

Unprecedented Tax Increase to Cripple Legal Industry, MSMEs: TII

DC Correspondent | Jan 01, 2026

TII expresses shock over the significant duty hike announced on December 31, 2025, contradicting previous claims of revenue neutrality by the Government.

New Delhi: TII is shocked and surprised to note the unprecedented increase in duty announced yesterday (31st December, 2025) given the statements made by the Government on more than one occasion, that the overall impact of the transition of taxes will be revenue neutral.

Such a massive increase will cause immense hardship and loss to millions of farmers, MSMEs, retailers and local value chains nurtured by the Industry, besides providing a huge fillip to Illicit Industry and damaging national enterprises.

It is well known that for every 3 legal cigarettes, 1 smuggled/illicit cigarette is sold in the country, and this high tax increase will further boost illegal and illicit activity depriving the National Exchequer besides promoting anti-social activity.

A Study covering 71 countries across 17 years (2005–2022), notes, "...when illicit trade gets embedded and established in a marketplace it becomes difficult to reduce it..." and "...Governments cannot rely solely on enforcement to control illegal trade and disregard the more important influence of taxation and affordability...". India already has a high incidence of Illicit, and this increase would cause the illicit share to increase significantly.

Cigarettes are already a highly taxed product in the country. Legal cigarettes constitute only 10% of the total tobacco consumption while contributing 80% of tobacco tax revenue. Cigarette taxes in India as a percentage of per capita GDP are amongst the highest in the World, as per the WHO data.

It may be highlighted that a country like Australia that has been at the forefront of tobacco control with high tax & stringent regulatory measures has had unintended consequences of an "exploding black market" with large criminalization of the trade. Parliamentarians are now demanding rollback of taxes to ensure people go back to the legitimate trade. It is important to take cognizance of such global experiences and have a balanced policy.

TII requests the Government to review the computations behind this extremely severe tax increase and reconsider the enormous hike given the huge implications. As this imposition will have a debilitating and crippling impact on the entire value chain of more than 4 crore farmers, MSMEs, retailers and local value-chains besides dealing a body blow to legitimate Indian industry whilst promoting illicit trade.