



## Mains Practice Question

Q. Green taxes shall have a deterrent effect, sensitizing the citizens about pollution control and management. Discuss.

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### Approach

- Start the answer by briefly stating the aim and purpose of green tax.
- Discuss the major benefits and steps towards implementing a green tax.
- Conclude Suitably.

### Introduction

The aim and purpose of Green or environmental taxes is to curb or reduce the extent and amount of the use or consumption of harmful substances or activities, or depletion of a resource.

Environmental tax reforms generally involve three complementary activities:

- Eliminating existing subsidies and taxes that have a harmful impact on the environment.
- Restructuring existing taxes in an environmentally supportive manner.
- Initiating new environmental taxes.

### Body

- **Benefits of Green Tax**
- **Environment As Public good:** Green tax can help promote the environment as a public good.
  - Like all public goods, financing of this public good should also be from the general pool of taxes including the environmental taxes.
- **Environment Protection:** It can induce appropriate environmental decisions by raising the relative costs of polluting inputs and outputs and thereby correcting the negative externalities of a polluting activity.
- **Fiscal Benefits:** Environmental tax reforms can mobilise revenues to finance basic public services when raising revenue through other sources proves to be difficult or burdensome.

### Way Forward

- **Assessment of Externalities:** The environmental tax rate ought to be equal to the marginal social cost arising from the negative externalities associated with the production, consumption or disposal of goods and services.
  - This requires an evaluation of the damage to the environment based on scientific assessments.
- **Better Targeting:** In India, environmental taxes can target three main areas:
  - Differential taxation on vehicles in the transport sector purely oriented towards fuel

efficiency and GPS-based congestion charges;

- In the energy sector by taxing fuels which feed into energy generation;
- Waste generation and use of natural resources.

- **Environmental-Fiscal Reforms:** There is also a need to integrate environmental taxes in the Goods and Service Tax framework as highlighted by the Madras School of Economics in its studies.

## Conclusion

Environmental challenges are increasing the pressure on governments to find ways to reduce environmental damage while minimising harm to economic growth.

In this context, an Environmental tax is a novel idea to enforce or introduce taxes on substances, which pollute the environment, the ultimate aim being the substantial reduction of pollution.

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