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Taxing One Product, Ignoring Rest: Why India's Tobacco Strategy is Failing

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The new excise on tobacco deepens tax imbalances, overburdening cigarettes while sparing bidis, risking jobs, illegal trade, and weaker public health outcomes.

India's revised tobacco tax regime draws criticism for skewing burdens toward cigarettes while leaving bidis largely untouched (Photo: Pinterest)

On the final day of 2025, the government announced that effective February 1, 2026, tobacco products will attract an additional excise duty over and above the 40% GST rate. This new levy replaces the GST Compensation Cess imposed on such sin goods. The move is supposedly aimed at preserving high effective tax rates after the cess sunset, mobilizing resources for health and national security priorities, and deterring tobacco consumption through steeper taxation, particularly on cigarettes and pan masala.

Yet while the 40 percent GST rate is applied uniformly in principle, the accompanying duty hikes and structural redesign of the tax regime produce sharply uneven outcomes across tobacco categories. Premium and longer cigarettes, along with chewing tobacco products, bear the brunt of the new framework. Bidis, by contrast, remain largely insulated; they are excluded from the 40 percent "sin tax" slab and continue to be taxed at a lower GST rate of 18 percent.

Data from the Global Adult Tobacco Survey (GATS-2, 2016-17) underscores this imbalance. Bidi smoking is significantly more prevalent than cigarette smoking in India, with 7.7 percent of the adult population reporting bidi use compared to just 4 percent who smoke cigarettes. In other words, bidi smokers nearly outnumber cigarette smokers by two to one. Therefore, this increase does little to address the objective of deterring tobacco consumption through steeper taxation.

EMPLOYMENT STRUCTURE IN TOBACCO PRODUCTION

The employment dimension further exacerbates the challenges. The tobacco industry provides livelihoods to 45.7 million people in the country. This combination of higher prevalence and a substantially larger workforce explains why the tobacco value chain occupies a unique position within India's economic policy framework. Concentrated largely in certain northern regions, tobacco production supports extensive informal employment networks, making the industry highly sensitive to policy interventions that could disrupt livelihoods.

Flue-cured Virginia (FCV) tobacco cultivation supports a significant number of farmers in states such as Andhra Pradesh, the key regions growing tobacco suitable for cigarette manufacturing. The farming belts in these regions depend heavily on FCV tobacco as a cash crop, as harsh climatic conditions do not support the cultivation of many other popular crops.

Unlike most countries, where cigarettes dominate tobacco use, India presents a starkly different picture. Legal cigarettes account for barely 10% of total tobacco consumption, while the remaining 90% is spread across nearly 29 tax-inefficient products, including bidis and other tobacco products like chewing tobacco, khaini, and a growing volume of illegal cigarettes. Globally, cigarettes typically represent close to 90% of tobacco use.

Indian tobacco farming is largely sustained by small and marginal farmers who grow crops on poor-quality, rainfed land with limited access to resources. These farmers, despite their vulnerability, remain at the receiving end of policy distortions that disproportionately target certain segments of the industry.

AN UNEVEN TAX REGIME ACROSS TOBACCO PRODUCTS

Cigarettes shoulder nearly 80% of total tobacco tax revenues despite contributing only a tenth of overall consumption. This reflects a deeply skewed taxation framework that penalizes cigarettes far more heavily than other tobacco products. In relative terms, cigarettes are taxed over 50 times more than bidis and more than 30 times higher than chewing tobacco. On a per-dose basis, FCV tobacco used in cigarettes attracts more than Rs 6 in tax in the finished product, whereas bidis and smokeless products incur less than one paisa per dose.

The recent tax hikes exceeding 70% in cumulative terms are likely to push cigarette brands beyond critical price thresholds of Rs 5, Rs 10, and Rs 15. Crossing these psychological price points risks accelerating consumer migration toward illegal cigarettes and low-tax alternatives.

Skewed tobacco taxation has resulted in the share of legal cigarettes in total tobacco consumption collapsing from 21 percent in 1981-82 to just 10 percent in 2023-24. Over the same period, legal cigarette consumption declined by 25 percent, while consumption of other tobacco products including illicit cigarettes surged by 70 percent. Overall tobacco consumption, far from falling, increased by 40 percent. Singling out cigarettes for punitive taxation has proved both discriminatory and counter-productive. Such policies, often amplified by advocacy groups with limited appreciation of India’s employment realities, overlook the deep livelihood dependence across the domestic tobacco value chain—from farmers and workers to distributors and retailers. The economic costs extend beyond employment. Investor confidence has taken a direct hit; following the excise notification, more than Rs 83,000 crore in market value has been wiped out across major listed companies, affecting 30 lakh retail investors alongside domestic and foreign institutional investors. It is time for policymakers to rise above political narratives and acknowledge the unintended consequences of excessively high cigarette taxes. A more balanced and rational approach to tobacco taxation—one that reduces distortions across products—would better serve public health objectives while protecting livelihoods and preserving the legal industry value.

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