



The Tobacco Institute of India

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Media Release

New Delhi, 18 July, 2017: The steep revision in the Compensation Cess Rates on Cigarettes announced by the GST Council on 17th July 2017 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.

The GST Council at its meeting on 17th July 2017 has effected a steep 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, the impact of the increase in the Compensation Cess announced yesterday is significantly higher than the estimated reduction in tax incidence on cigarettes under the new tax regime as explained above. Thus, the incidence of tax as per the revised levy on cigarettes, announced yesterday, is not in keeping with the fundamental GST principle of Revenue Neutrality.

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 excise duties on cigarettes, which have cumulatively gone up by 131% over the last 6 years and resulted in legal cigarette industry volumes shrinking 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 the legal cigarette industry and Government's revenue collections.

While the Legal cigarette volumes are declining under the pressure of punitive taxation, illegal cigarette trade is growing at a rapid pace and already constitutes 1/5th of the cigarette Industry in the country. India as per studies is already the 4th largest market for illegal cigarettes in the world. According to Euromonitor International, illegal cigarettes have more than doubled, having increased to 23.9 billion sticks in 2015 from a level of 11.1 billion sticks in 2004. Moreover, studies conducted by FICCI indicate that the revenue loss to the Government on account of illegal cigarettes is in excess of Rs.9,000 crore per annum.

The increase in taxation and the drop in legal cigarettes will have a debilitating impact on the Indian FCV tobacco farmers whose livelihoods are inextricably linked to the legal cigarette value chain. FCV farmers are already under severe pressure due to the fall in demand for tobaccos grown by them as contraband products do not use locally grown tobaccos. In fact, since 2013-14, the annual earnings of FCV tobacco farmers have shrunk by more than Rs.1,500 crore due to drop in offtake of tobacco for the manufacture of domestic legal cigarettes.

In view of the undesirable consequences of the increase in cigarette taxation beyond the pre-GST level, we request the GST Council to review the increase announced yesterday and roll back the tax increase to the Revenue Neutral level consistent with the Government's stated objectives.

Affiliations

- International Tobacco Growers Association (ITGA) • Tobacco Merchants' Association, USA (TMA)
- CII • FICCI • ASSOCHAM • PHDCCI • ICCI • FAPCCI • ASCI
- Chambers of Commerce: Andhra, Karnataka, Maharashtra