Low Tobacco Tax, Poor Health

What is the issue?

The absence of an increase in tax on tobacco products post-GST has impacted revenue and could worsen public health.

What is the status of tobacco usage in India?

- India is the second largest consumer (268 million) of tobacco in the world.
- 28.6% of adults above 15 years and 8.5% of students aged 13-15 years in India use tobacco in some form or the other.
- 13 lakhs die every year from tobacco related diseases and nearly 27% of all cancers in India are due to tobacco.
- Tobacco use is known to be a major risk factor for several non-communicable diseases such as cancer, cardiovascular disease, diabetes, and chronic lung diseases.
- The annual economic costs from all diseases and deaths attributable to tobacco use is estimated to be Rs 177,341 crores in 2017-18 amounting to 1% of India's GDP.

What about tobacco taxation in India?

> *Tobacco products are in the 28% GST slab, other than for tobacco leaves, which are taxed at 5%. The cess is 65% on unmanufactured tobacco bearing a brand name.*

- According to the Ministry of Finance , the National Calamity Contingent Duty (NCCD) collected on tobacco products (sin good) during the year 2020-21 is Rs 4,962 crore which only had the effect of increasing the average price of cigarettes by about 5%.
- The share of central excise duties in the total tobacco taxes has decreased from 54% to 8% for cigarettes, 17% to 1% for bidis, and 59% to 11% for smokeless tobacco products, on average, from 2017 (pre-GST) to 2021 (post-GST).
- There has been a 3% real decline in GST revenues from tobacco products in each of the past two financial years.

- The total tax burden is only about 52.7% for cigarettes, 22% for bidis and 63.8% for smokeless tobacco which is lower than the WHO's MPOWER measures that prescribe tax at >75% of retail price.

  MPOWER is an acronym for a set of six measures, prescribed by WHO, to curb tobacco consumption & was introduced in 2008.

  1. *Monitoring tobacco consumption & effectiveness of preventive measures*
  2. *Protect people from tobacco smoke*
  3. *Offer help to quit tobacco*
  4. *Warn about the dangers*
  5. *Enforce bans on advertising, promotion etc*
  6. *Raise taxes on tobacco*

- Before the introduction of the GST, most State governments had moved from a low VAT regime on tobacco products to a high VAT regime which attributed to the 17.3% relative reduction in the use among adults between 2009-10 and 2016-17.
- But there has not been any major increase in tobacco taxes since the introduction of GST in July 2017 and all tobacco products have become more affordable over the past three years.

What is the significance of increasing the rate of taxation on tobacco products?

- The absence of an increase in tax means more profits for the tobacco industry and more tax revenue foregone for the government.
- The tax revenue from tobacco could contribute to much-needed funds for COVID vaccination drive and augmenting the health infrastructure.
- Levying excise duty on all tobacco products and retaining these in the highest tax slab in GST, will reduce the affordablility.
- This will provide a solid foundation for reducing tobacco usage among vulnerable populations and deter children and youth from getting addicted to tobacco use.
- International literature recognises tax increase as one of the most cost-effective ways of regulating the consumption of tobacco.
- The lack of tax increases paved way for more current smokers and some added some new non-smokers that could reverse the declining trend of tobacco prevalence.

- Increase in taxation will help India in achieving the target of **30% tobacco use prevalence reduction by 2025** as envisaged in the **National Health Policy of 2017**.

What need to be done by the Government?

- The government has already formed an expert group led by Vikas Sheel to prepare a comprehensive tax policy proposal covering all tobacco products from a public health perspective.
- The Union government should focus on public health and significantly increase excise taxes either basic excise duty or NCCD on all tobacco products.
- The upcoming Union Budget =should fix an excise tax of at least Rs. 1 per stick of bidis while aiming for a significant increase in the excise tax of cigarettes and smokeless tobacco products.
- Taxation should achieve a significant reduction in the affordability of tobacco products to reduce tobacco use and facilitate India's march towards sustainable development goals.

References

1. https://www.thehindu.com/todays-paper/tp-opinion/low-tobacco-tax-poor-health/article37906163.ece
2. https://www.thehansindia.com/karnataka/public-health-groups-economists-for-raising-excise-duty-on-tobacco-718793
3. https://www.livemint.com/news/india/expert-panel-set-up-to-chalk-out-a-comprehensive-tobacco-tax-policy-11634674679560.html

SHANKAR IAS PARLIAMENT
Information is Empowering