Tax on tobacco products should remain high

Post GST compensation cess, the tax on tobacco will drop by 70-72 per cent. A sin tax of 75 per cent is in order

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The GST compensation cess is set to conclude by March 31, 2026. Its primary aim is to compensate States for the revenue loss incurred following the implementation of GST in 2017. The cess is levied on all tobacco products, except *bidis*, which are predominantly produced in the informal sector.

Unlike other smokeless tobacco products, the GST compensation cess on cigarettes consists of both ad valorem and specific components.

This cess plays a significant role in the total tax burden on cigarettes and smokeless tobacco products in India. Unlike other tobacco products, cigarettes are primarily produced in the registered sector in India, resulting in them bearing the largest tax burden. However, they still fall significantly short of the World Health Organization's recommended tax level of 75 per cent of the retail price of tobacco products.

Simple mathematics suggests that the removal of the GST compensation cess will significantly reduce the tax burden on tobacco products, especially cigarettes.

At this juncture, when the GST Compensation Cess is set to be discontinued, the question now facing the tobacco control policy circle is how to maintain or increase the tax burden on tobacco products once the cess is discontinued.

TAX IMPACT

With the withdrawal of the GST compensation cess, the tax burden on smokeless tobacco products will drop by 70-72 per cent. Since there is no GST compensation cess currently imposed on *bidis*, their tax burden will remain unaffected.

For filtered cigarettes measuring 65-70 mm (priced at ₹100 for a pack of 10), the tax share in the MRP will fall

TOBACCO TAX. Needs to be raised

from 51 per cent to 29 per cent. For king size filtered cigarettes of length 85 mm and more (priced at ₹340 for a pack of 20), the tax share in the MRP will reduce from 59 per cent to 30 per cent.

It is clear that after the removal of the GST compensation cess in 2026, the government faces the challenge of maintaining or increasing the tax burden on tobacco products to discourage their consumption and meet public health goals. Currently, tobacco products fall under the highest GST bracket, attracting 28 per cent GST. The government could consider introducing a separate bracket for sin products, such as tobacco, and impose a straightforward 75 per cent tax on them.

GLOBAL PICTURE

By 2022, nearly 40 countries had imposed tobacco taxes exceeding 75 per cent, including Thailand (81 per cent), Brazil (80 per cent) and Australia (77 per cent). Alternatively, a new cess specifically targeting tobacco could be introduced to maintain the tax burden.

Another option is to significantly increase the existing National Calamity Contingent Duty (NCCD) and Central Excise to achieve an optimal level of taxation that effectively discourages tobacco consumption in India.

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