

## **GST Cess Increase will Hit Legal Cigarette Industry, Indian Tobacco Farmers & Govt. Revenue**

Reacting to the steep increase in the Compensation Cess Rates on Cigarettes announced by the GST Council on 17<sup>th</sup> July 2017, The Tobacco Institute of India (TII) has stated that the increase will put severe pressure on the Legal Cigarette Industry, adversely impacting Indian Tobacco Farmers & Revenue Collection and will increase smuggling and illicit cigarette trade in the country.

The Goods and Services Tax (GST) is a significant tax reform that has overhauled India's indirect taxation system unifying the country's economy into a single market and has been conceptualized as a simple and Revenue Neutral tax.

GST has replaced more than a dozen Central and State levies like excise duty, service tax and local sales tax or VAT etc.

At its meeting on 17<sup>th</sup> July 2017, the GST Council had effected a sharp increase in the compensation cess rate on various segments of Cigarettes ranging from Rs.485 to Rs.792 per thousand cigarettes. Under the "Others" category segment, a 31% increase in the ad valorem component of the cess has been levied.

According to the Government Press Release, the Council has increased the Cess rates to correct an apparent anomaly in cigarette taxation under the new tax regime announced earlier, on account of the removal of the cascading effect of Excise Duty which existed in the pre GST system.

However, TII has contended that the impact of the increase in the Compensation Cess is significantly higher than the estimated reduction in tax incidence on cigarettes under the new tax regime. Thus, the incidence of tax as per the revised levy on cigarettes is not in keeping with the fundamental GST principle of Revenue Neutrality, TII said in the Media Release issued on 18<sup>th</sup> July 2017.

The additional tax burden caused by the increase in the Compensation Cess rates will exacerbate the pressure on the entire legal cigarette value chain in the country which is already reeling under a huge tax burden on account of the continuous increase in taxes on cigarettes. In fact, the legal cigarette industry volumes have shrunk by more than 25% since 2012-13.

The escalation in cigarette taxation will lead to a further increase in the already huge arbitrage opportunity and provide an enormous incentive to smuggling syndicates who often fund terror groups. Contraband trade undermines domestic farmer income, the legal cigarette industry, Government's revenue collections and national security.

The Institute, therefore, called on GST Council to review the increase in cess on cigarettes and roll it back to the Revenue Neutral level consistent with the Government's stated objectives.

## THE ECONOMIC TIMES Cigarette industry body wants GST Council to roll back tax increase

BY WRITANKAR MUKHERJEE . ET BUREAU | UPDATED:  
JUL 18, 2017 08:03 PM IST

KOLKATA: Cigarette industry body, The Tobacco Institute of India (TII) has appealed to the GST Council to review the increase in cess on cigarettes and roll back the tax increase to the revenue neutral level arguing that the steep revision will put pressure on the legal cigarette industry, adversely impacting Indian tobacco farmers and revenue collection, and will increase smuggling and illicit cigarette trade in the country.

TII said in a release issued on Tuesday that the impact of the increase in the compensation cess announced is significantly higher than the estimated reduction in tax incidence on cigarettes under the new tax regime. "Thus the incidence of tax as per the revised levy on cigarettes is not in keeping with the fundamental GST principle of revenue neutrality," the body said.

## Tobacco industry body asks GST Council to roll back increase in cess on cigarettes

The institute said that the steep revision would adversely affect tobacco farmers in India and lead to smuggling.

by Scroll Staff  
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The Tobacco Institute of India has appealed to the Goods and Services Tax Council to roll back the increase in cess on cigarettes. *The Economic Times* reported on Wednesday. TII is the representative body for manufacturers of cigarettes and other tobacco products.

The institute has said that the steep revision in cess would adversely impact Indian tobacco farmers, as well as increase smuggling and illicit cigarette trade in the country. In a press release on Tuesday, TII indicated that the impact of the increase in compensation cess on cigarettes was significantly higher than the reduction in cigarette prices because of the new GST regime, which came into effect on July 1.

indiatoday 

## Higher cess on cigarettes to affect industry,

 PTI July 18, 2017 | UPDATED 19:50 IST

New Delhi, Jul 18 (PTI) The government's move to increase cess on cigarettes will put severe pressure on the industry and also impact tobacco farmers, the Tobacco Institute of India (TII) said today.

The development will also give a fillip to smuggling and illicit cigarette trade in the country, it added.

The GST Council yesterday raised the cess on cigarettes to take away an estimated Rs 5,000 crore annual "windfall" manufacturers could have reaped from lower GST rates.

## Business Standard

# 'Higher cess on cigarettes to impact tobacco farmers'

IANS | New Delhi July 18, 2017 Last Updated at 22:10 IST

The increase of cess on cigarettes will indirectly have a negative impact on the tobacco farmers in the country, said Tobacco Institute of India (TII) on Tuesday.

According to the TII, the country will also see a increase in the illegal cigarette trade due to such a increase of taxation on the legal cigarette industry.

THE TIMES OF INDIA

## Higher cess on cigarettes to affect industry, farmers: TII

PTI | Jul 18, 2017, 12:17 PM IST

New Delhi, Jul 18 (I) The government's move to increase cess on cigarettes will put severe pressure on the industry and also impact tobacco farmers, the Tobacco Institute of India (TII) said today.

The development will also give a fillip to smuggling and illicit cigarette trade in the country, it added.

The GST Council yesterday raised the cess on cigarettes to take away an estimated Rs 5,000 crore annual "windfall" manufacturers could have reaped from lower GST rates.

The additional tax burden will "exacerbate the pressure" on the entire legal cigarette value chain in the country, TII said.

It further said the industry is already reeling under a huge tax burden on account of the continuous increase in excise duties on cigarettes, which have cumulatively gone up by 131 per cent over the last six years.

"The escalation in cigarette taxation will lead to a further increase in the already huge arbitrage opportunity and provide an enormous incentive to smuggling syndicates who often fund terror groups," it said.

Earlier, the government had fixed a peak GST rate of 28 per cent on cigarettes. On top of it, a cess was levied to create a corpus for compensating states for any loss of revenue from implementing the GST.

The cess was made up of 5 per cent ad valorem rate and a fixed per thousand stick rate based on length of cigarettes.

Yesterday, the government announced that the peak GST rate of 28 per cent as also the 5 per cent ad valorem cess will continue but the fixed cess has been hiked in the range of Rs 485 and 792 per thousand sticks.

# 'Increased cess on cigarettes will hit industry, farmers'

Tobacco Institute of India asks GST Council to roll back hike

SPECIAL CORRESPONDENT  
CHANDIGARH

The steep revision in compensation cess rates on cigarettes under the Goods and Services Tax (GST) will pressurise the industry in the country and adversely impact tobacco farmers, the Tobacco Institute of India (TII) has said.

"The GST Council, at its meeting on July 17, effected a steep increase in compensation cess rates on various segments of cigarettes ranging from ₹485 to ₹792 per 1,000 cigarettes. Under the 'Others' category, a 31% increase in the ad valorem component of the cess has been levied," said Syed Mahmood Ahmad, director at TII, in a statement.

Mr. Ahmad said that the incidence of tax as per the revised levy on cigarettes was not in keeping with the fundamental GST principle of revenue neutrality.

### Revenue neutrality

"The additional tax burden caused by an increase in compensation cess rates will exacerbate pressure on the entire legal cigarette value chain in the country, which is already reeling under a huge tax burden," he added.

"We request the GST Council to review its decision and roll back the tax increase to the revenue neutral level, consistent with the government's stated objectives," Mr.

Ahmad added.

Mr. Ahmad also said that an increase in taxation would have a debilitating impact on the country's tobacco farmers, whose livelihoods are inextricably linked to the legal cigarette value chain.

### Decreased earnings

"Tobacco farmers are already under severe pressure due to the fall in demand for tobacco as contraband products do not use the locally-grown product. In fact, since 2013-14, the annual earnings of tobacco farmers have shrunk by more than ₹1,500 crore due to drop in offtake of tobacco for manufacturing domestic legal cigarettes," he said.