mobility plan that is expected to cost Rs. 10,352 crore. Public transport is an important component of this plan.

To meet such humongous budgetary needs and the objective of the National Urban transport Policy, the Surat Municipal Corporation (SMC) has set up a dedicated urban transport fund, the first ever in the country. The SMC proposal on dedicated urban transport fund was notified on February 28, 2008. The fund has been created through budgetary allocation. Its revenue components will include vehicle tax amounting to Rs 8 crore, pay and park charges of Rs. 2 crore and license fee for advertisement rights of all kinds amounting to Rs. 5 crore.

One of the most important steps already initiated by the city government is expansion of public transport buses and implementation of CNG programme. A large number of three-wheelers have been converted to CNG. There are a total of 24 CNG stations on all strategic points.