

DUTIES GO UP 20-30%

Cigarettes to cost 15-40% more from February 1

Current levies modest, offer fiscal and public-health space for hike: Officials

• How cigarettes will be taxed

Component	Existing structure	From February 1
Excise duty	₹5-10 per 1,000 sticks	₹2,050-8,500 per 1,000 sticks
NCCD*	₹230-850 per 1,000 sticks	₹230-850 per 1,000 sticks
GST	28%	40%
Compensation cess	5-36% plus ₹2,076-4,170 per 1,000 sticks	Nil

*NATIONAL CALAMITY CONTINGENT DUTY; SOURCE: CBIC

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EXPLAINED

SMOKING IS set to turn more expensive from February 1 with higher price increases for filters and longer cigarettes. The government late Wednesday night notified the new duty rates for tobacco products including cigarettes and cess rates for paan masala.

Cigarette makers estimate the increase in additional levies to be 20-30 per cent, but they are not sure if they will pass on

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How Govt justifies the duty hike

India's total tax incidence on cigarettes is approximately 53% of the retail price, much lower than the 75% rate recommended by the WHO. Cigarette prices have hardly risen much since 2017 when the GST regime came into place, officials said.

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Cigarettes to cost more

the burden to the consumers immediately, or in installments. Investment analysts, on the other hand, said prices could rise by anywhere between 15% and 40% in response to the duty increase.

The stock markets took note of the higher tax incidence with share prices of cigarette makers ITC and Godfrey Phillips India plummeting almost 10 per cent and 17 per cent, respectively, on the National Stock Exchange.

The imposition of additional duties over and above the 40 per cent slab under GST 2.0 marks a transition from the earlier compensation cess levy under the original GST regime.

The duty structure on cigarettes is complex. As it exists now, the total duties could be broken down into four parts: basic excise duty of Rs 5-10 per 1,000 sticks, National Calamity Contingent Duty (NCCD) of Rs 230-850 per 1,000 sticks, GST of 28 per cent, and a compensation cess. The compensation cess had two components: an ad valorem levy ranging from 5-36 per cent and a flat levy ranging Rs 2,076-4,170 per 1,000 sticks. In general, filters and longer cigarettes attracted higher duties, and cigars, cheroots and cigarillos, the highest.

From February 1, the compensation cess component will be knocked out. This has been more than made up by a higher GST rate of 40%, and excise duties from Rs 2,050-8,500 per 1,000 sticks. The NCCD remains the same as earlier.

Finance Ministry sources said the affordability of cigarettes has either stagnated or increased in the past decade, implying cigarettes have not become more expensive relative to consumers' purchasing power, which is contrary to global public-health guidance. Globally, more than 80 countries revise tobacco taxes annually, many using inflation-indexing or multi-year excise schedules, they said. Finance Ministry sources said India's current rate remains modest, leaving considerable fiscal and public-health space for calibrated increases without departing from global norms. Citing a World Bank article from July 2025, they said India's total tax incidence on cigarettes is approximately 53 per cent of the retail price, falling significantly short of the 75 per cent rate recommended by the World Health Organization.

The Tobacco Institute of India, a representative body of farmers, manufacturers, ex-

• How paan masala will be taxed

EXISTING STRUCTURE			FROM FEBRUARY 1		
GST	CC	Total	GST	New Cess	Total
28%	60%	88%	40%	48%	88%
0.15R	0.32R	0.47R	0.29R	0.18R	0.47R

CC: COMPENSATION CESS; R: RETAIL SALES PRICE

porters, and ancillaries of the cigarettes' segment of the domestic tobacco industry incorporated in 1992 by ITC, Godfrey Phillips India, and VST Industries, said in a statement it was "shocked and surprised to note the unprecedented increase in duty" given the statements made by the government that the overall impact will be revenue neutral.

For every three legal cigarettes, one smuggled or illicit cigarette is sold in the country and this high tax increase will further boost illegal and illicit activity, it said. "Cigarettes are already a highly taxed product in the country. Legal cigarettes constitute only 10 per cent of the total tobacco consumption while contributing 80 per cent of tobacco tax revenue," it said, asking the government to review the computations.

Apart from cigarettes, paan masala, too, will attract a 40 per cent GST rate along with a 'Health Security se National Security Cess'. The GST Council decided to increase the GST rate

on paan masala from 28 per cent to the statutory ceiling of 40 per cent, and therefore the remaining portion of the existing tax burden is being shifted to the machine-based cess under the Health Security se National Security Cess Bill, 2025," an official said. The calibrated rates under the cess ensure that the combined incidence of GST and the new cess remains broadly equivalent to the current incidence of GST plus compensation cess, the official said.

As per the current GST structure for paan masala, a GST rate of 28% was levied along with a cess of 60%, taking the total levy to 88 per cent. Now, with the new cess rate of 48 per cent, and a 40 per cent GST rate, the total levy amounts to 88 per cent, Finance Ministry sources said.

Also, the central excise duty on chewing tobacco, jarda scented tobacco and gutkha, when manufactured with the aid of a packing machine and packed in pouches, will be levied on the basis of capacity of production from February 1. Fi-

nance Ministry sources said both paan masala and tobacco are evasion-prone, machine-driven sectors where actual production is difficult to measure, and therefore a capacity-linked levy is better. GST provides the value trail by showing how much was sold and at what price, while cess provides the capacity trail by telling how much could have been produced, the sources said.

For other tobacco products, the excise duty on hookah has been notified to be 33 per cent, while a rate of 60.5 per cent has been notified for homogenised tobacco, preparations containing chewing tobacco and snuff. The duty rate is higher at 82 per cent for chewing tobacco and jarda scented tobacco. Smoking mixtures for pipes and cigarettes will attract 279 per cent duty.

Last month, the government introduced two legislations in Parliament to bring in higher excise levy on tobacco and related products, and the 'Health Security se National Security Cess' on paan masala.

The levies have been brought in as the GST compensation cess is set to lapse after March 2026. Under GST, states were guaranteed compensation at the compounded rate of 14 per cent from the base year 2015-16 for losses arising due to implementation of the taxation regime for five years since its rollout.