

Union Budget may announce new central cess or NCCD on tobacco, pan masala

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Meghna Mittal | November 10, 2025



GST on tobacco will be capped at 40 percent

The government is likely to announce a new National Calamity Contingent Duty (NCCD) or a central cess on tobacco and pan masala in the upcoming Union Budget to ensure that the overall indirect tax burden on these products remains unchanged, senior government sources said.

The proposed levy would be introduced outside the Goods and Services Tax (GST) framework, similar to existing cesses or NCCD provisions. This means it would not require approval from the GST Council but is likely to be included as an amendment in the Finance Bill 2026, allowing Parliament to pass it directly, they added.

“Since this is not a GST levy, the Council’s approval will not be necessary. The new central levy will have to be approved by Parliament and is expected to be introduced through an amendment in the upcoming Finance Bill,” a senior government source told Moneycontrol.

The move follows the government’s rationalisation of GST rates under the GST 2.0 framework, which places luxury and sin goods under a uniform 40 percent slab. As this would otherwise lower the total tax incidence on high-yield demerit goods such as tobacco and pan masala, the Centre is considering a separate central levy to preserve the current effective tax rate.

“The Centre is clear that the tax incidence on demerit goods such as tobacco and pan masala will not be reduced. While GST will be capped at 40 percent, the balance will be maintained through a separate central levy like NCCD or a new cess to ensure revenue neutrality,” the official said, on the condition of anonymity.

Currently, the total indirect tax incidence on tobacco products stands at about 53 percent, while it is as high as 88 percent on pan masala – comprising 28 percent GST and varying

rates of compensation cess. Under the revised GST 2.0 structure, these would fall to 40 percent once the repayment of GST loans is completed.

“The upcoming Budget is expected to announce a suitable central mechanism to bridge this gap — either through an NCCD amendment or a new cess,” the official added.

Sunset of the GST Cess

The proposal is linked to the nearing sunset of the GST Compensation Cess regime, which currently funds the repayment of loans borrowed by the Centre to compensate states for revenue shortfall. The cess, introduced for five years after GST rollout in July 2017, was extended beyond June 2022 to service loans amounting to nearly Rs 2.7 lakh crore. The regime is expected to be phased out once these borrowings are fully repaid.

Tobacco products remain a key source of indirect tax revenue, and the new central levy would ensure revenue continuity without reopening GST rate discussions at the Council level.

What is the National Calamity Contingent Duty (NCCD)?

The NCCD is a central duty imposed under the Finance Act, 2001, on specific products. It intends to raise funds for disaster relief. The duty is collected by the Centre.

Why is the government considering a new levy now?

To avoid revenue loss and maintain the existing high tax incidence on demerit goods such as tobacco and pan masala, the Centre is considering either enhancing the NCCD or introducing a new central cess.

How does this relate to GST 2.0?

Under the GST 2.0 rate rationalisation plan, the top slab for sin and luxury goods has been revised to 40 percent. Without an additional central levy, this would reduce the effective tax burden on high-yield items like tobacco. The proposed NCCD or cess will therefore offset the reduced GST rate to maintain revenue neutrality and ensure the overall tax incidence stays unchanged.



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