

Centre amends finance bill to change taxation on tobacco, pan masala

By Anuradha Shukla | March 25, 2023

Synopsis

The centre on Friday proposed an amendment in the Schedule of the GST (Compensation to States) Act, 2017 in the finance bill which capped the GST Compensation Cess on Pan Masala and Gutka at 51% of the retail sale price per unit and for Tobacco and manufactured tobacco substitutes, including tobacco products to 100% of retail sale price per unit.

Now Tobacco and tobacco products, pan masala and Gutka will attract compensation cess on the basis of the retail price instead of a current ad valorem levy.

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The Finance bill also inserted a new explanation in the schedule defining the scope of 'retail sale price' which will be computed after including all taxes, freight, transport charges, advertisement cost etc. The amendment was introduced to include the recommendation of the group of ministers on Pan Masala, Gutka and Tobacco products led by the Odisha Finance Minister, Niranjan Pujari.



Currently these items attract a GST rate of 28%, which is the highest slab with an additional compensation cess. The cess rate on tobacco products is 290%, whereas the cess on paan masala is 135%. Further, the cess part of the tax is based on the actual sales value (ad valorem tax).

At its February 2023 meeting, the Goods and Services Tax (GST) Council approved a report by the ministerial panel led by the Odisha Finance Minister, Niranjan Pujari which proposed a revision in the cess element of the GST, which it said must be linked with the product's Maximum Retail Price (MRP) quoted to consumers.

This was aimed to plug revenue leakages in these sectors at both the retailer and distributor end as the GoM observed greater revenue leakages in the supply chain of such commodities. With end retailers hardly having GST registration, it is difficult to trace such tax evasion.

The GoM report had also proposed a cess structure, linking it with the retail sale price of at least 38 such commodities ranging between 12% and 69%. However it left the final rate on the fitment committee.

"Retail sale price means the maximum price at which the concerned goods in packaged form may be sold to the ultimate consumer and includes all taxes, local or otherwise, freight, transport charges, commission payable to dealers, and all charges towards advertisement, delivery, packing, forwarding and the like and the price is the sole consideration for such sale," the amendment said.

With the amendment now the cess cannot exceed 51% and 100% respectively.

Source: <https://economictimes.indiatimes.com/industry/cons-products/tobacco/centre-amends-finance-bill-to-change-taxation-on-tobacco-pan-masala/articleshow/98997967.cms>