

Legal Cigarette Industry witnesses huge shrinkage in volumes due to punitive taxation

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Legal Cigarette Industry in the country came under huge stress on account of punitive taxation during the period from 2012 to 2018 and as a result, the industry witnessed huge shrinkage in its volumes.

India is the world second largest producer of tobacco, with an annual production of around 800 million kgs and provides direct and indirect employment to 45.7 million people, around 70 per cent of whom are in the agricultural sector, according to Tobacco Institute of India (TII).



Legal Cigarettes account for just 9 per cent of overall tobacco consumption in the country while traditional products like chewing tobacco, bidis, khaini and illegal Cigarettes represent the remaining balance consumption.

Legal Cigarettes' share of total tobacco consumption in the country has declined from 21 per cent in 1981-82 to 9 per cent in 2017-18, however, during the same period, the overall tobacco consumption in the country has increased by 47 per cent, TII said. Stability in cigarette taxation since 2018-19, coming after six years of punitive and persistent hikes contributed to sustained growth in Revenue from the Legal Industry in this regard.

Tax stability on cigarettes since 2018-19 also helped in restraining the escalating growth of illegal cigarette trade somewhat and a consequent growth in government revenue and improved farmer earnings, said TII, a representative body of farmers, manufacturers, exporters and ancillaries of the cigarette segment of the tobacco industry in the country. Regrettably, the Union budget for 2020-21 has imposed steep increase in National Calamity Contingent Duty (NCCD) resulting in a huge 13 per cent surge in the overall tax burden on cigarette. This will adversely affect the legal cigarette industry and provide further impetus to the flourishing smuggled Cigarettes in the country with debilitating consequences on farm incomes, the TII said.

Despite its small share of the tobacco consumption, government collects 80 per cent of tobacco tax revenue from the legal cigaretties while 68 per cent total tobacco consumption in the country is in the unorganized sector, which escapes tax and regulatory oversight. Revenue realization by the Government on a per kg basis of Tobacco used in various product forms, is more than 40 times higher on cigarettes than other tobacco products. Illegal Cigarette trade accounting for 1/4th of the total Cigarette market in the country has grown rapidly due to high taxation and the attractive arbitrage and causes an annual revenue loss of Rs 13,000 crore to the exchequer, it said.

According to the Tobacco Atlas 6th Edition (2018), India's per capita consumption of cigarettes is the lowest in the world ? just 89 cigarettes per annum as compared with 2043 for China, Japan (1583), USA (1017) and UK (828) and ever lower than neighbouring countries ? Pakistan (363), Nepal (512) and Bangladesh (744).

Tobacco and Tobacco Products is a large contributor to the Government's tax Revenue and in 2018-19, India had earned Rs 5,995 crore from tobacco and tobacco product exports. The tobacco growing areas of the three major tobacco-producing states in the country ? Andhra Pradesh, Karnataka and Gujarat ? are better off in several socio-economic parameters as compared to the non-tobacco growing areas of these states.

Source: <http://brighterkashmir.com/legal-cigarette-industry-witnesses-huge-shrinkage-in-volumes-due-to-punitive-taxation>