

# Smoke Up Those Tobacco Taxes



**Laveesh Bhandari**

About 1.3 million people die annually from consuming tobacco products in India. About 6.5 million are directly employed in the tobacco chain. Tobacco harms all its users, especially the poor as they consume cheaper and more harmful tobacco products, and are less able to afford high-quality healthcare.

Tobacco-producing farmers complain of health problems, as production, too, impacts human health. Moreover, tobacco farming requires unusually high levels of pesticides, herbicides and fungicides, since the plant and soil are highly vulnerable to infestation, and the impact on the environment is well-documented.

So, who pays for healthcare costs of tobacco consumption? Increasingly, it is government. Between the Employees' State Insurance, Central Government Health and Ayushman Bharat schemes, there are three major health payment mechanisms. This does not

include state-level and smaller schemes such as the Universal Health Insurance Scheme. A detailed study on how much GoI spends due to tobacco-related morbidity is yet to be made. But at least 13% of the total spend in such schemes is estimated to be caused by tobacco consumption. This expenditure is only going to go up.

GoI is rightly considering a more stringent set of conditions determining tobacco consumption, and has recently published the draft Cigarettes and Other Tobacco Products Act (Cotpa) Amendment Bill, 2020. But limits on tobacco advertising, sale and consumption points need to be supported by synchronous increase in tobacco prices through increased taxation. That implies uniformly higher taxes on cigarettes, bidis and smokeless tobacco products.

Higher taxes will work in tandem with greater controls, and will help GoI pay for all the direct and indirect costs it incurs due to tobacco consumption. But higher taxes must be uniformly imposed, or users will simply shift from the expensive to cheaper product.

As of now, the highest goods and services tax (GST) band of 28% applies on tobacco products. But this is not enough. Fortunately, there is a provision for compensatory cess that could



**Break an expensive habit**

be used within the GST framework. The central excise duty can also be increased. There is a need for high taxes uniformly across all tobacco products. The only question is by how much.

The World Health Organisation (WHO) says that of the total price of tobacco products, 75% should go to government. It is not clear what the basis for that number is, but that could be one method of determining how much each product is taxed. Another mechanism is to estimate the total healthcare cost due to tobacco and recover that through taxes. A third is to simply equalise the rates across all segments using the highest rate as the upper bound.

While GST stands at the topmost level of 28% on all tobacco products, a compensatory cess across all product segments can also be imposed. Typically, the cess tends to be only about 5%, an insignificant increase. More-

over, effectively, the current excise structure reportedly leads to 64% duty on cigarettes, 81% on chewing products and only 22% on bidis. These could all be equalised at the highest level of 81%.

There are many different possibilities and revenue impact can be substantial. A minimum figure, as per my estimates, would be an additional inflow of about ₹20,000 crore, still not high enough to cover the healthcare costs likely being borne by the State, but a substantial amount nevertheless.

Big Tobacco uses three arguments to counter the obvious. First, that upwards of 45 million people are dependent on tobacco for livelihoods. A more realistic estimate is no more than 6.5 million employed directly in tobacco. And for the bulk of them, like bidi workers and marginal retailers, the income from tobacco is extremely low.

Second, that farmers and labourers have no other income alternatives. Not true. Fertile land is used to grow tobacco, and alternative crops like pulses and oilseeds are critically required for India's nutritional security. Third, that high taxes lead to illegal trade in tobacco products. This is incorrect, for it is not the tax but enforcement issues that lead to illegal trade.

*The writer works with Indicus Foundation.*