

High Taxation on cigarettes provides profit arbitrage and incentivizes illicit Trade in India: TII

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Hyderabad, July 29 (UNI) High taxation on cigarettes and extreme regulations incentivize illicit trade in India, according to a Tobacco Fact Sheet India report released by the Tobacco Institute of India (TII).

As per the recent data released by the WHO, cigarettes in India are among the most unaffordable in the world due to excessively high taxation, the report stated.

Legal Cigarettes account for just 9 percent of overall tobacco consumption in the country, while the remaining 91 percent balance of consumption is represented by 29 traditional products like chewing tobacco, bidis, khaini, and illegal cigarettes.

Despite its small 9 percent share of tobacco consumption, the government collects 80 percent of tobacco tax revenue from legal cigarettes, the report said. and stated while the legal cigarette volumes have declined, illicit volumes have grown rapidly between 2011 and 2023 and now amount to 1/3rd of the legal cigarette volumes.

The combination of low prices for consumers due to tax evasion and the incorrect perception created by the absence of statutory pictorial warnings on smuggled cigarettes provides significant buoyancy to illicit cigarette volumes, it stated. India is now the 4th largest illegal cigarette market in the world, with illicit trade causing an annual revenue loss of Rs 21,000 crore to the government, the report revealed.

The growing illicit cigarette trade has had a severe impact on the Indian FCV (Flue-Cured Virginia) tobacco farmers, as smuggled cigarettes do not use locally grown tobacco. FCV tobacco production has dropped by a steep 40 percent from 316 million kg in 2013–24 to 189 million kg in 2021–22, resulting in a shrinkage in earnings and the loss of an estimated 35 million man-days of employment in tobacco-growing areas, it stated.

A reduction in cigarette taxes as well as strong enforcement action are needed to eliminate illicit cigarette trade in the country, which will lead to a higher demand for local tobacco and increased revenue generation for the exchequer, the report added.

Source: <https://www.uniindia.com/~/high-taxation-on-cigarettes-provides-profit-arbitrage-and-incentivizes-illicit-trade-in-india-tii/Business%20Economy/news/3251020.html>