

SHARP TAX HIKE WILL HAVE SEVERE, IRREVERSIBLE IMPACT ON TOBACCO FARMERS & FARM WORKERS, NEW REPORT WARNS

- *A new report by Artha Arbitrage Consulting estimates that the new tax is likely to reduce the offtake of FCV crops by nearly 20% and cause an additional loss of approximately 2.6 million mandays of employment in farming and affiliated activities*
- *The tax shock would disrupt the tobacco value chain severely, by sharply fuelling the growth of illicit trade*
- *The report notes, once Illicit trade gets embedded and established in market place, it becomes difficult to remove and enforcement alone cannot control illicit trade*
- *Tobacco cultivation in India is predominantly undertaken by small and marginal farmers operating on poor soils, largely under rain-fed conditions and with limited access to resources*

The Federation of All India Farmer Associations (FAIFA), a non-profit organisation representing the cause of millions of farmers and farm workers of commercial crops across the states of Andhra Pradesh, Telangana, Karnataka, Gujarat, etc., recently released a report, prepared by experts, which empirically analyses the impact of the new excessive excise duties on the tobacco farming sector.

Titled “New Tax Regime on Cigarettes and Its Impact”, and developed by FAIFA and Artha Arbitrage Consulting LLP, **the report estimates that the new tax is likely to reduce the offtake of FCV crops by nearly 20% and cause an additional loss of approximately 2.6 million man-days of employment in farming and affiliated activities.** This will be a severe blow to FCV (Flue-Cured Virginia) tobacco cultivators, agricultural labourers including women, and those labourers engaged in warehousing, auctioning, transportation, and other associated activities of tobacco cultivation, at a time when the employment situation in India is already under sharp distress.

Speaking on the occasion Murali Babu, President, FAIFA, said, **“More than any other stakeholder, the new tax disproportionately hurts tobacco farmers**

in India, especially FCV growers in South India.

The share of Indian FCV farmers in the overall tobacco market has already fallen sharply, from 21% to 10%, due to punitive and discriminatory taxation and the rapid growth of illegal tobacco. This share will shrink further, leaving FCV growers with an increasingly narrow and unsustainable space to operate.”

“This taxation policy will not reduce consumption; instead, it will push consumers toward cheaper, unregulated, and illegal tobacco products. That undermines public health objectives and further distorts the market. If left uncorrected, FCV tobacco farmers in South India risk being pushed into permanent marginalisation. We urge the government to urgently address and rectify this anomaly.”

FAIFA’s report further warns that the tax shock would disrupt the tobacco value chain severely, by sharply fuelling the growth of illicit trade. **Rising prices are expected to push up demand for illegal tobacco products by nearly 39%, taking total illicit consumption of cigarettes to over 46 billion sticks.**

This will be a severe blow to the legitimate tobacco growers’ fraternity, besides demolishing the entire industry and destroying livelihoods.

Naveen Srivastav from Artha Arbitrage Consulting LLP, who carried out the research for the report, said, “The FCV tobacco agri-sector is experiencing intensifying structural stress. Even before the new tax regime, products derived from FCV leaf were taxed disproportionately, over 30–50 times higher per kilogram than non-FCV tobacco used in bidis and chewing products, translating to more than Rs.6 per dose compared to less than one paisa for other forms. This persistent tax asymmetry has contributed to a steady contraction in FCV acreage and a decline in the number of growers, as evidenced by data spanning 2011–12 to 2023–24. The latest excise hike is likely to exacerbate this imbalance, accelerating a shift toward revenue-inefficient and informal consumption channels. From a fiscal standpoint, the resulting revenue gains risk being outweighed by the broader economic costs of reduced farm incomes, employment losses, and downstream livelihood impacts.”

On 31st December 2025, the Government of India abolished existing compensation and introduced higher rates of Central Excise Duty on tobacco products linked to Retail Sale Price (RSP) with effect from 1st February 2026.

Data released in the FAIFA and Artha Arbitrage latest report shows a consistent downward trend in both the number of FCV tobacco growers and the area under cultivation between 2011–12 and 2023–24. During this period, the planted area fell sharply from 258.23 thousand hectares to 146.54 thousand hectares. This contraction has directly reduced farm incomes, livelihood of lakhs of farmers / farm workers and the tax hike is expected to further aggravate the situation by depressing demand, accelerating farmer exits, and deepening income losses across the sector.

The report underlined that past experience underscores the high taxation risk for the sector and the people dependent on it. **Following the 2014 tax hike, FCV prices fell by Rs.20–30 per kg due to reduced industry demand and this tax increase, which is unprecedented, prices may probably fall by a minimum of Rs.60-70 per Kg. and the farmers**

will not even recover their costs. With limited viable alternative crops, the socioeconomic consequences for tobacco-growing regions could be severe and irreversible.

Highlighting the socio-economic impact of a high tax regime, the report notes that tobacco cultivation in India is predominantly undertaken by small and marginal farmers operating on poor soils, largely under rain-fed conditions and with limited access to resources. Despite these constraints, tobacco continues to play a vital role in the rural economy and contributes significantly to the national exchequer.

The report notes that the shift to an RSP-linked GST regime marks a fundamental break from transaction value taxation. **With GST raised to 40%, taxes are now imposed on a substantially higher retail base, while abatement applies only to GST and not to Excise Duty or NCCD (National Calamity Contingent Duty). This results in taxes being levied on tax-inclusive values, triggering a cascading, multiplier effect that sharply inflates the overall tax burden.**

The report also brought out that historical and global evidence shows a clear correlation between sharp tax hikes and illicit trade growth. A global study covering 71 countries finds that a one percentage-point increase in cigarette unaffordability leads to a 0.8 percentage-point rise in illicit trade. The report further states, once Illicit trade gets embedded and established in market place it becomes difficult to remove and enforcement alone cannot control illicit trade.

The consequences are severe: declining legal sales, erosion of government revenues, growth of organised crime, and increased public health risks from substandard, unregulated products. Once entrenched, illicit markets are difficult to reverse. As global evidence cautions, enforcement alone cannot address this challenge — taxation and affordability must remain central to policy design to prevent irreversible market distortion that leaves a huge impact on our tobacco farmers and labourers.