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MANIPAL - 576104

Research Seminar

Exploring the need for tax policy support for plastic waste-to-fuel converters in India

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F2 Class Room, TAPMI Campus

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A huge amount of plastic waste is being generated in India at present with negative consequences on the environment whereas there are very few measures at hand to tackle this serious problem. The few measures existing include efforts by entrepreneurs to convert this plastic waste mountain into something more useful and socially beneficial such as gas, solid fuels and road construction material. But these are too far and few in between and the major portion of this non bio degradable waste goes into landfills, recycled into plastic raw material or is simply burnt in the open. Some of these activities can be potentially disastrous to the environment leading to, among other things, the release of toxic gases.

Environmental economics has largely focused on the concept of 'polluter pays' i.e. taxing the polluter and trying to reduce negative externalities. These taxes are essentially in the form of indirect taxes levied on the polluting good at the time of production or sale. The advantages of these Pigovian taxes include ones discussed in the so called double dividend hypothesis, i.e. Improved environmental quality and raising of revenues. Inclusion of these taxes in a broad policy framework is also considered to be superior to an exclusively regulatory policy. To complement the Pigovian tax regimes, there is scope for improving the environmental quality by using other tools such as regulation, incentives for those engaged in reducing the negative environmental externalities or creating positive environmental externalities, using market forces to reduce pollution, etc. albeit in appropriate measures.

This study branches off into the lesser discussed area of use of incentives, subsidies and support to businesses (other than the plastic producers)engaged in environment friendly plastic waste reprocessing through an appropriate tax policy to encourage their activities and also aid environmental health in the process. At present, there are very few sections in the Indian Income Tax Act, 1961 which specifically aim at encouraging such industries. While there are general deductions and accelerated depreciation provisions, these do not create the required distortion to encourage the activities being discussed. There are, however, some European economies, especially the Scandinavian nations, which have been proactive on this front and have developed policies to help businesses engaged in creating positive externalities.

This study uses the context of a case of a plastic waste-to-fuel converter in India and tries to observe the present position of this entrepreneur to see if there is scope for introducing a direct tax support policy, over and above the existing provisions for this purpose.

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