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Green Taxation in India

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Green taxation is also known as environmental or pollution tax, is a type of tax that is levied upon the goods or activities that cause degradation to nature. The aim behind this system is to encourage sustainable development, promote alternatives that safeguard the environment, and even generate an economy for the country that is later used for green projects and services. Several benefits arise out of green taxation that also align with its aim, which is to incentivise individuals who are responsible for generating waste and, by way of this, reducing harmful emissions, switching towards renewable energy, making the public more aware and making them understand the importance of a cleaner environment. This article delves into the contemporary trends in green taxation in India, while acknowledging the challenges faced by the authorities and administration. The recommendations provided in the article are based on real challenges that the authorities face while enforcing this form of taxation, which includes regulatory hurdles, difficulty in quantifying carbon and pollution emissions, and public resistance to new taxes. The suggestions are followed to streamline the regulations and ensure strict compliance with the taxation measures, incentivise green innovation and enhance public awareness about the same.

Keywords: green tax, tax, green projects, development.

INTRODUCTION

The world has rapidly grown in the past years by way of technology and industrialisation, making it easy to create products and goods efficiently. Simultaneously, it has also brought repercussions on the environment, like pollution, waste, and deforestation. Particularly talking about India, these pollutants have not only affected nature but also the living beings in that region as well. This brought in a need for a legal framework that could impose taxes on carbon emissions and other activities.

These are known as environmental taxes or the Eco Tax, which is an excise duty which is imposed on those types of goods whose result on the environment and bring in pollution. In these contemporary times, the understanding of sustainable development and growth in a country by various means is ongoing and dynamic. With the outcomes that arise from these taxation systems, wherein who is the defaulter is the taxpayer, equalises the opportunity as to punishment and doing good too for the world at large when at fault.¹

NEED FOR THE GREEN TAXATION

The increasing pollution and everyday anti-environmental activities are depleting nature and its natural resources. This brings in the need for the problem that is ongoing and not stopping. The overexploitation of these resources acts as a bane for future generations and even destroys the concept of sustainable development. The green taxation part discourages people from performing those actions as they are made to pay taxes on them. It was high time that these environmental challenges should be focused on that including water pollution, air pollution, land pollution, and many more.

Climate change is another reason for which there is a rapid need, as India's contribution to the greenhouse gas emissions is so high that climate change requires a strict need to put a hold on them, which can be facilitated by these taxes. Most importantly, it is also needed to make the environment polluters be held liable for the damage that they cause, so that the costs are borne by those who generate it.

¹ Aiswarya Krishnadas, 'A Step towards Green World: An Analysis of Green Tax' (*Taxscan*, 11 January 2024) <<https://www.taxscan.in/a-step-towards-green-world-an-analysis-of-green-tax/362955/>> accessed 25 March 2025

BENEFITS OF THE GREEN TAXATION

Environmental Benefit: The first and the foremost benefit that arises out of this tax system is that it helps to keep the nature intact as the polluters are kept under the radar and they by themselves too aware of the tax that would be imposed on them whenever they would violate with the green laws or go beyond their effects. It brings it back into the loop, the understanding of sustainability, preservation, protection of the resources and nature. It even promotes eco-friendly practices, as it suggests that companies and industries adopt greener manufacturing processes. Encourages the use of cleaner vehicles that are energy efficient, and changes in the business model plans where the focus would be shifted to preserving the environment through their actions.

Fiscal Benefit: It generates revenue and funds for the environmental projects led by the government in line with encouraging a greener economy. The green taxes that are being levied come under the proper practice as to how we can reduce the distorted taxes that are a burden to the common people, and focus more on the substantive revenue which is gathered from here. The taxes can also be used as a means to fund the research and development initiatives or programs that are started to reduce the very same pollution and incentivise sustainable practices.

Social Benefits: This system helps to bridge the gap between the rich and the poor as the tax revenue, which is collected by way of green taxation, is utilised for the growth and development of the people who need it the most or are living in environmentally depreciated areas. By way of spreading awareness, this makes the young people of the country contribute more towards nature and not pollute it.

CHALLENGES FACED IN GREEN TAXATION

Lack of an Integrated Legal Framework: India does not have a unified legal or policy framework that is specifically geared towards green taxation. Environmental taxes and charges are fragmented across various laws, like the Environment Protection Act, the Motor Vehicles Act, and state fiscal legislations. This causes policy inconsistency and hinders the evaluation of the overall effectiveness of green taxation. In the absence of a concerted statute or vision for

policy, environmental fiscal mechanisms tend to appear as ad hoc solutions and not as components of a strategic initiative.

Integration Issues in the GST Regime: The introduction of the Goods and Services Tax (GST) in 2017 has caused integration problems for green taxation. Several previous environmental levies, including the Clean Energy Cess on coal, were merged into the GST Compensation Cess. Consequently, their environmental intent has been lost, and the fund is no longer allocated towards green initiatives. In addition, the GST regime curtails the powers of states to impose standalone taxes, hence lessening state-level fiscal flexibility for environmental interventions.

Limited Earmarking of Revenue for Environmental Causes: One of the fundamental concepts of green taxation is that revenue raised must be utilised for environmental protection, mitigation, or restoration. In India, however, the majority of green tax revenue is credited to the Consolidated Fund of India without earmarking for green causes. This absence of earmarking undermines the credibility of green taxes and diminishes their ability to finance climate adaptation or renewable energy projects. It also generates public scepticism about the purpose and effect of such taxes.

Administrative and Monitoring Constraints: Green tax implementation is plagued by inadequate administrative infrastructure, particularly at the state and local levels. Most urban local governments and pollution control boards lack the institutional strength to evaluate, collect, or monitor environmental charges efficiently. This leads to low collection efficiency and weak enforcement. For example, municipal taxes for waste management or water pollution are usually implemented poorly because of inadequate manpower, technical expertise, and coordination.

Political and Industrial Resistance: Environmental taxes tend to encounter intense opposition from political and industrial interests. Fuel, car, or emission taxes are generally seen as being inflationary or growth-constricting. Businesses contend that they raise their operating expenses and compromise global competitiveness. Moreover, environmental taxes can become

a target to cut, defer, or cancel in election periods or times of economic downturn by governments, stripping them of their long-term goals.²

RECOMMENDATIONS FOR THE BETTER FUNCTIONING OF GREEN TAXATION IN INDIA

Addressing the Absence of a Comprehensive Legal Framework: To overcome the fragmented nature of green taxation, there is a pressing need for a comprehensive national policy or legislation on environmental taxation. This could take the form of a ‘Green Fiscal Policy Framework’ or an amendment to the Environment Protection Act, specifically incorporating fiscal instruments as tools for pollution control and climate action. A central policy document would provide guiding principles, define environmental tax instruments, outline goals, and ensure uniformity in implementation across sectors and states. Such a framework should also clearly link taxation measures to environmental outcomes, thereby enhancing transparency and accountability.

Resolving Integration Issues within the GST Regime: To resolve integration issues under GST, the government should reinstate the environmental focus of levies like the GST Compensation Cess by ring-fencing a portion for green initiatives. A separate Green GST Component could be introduced for high-pollution goods and services, with revenues explicitly allocated to environmental projects. To address states' limited fiscal autonomy, the GST Council should allow flexibility for states to impose additional green cesses on specific activities, such as mining or industrial emissions, ensuring alignment with local environmental priorities while maintaining GST's structural integrity.

Ensuring Earmarking of Revenues for Environmental Purposes: To build public trust and improve effectiveness, it is crucial to earmark green tax revenues for specific environmental objectives such as afforestation, waste management, renewable energy development, or climate adaptation. This can be achieved by establishing dedicated environment funds at both the central and state levels. For instance, revenues from vehicle green taxes could be directly allocated to urban mobility improvements or public transport subsidies. Such earmarking should be made

² Amit Sharma, ‘Environment and Tax in India’ (*Juris Hour*, 28 February 2025)
 <<https://www.jurishour.in/columns/environment-and-tax-in-india/>> accessed 25 March 2025

mandatory through legislative or policy directives, along with periodic audits to track fund utilisation and outcomes.

Strengthening Administrative and Monitoring Mechanisms: To overcome administrative constraints, the government should invest in capacity building for urban local bodies and pollution control boards. This includes training programs, digital tools for tax assessment and collection, and standardised monitoring protocols. A centralised digital platform could streamline compliance, enabling real-time tracking of green tax revenues and enforcement actions. Partnerships with private sector experts and academic institutions can provide technical support, while inter-agency coordination committees can ensure seamless implementation across state and local levels.

Managing Political and Industrial Resistance: To counter resistance, the government should adopt a phased and consultative approach to green tax implementation. Engaging industries through incentives, such as tax rebates for adopting cleaner technologies, can reduce opposition and align economic goals with environmental ones. Public awareness campaigns highlighting the long-term benefits of green taxes, coupled with transparent use of revenues, can garner public support and reduce political backlash. Additionally, embedding green taxation within broader economic reforms, such as energy transition plans, can position it as a driver of sustainable growth rather than a barrier, ensuring stability even during economic or electoral cycles.

PRESENT PROVISIONS RELATED TO GREEN TAXATION

Green Tax on Vehicles: The Green Tax, also known as the Environmental Compensation Charge (ECC), is levied on older vehicles to discourage their use due to higher emissions. Personal vehicles over 15 years old and commercial vehicles over 8 years old are subject to this tax, typically charged at the time of registration renewal or fitness certificate issuance. The tax rate varies by state, ranging from 10% to 50% of road tax, with higher rates in polluted cities. Exemptions apply to electric, CNG, LPG, and hybrid vehicles. This tax encourages upgrading to eco-friendly vehicles but faces challenges like inconsistent state-level implementation and limited revenue earmarking.

GST Compensation Cess on Polluting Goods: The GST Compensation Cess, applied to items like coal, tobacco, and certain vehicles (e.g., SUVs and luxury cars with larger engines), indirectly serves as an environmental tax by targeting high-emission or polluting products. Previously, the Clean Energy Cess on coal was a direct green tax, but its integration into GST diluted its environmental focus, as revenues are not specifically allocated to green projects. Reinstating an environmental component within GST could address integration issues and support climate initiatives.

Fuel Taxes (Excise Duty and VAT): Central excise duties and state-level Value Added Tax (VAT) on petrol and diesel act as indirect green taxes by increasing the cost of fossil fuels, incentivising lower consumption. While not explicitly labelled as green taxes, their high rates (e.g., combined taxes often exceed 50% of fuel prices) discourage excessive vehicle use and promote fuel efficiency. However, revenues flow into general funds, lacking earmarking for environmental purposes, which reduces their green impact. A dedicated portion for clean energy projects could enhance their effectiveness.

Environmental Compensation Charge (ECC) in Delhi: Introduced in October 2015 following Supreme Court directives, the ECC is imposed on commercial vehicles entering Delhi based on their size and pollution potential. This charge aims to reduce vehicular pollution in the capital but faces administrative challenges like weak monitoring and enforcement. Expanding such targeted levies to other cities with proper infrastructure could strengthen green taxation efforts.

Water Cess and Pollution-Related Levies: Certain states impose levies under the Water (Prevention and Control of Pollution) Cess Act for industries discharging pollutants into water bodies. These are akin to green taxes as they penalise environmental harm. However, collection efficiency is low due to administrative constraints, and revenues are rarely earmarked for restoration projects. Strengthening institutional capacity could make these levies more effective.

Pollution Under Control (PUC) Certificate: It is a mandatory document for all motor vehicles in India, certifying that the vehicle's emissions comply with the prescribed pollution control norms under the Central Motor Vehicles Rules, 1989. Issued after a vehicle undergoes an emissions test at authorised centres, the PUC certificate displays the levels of carbon monoxide (CO) and hydrocarbons (HC) emitted, depending on the vehicle type and fuel used.

The requirement for a valid PUC certificate is enforced under Section 190(2) of the Motor Vehicles Act, 1988, and driving without one is a punishable offence. PUC norms aim to curb vehicular pollution, which remains a major contributor to deteriorating air quality in urban India. The certificate must be renewed periodically—typically every 6 or 12 months, depending on the vehicle’s compliance history—and the government has increasingly integrated PUC data with digital platforms like VAHAN for better monitoring and enforcement. Despite the legal mandate, widespread non-compliance and the existence of fake certificates have undermined its effectiveness, highlighting the need for stricter enforcement and public awareness.³

CONCLUSION

To conclude, green taxation refers to the environmental taxes that are levied on vehicles and business or factories and their owners if they violate the norms of nature by overexploiting the resources or the aid that is provided to them. They are then taxed upon it or their irregular activities, which are directly harming nature as pollutants.

In this manner, this also maintains the economic part of the country, as in a way it is generating revenue and also keeps a check on the polluters so that they control the effects of their activities that have a direct link with nature. By way of green taxation, the concept of sustainable development is also kept in tagged, which is keeping in mind the thought of future generations, the non-renewable resources should be minimised in usage and not be wasted. Through this system, environmental protection is kept in focus, aligning with the overall development of a country.

³ ‘GREEN TAXATION: ITS IMPACT and NECESSITY in INDIA - Tax Laws Club’ (*Tax Laws Club*, 04 July 2024) <<https://tax.ourlegalworld.com/green-taxation-its-impact-and-necessity-in-india/>> accessed 28 March 2025