

Tax hike on tobacco unprecedented: Tobacco Board chairman Yashwanth Kumar Chidipothu

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GUNTUR: The Indian Tobacco Board chairman and senior BJP leader Yashwanth Kumar Chidipothu has raised serious concerns over the centre's recent decision to go with steep increase of GST on tobacco products.



He described the decision as an unprecedented, warning of severe consequences for farmers, industry, and govt revenue. In an exclusive interview with The Times of India, Yashwanth argues that the sudden reintroduction and steep escalation of excise duty mid-season shattered revenue neutrality assurances, pushed consumers toward illicit cigarettes, and exposed farmers to acute distress.

Citing data on smuggling, revenue loss, and past farmer hardships, he calls for urgent policy correction, revenue-neutral taxation, and structured consultations to protect livelihoods and the national economy.

Q1: Why are you calling Centre's recent tobacco tax hike "unprecedented"? Govts raise taxes all the time.

As part of the GST 2.0 process, both farmers and industry were expecting revenue neutrality, as announced by the finance minister. However, the reintroduction of excise duty has caused significant hardship for both the industry and farmers. Moreover, excise rates have increased to two to three times above revenue-neutral levels, and in some segments, this translates into a 70–80% increase in tax per cigarette. These increases were implemented mid-season, after production had already been authorised. Such unexpected and steep increases in excise duty have a negative impact on agricultural value chains and are particularly damaging when farmers have already planted, harvested, and brought their crops to auction.

Q2: Govts argue higher tobacco taxes are essential for public health. Why oppose them?

Farmers are not opposed to public health initiatives. Tobacco farming is our primary source of income and livelihood. Our concern is that steep and sudden tax increases do not meaningfully reduce consumption; instead, they push consumers toward illegal products such as smuggled and tax-evaded cigarettes that are available at much lower prices. When legal cigarettes become unaffordable overnight, consumers shift to unregulated alternatives that lack quality control, health warnings, and tax contributions. This ultimately undermines both public health objectives and national revenue.

Q3: Do you have real-world evidence that such tax shocks backfire?

India clearly illustrates this trend. Over the past decade, the illicit cigarette market has grown steadily as excessive pricing of legal brands has made them unaffordable for many consumers, driving demand toward smuggled and illegal products. According to Euromonitor International, India ranks as the fourth-largest market for illicit cigarette consumption globally, after China, Brazil, and Pakistan. At present, illegal cigarettes make up nearly 30% of total consumption, leading to an estimated annual revenue loss of about ₹13,000 crore. Across the country, large-scale smuggling and organized illegal tobacco trade are evident. This is not merely an observation—most recently, I submitted a written complaint on this matter to the Additional Director General of Revenue Intelligence.

Q4: How is India showing early signs of the same problem?

With the new taxes implemented from 01.02.2026, a legally manufactured cigarette pack in India costs around ₹340, while smuggled packs are available for as little as ₹50, widening the price gap further. Recent seizures reported on the Revenue Intelligence website amount more than 600 crore, yet large

quantities of illegal cigarettes remain in circulation. This trend is likely to accelerate as demand for legal domestic products falls, providing an opportunity for foreign smuggled goods to expand. Prime Minister Narendra Modi's Swadeshi vision calls for protecting India's economy and national priorities. Illegal cigarettes undermine this goal by evading taxes, threatening public health, and weakening the pursuit of a self-reliant (Atmanirbhar) Bharat.

Q5: Who is hit first by this policy — companies or farmers?

Farmers are the first and hardest to suffer. Tobacco is not a crop that can be grown quickly for profit. It is regulated, takes months to cultivate, and once planted, there is no way to back out. When demand in India falls and exports are weak, farmers are left with unsold stock, falling prices, and are forced to sell at a loss. This happened after the 2014 tax increase, which caused serious problems for farmers. The Hon'ble Minister knows that during this time, many farmers faced extreme distress, including reported suicides, and the government had to step in with compensation of ₹20 per kg.

Q6: Some argue farmers should simply shift to other crops. Is that realistic?

Most FCV tobacco farmers in Andhra Pradesh and Karnataka are small or marginal and grow crops on rain-fed land. Tobacco can only grow in certain soil and climate conditions and requires existing infrastructure. Farmers have tried growing other crops like Bengal gram, Ragi, and Ginger, but these crops cannot match the income from tobacco, and there are no guaranteed markets at a large scale. Suddenly forcing farmers to switch crops without income security would increase rural hardship. If many farmers shift at once, it could lead to overproduction, falling prices, and make those alternative crops unsustainable.

Q7: Why is taxing unmanufactured tobacco such a serious concern now?

India has always treated unmanufactured tobacco leaf as an agricultural product that should not be taxed at the farm level. Excise duty was first introduced in 1944 as a wartime measure, but it was later seen as unfair to farmers. In 1979, Finance Minister Chaudhary Charan Singh removed the excise duty, based on the principle that raw agricultural produce should not carry indirect taxes. Bringing back an 18% excise duty now reverses this long-standing policy, lowers the prices farmers get for their leaf, and reduces their income in major tobacco-growing states. Past experience shows that taxing unmanufactured tobacco leaf hurts farmers and does not generate stable revenue—this is why it was removed earlier.

Q8: The govt said taxes would be revenue-neutral. Why is that being questioned?
Answered in question 1

Q9: What happens if the govt does nothing?

Without timely policy measures, the illegal tobacco market will continue to grow, reducing farm-gate prices and incomes for tobacco farmers. This could worsen rural distress, increase smuggling, and lead to significant revenue losses for the government. Proactive steps, such as supporting farmers and maintaining fair tax policies, are essential to protect livelihoods, public health, and the national economy.

Q10: What is your single, immediate request to the govt of India?

Before implementing any changes, it is essential to conduct a thorough assessment of the impact on farmer incomes and government revenue. Farmers are calling for the restoration of revenue-neutral tax rates and stronger measures to combat illicit tobacco trade. Moreover, structured consultations with the Tobacco Board, farmer representatives, and industry stakeholders are necessary to ensure that tax policies are well-informed, balanced, and sustainable, protecting farmer livelihoods while supporting national revenue and public health objectives.

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