

Tobacco control in India: Impact of tax on tobacco products

Summary: Tobacco taxation, according to the World Health Organization (WHO), is the most cost-effective method of reducing tobacco use. This brief explains the status of taxation on tobacco products and the challenges faced in its implementation. A major challenge is the differential tax structure on a wide variety of tobacco products (smoking and smokeless tobacco). This brief highlights the need for higher taxes on tobacco products for effective tobacco control in India.

In India, 26.7 crore (267 million) adults use tobacco, making the country the world's second largest tobacco consumer, as well as producer.¹ Tobacco is one of the leading causes of death and disease in India, with about 13.5 lakh (1.35 million) people dying each year due to tobacco-attributable diseases.¹ The direct medical expenditure on tobacco-attributable diseases is estimated to be INR 44,210 crore (US\$ 5.8 billion) per year, while non-medical costs amount to nearly INR 1608 crore (US\$ 211 million).²

Premature deaths due to tobacco: Urgent need for policy action



Life expectancy of *bidi* and cigarette smoking men is reduced by 6 years and 10 years, respectively, than their non-smoking counterparts in India.³



Life expectancy of *bidi* smoking women is reduced by 8 years than their non-smoking counterparts in India.³



Smokeless tobacco use causes 3.5 lakh deaths every year.⁴

Tobacco taxes are a proven strategy to reduce tobacco consumption, leading to substantial health gains. In 2003, the WHO launched the Framework Convention on Tobacco Control (FCTC), the first global public health treaty, which has been ratified by 182 countries including India.⁵ Article 6 of the FCTC calls for the imposition of taxes on tobacco products as an effective tool to reduce the demand for tobacco.⁶ It recommends a minimum tax of 75% of the retail price of tobacco products.⁷ Implementing Article 6 of the FCTC is a critical component of a country's tobacco control strategy to promote public health.⁵ Tobacco taxation lessens the healthcare burden from tobacco-related diseases and generates revenue that could support tobacco control and other health-related programmes and activities.^{8,9}

BENEFITS OF TOBACCO TAXATION

Reduce consumption and promote quitting

- The implementation of the goods and services tax (GST) along with compensation cess will increase the price of cigarettes, bidis and smokeless tobacco by 0.18%, 8.8% and 6% respectively, and reduce the weighted average consumption by 0.3%, 10% and 6% respectively.³
- An increase in the price of a pack of 20 cigarettes to INR 10 plus 10% ad valorem tax would result in 15 lakh men quitting smoking across the states of Karnataka, Assam, Uttar Pradesh and Maharashtra.¹⁰

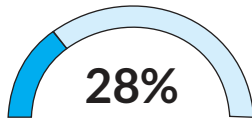
Save lives

- An increase in the price of a pack of 20 cigarettes to INR 10 plus 10% ad valorem tax would avert 665000 deaths across the states of Karnataka, Assam, Uttar Pradesh and Maharashtra.¹⁰

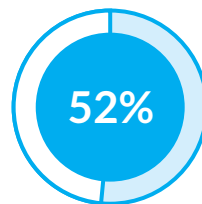
Raise revenue for funding expanded health programmes

- The statutory GST at the rate of 28% along with compensation cess will increase tax revenue from cigarettes, bidis, and smokeless tobacco by 0.17%, 35% and 4.7%, respectively.³
- The additional funds generated by increased taxation could be used for tobacco control programmes as well as other important health and social initiatives.¹¹

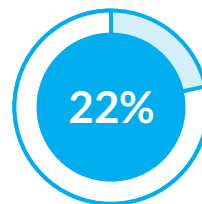
GST has made tobacco products more affordable



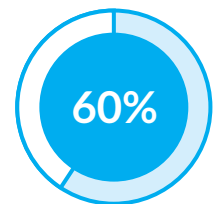
Highest rate of tax on all tobacco products, since the introduction of GST in 2017, with addition to basic excise duty (BED) and National Calamity Contingent Duty (NCCD), subsuming excise, value added tax (VAT) and several other surcharges.¹²



Current Tax burden for cigarettes



Current Tax burden for bidis

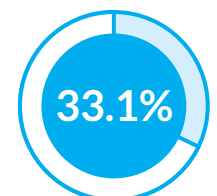


Current Tax burden for SLT products

This is far below the WHO recommended tax burden of 75% of retail price for all tobacco products.⁷ Forty countries globally have already attained this target⁹ and India needs urgent action on raising these taxes.

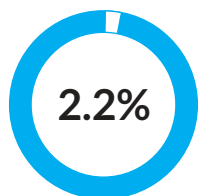
After the implementation of GST, it took 1.72% and 1.18% of the net state domestic product (NSDP)/capita to buy 1000 g of tobacco in the form of bidis and chewing tobacco, respectively. This made chewing tobacco more affordable, with an average annual percentage change (AAPC) rate of -1.83%. However, it took 7.56% of NSDP/capita to purchase 1000 units of cigarettes with the national average affordability of cigarettes unchanged.¹⁴

The price of 100 sticks of cigarettes increased more than twice in 2018–2019 (INR 584) compared to 2011–2012 (INR 271.5). The price of 100 sticks of bidis also increased slightly more than twice in 2018–2019 (INR 67.6) compared to the price in 2011–2012 (INR 32.9).

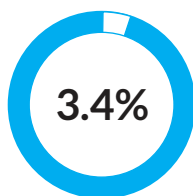


33.12% tobacco brands showed no price rise after GST implementation, increasing the affordability of the tobacco products for consumers.¹³

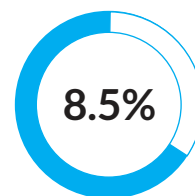
The price of 100 g of smokeless tobacco increased slightly less than twice during the same period (INR 170.6 compared to INR 95.9). However, this increase in price of tobacco products is still not sufficient enough to reduce their affordability, particularly for smokeless tobacco and lower socio-economic groups (casual workers, schedule tribes, schedule castes, backward class, and illiterate population) .¹⁵ This is perhaps because increase in wages negated the increase in tobacco taxes.¹⁵



Increase in affordability of bidis after 2 years of GST Introduction



Increase in affordability of cigarettes after 2 years of GST Introduction



Increase in affordability of SLT products after 2 years of GST Introduction

CHALLENGES RELATED TO TAXES ON TOBACCO PRODUCTS

Heterogeneity of tobacco types and prices causes product substitution and fails to encompass all socioeconomic classes, thereby diminishing the effectiveness of tobacco taxes.¹⁶

The absence of compensation cess on bidis and tax exemption for small, registered manufacturing enterprises with fewer than 20 employees is a major hurdle in administering taxes.^{12,17}

Complex tiered taxation structure for cigarettes and absence of revision in GST on cigarettes, lead to greater variability in prices of cigarettes. The tobacco companies circumvent the tax system by manufacturing different lengths to keep the total demand intact in the event of a price change.^{11,12}

The sale of single sticks of cigarettes reduces the impact of taxation and makes product cheap and affordable.¹⁸

Tobacco taxes are not regularly adjusted for inflation and income increases, making tobacco more affordable over time.¹²

Recommendations

- There is a need to simplify tobacco taxation by reducing and eliminating differential taxes on various smoked/smokeless tobacco products.
- Compensation cess should also be imposed on bidis.
- There should be a substantial increase in taxes on all tobacco products. These taxes should be adjusted regularly for rise in the income of individuals and account for inflation, so as to protect poor and vulnerable adolescents with lower disposable income.
- It is time to consider levying sin tax on tobacco products to generate additional revenue for tobacco control and for tobacco taxes to comply with public health goals.

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