GST 2.0 shouldn't reduce effective tobacco rates

Worse still, the new soft rate on *bidis* can raise consumption and health problems for the poor

Pritam Datta

The 56th GST Council meeting marked a significant shift in India's indirect tax framework, but its approach to tobacco taxation has raised both hope and concern. Under this framework, there would be a merit rate of 5 per cent for essential goods and services, a standard rate of 18 per cent for most items, and a special de-merit rate of 40 per cent applicable only to a select few goods and services.

It has long been awaited that tobacco products move from the 28 per cent slab to the 40 per cent GST 'special de-merit rate,' which would also cover sin goods like sugary products, aerated waters, and carbonated fruit-based beverages. However, one can only wonder what special "merit" the Council discovered in items like *bidi* wrapper 'Tendu' leaves or Indian 'Katha', to justify slashing their GST rate from 18 per cent to 5 per cent.

Bidis, though dubbed the "poor man's luxury," are as harmful as any tobacco product and place heavy health and financial burdens on vulnerable populations. Cutting their GST rate from 28 per cent to 18 per cent only risks encouraging more consumption among those least able to bear the cost. Moreover, the 18 per cent slab is designated as the "normal rate," and by the Council's logic, *bidis* are now treated as just as normal as dishwashers, televisions, or set-top boxes.

The Council has recommended adopting a retail sale price (RSP) based valuation under GST for products such as pan-masala, cigarettes, gutkha, chewing tobacco, zarda, scented tobacco, and unmanufactured tobacco. In RSP-based GST, tax is collected upfront at the manufacturing stage and passed down through prices, reducing leakage from informal vendors in the supply chain. However, RSP-based GST may also include an abatement rate, which reduces the RSP to an abated value (closer to the manufacturer's ex-factory price) for tax calculation at the manufacturing stage. The remaining margins are then taxed separately through GST on value addition at later stages of the supply chain. This shifts part of the tax base downstream, but also leaves room for leakage due to the presence of informal vendors at lower levels.

THE ABATEMENT FACTOR

Currently, Central Excise Duty (CED) and National Calamity Contingent Duty (NCCD) on tobacco products are applied with a 55 per cent abatement, meaning that for an RSP of ₹100, the duty is calculated on ₹45. If the same abatement continues under GST, a 40 per cent rate would apply to ₹45, resulting in an effective tax burden of just 18 per cent. If the government aims to strongly discourage harmful products like cigarettes, it can lower or even remove abatement altogether. For sin products, reducing or eliminating abatement ensures the tax base is not understated and maximises the deterrent effect.

HEALTH OF THE POOR. Should not be undermined JOTHI RAMALINGAM

Bidi and other tobacco products are equally harmful to health. By placing cigarettes and other tobacco products in the newly created higher GST bracket of 40 per cent — the 'Special Demerit Rate' — while keeping *bidis* in the lower 18 per cent slab alongside normal goods, is the government not undermining or undervaluing the health of the poor and vulnerable? Moreover, the Government aims to achieve Universal Health Coverage (UHC) by 2030, with the Pradhan Mantri Jan Arogya Yojana–Ayushman Bharat (AB- as the key instrument. AB-PMJ to provide secondary and terti the poor and vulnerable throu insurance-based model. Howe tobacco-induced diseases plac burden on this programme. Th question that lingers is whethe name of tax simplification, the government has actually made cheaper for the poor while mal burden on public health even h

The revised GST rates for al except tobacco products, will t from September 22, 2025. For products, the current rates wil until the loan and interest obli under the Compensation Cess are fully discharged. In the cur system, the GST Compensatio plays a crucial role in creating a tax burden on tobacco product *bidis*. With the cess scheduled t discontinued from March 202 government will need to deter appropriate abatement rate fo newly introduced RSP-based G tobacco products (excluding *b* sustain the existing tax burden Additionally, it is anticipated t Ministry of Finance may intro health cess to further ensure t high tax pressure on tobacco p maintained.

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