THE POLICY EDGE

Why Bidi Taxes Undermine Tobacco Control

India's tobacco policy lowers taxes on its most-used product, weakening both public health goals and fiscal design


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India's tobacco tax policy is working at cross purposes. Tobacco use kills around 1.35 million Indians each year, much of it linked to bidi consumption, which accounts for 70–80 percent of smoked tobacco use in rural India. Their users are disproportionately drawn from poorer households: daily wage workers, rural labourers, and youth in small towns. Yet bidis attract only 18 percent GST, while cigarettes face a high effective tax burden of roughly 60–70 percent of the retail price through GST and excise.

This is not a marginal discrepancy. It is a structural gap that keeps the most prevalent form of smoking the most affordable, even as policy seeks to discourage use.

A Policy That Encourages Substitution

Recent fiscal measures make this distortion more consequential. The Union Budget 2026 raised taxes on cigarettes, which is a welcome move from a public health perspective. But without a corresponding increase in bidi taxation, the policy risks producing an unintended effect: encouraging substitution toward cheaper alternatives.

The result is not a proportional decline in tobacco use, but a shift toward lower-cost products, undermining both health outcomes and fiscal effectiveness. Tobacco control cannot be effective if it operates product by product, without accounting for substitution across the market.

The Design Problem: Relative Prices, Not Just Tax Rates

The issue is not just tax levels, but relative prices across products.

If taxes do not keep pace with income growth, tobacco products become more affordable over time, and existing price gaps can widen in real terms.

A more effective approach would anchor taxation in maintaining appropriate relative prices across tobacco products through coordinated tax adjustments.

This requires two shifts. First, bidi taxes must rise in a structured manner to reduce the current disparity. Second, tobacco taxes more broadly should be indexed to inflation and income growth, ensuring that affordability does not increase over time. Similar principles are already used in the petroleum sector; tobacco policy need not lag behind.

A Practical Reform Path

Predictability matters in fiscal policy. When governments clearly signal the direction and pace of tax changes, market participants such as consumers, manufacturers, and workers respond in ways that minimise disruption. Closing the bidi tax gap therefore need not be abrupt; a calibrated, multi-year roadmap can achieve this more effectively.

The concerns about tax regressivity, where poorer households spend a higher share of their income as taxes on such products are also important. But this should not be misinterpreted. The health burden of tobacco use is also disproportionately borne by these households. Keeping bidi taxes low does not protect vulnerable populations; it entrenches both health and economic harm.

There are also broader welfare implications. Even low-cost products like bidis compete with household expenditure on food, nutrition, and other essentials. Reducing tobacco consumption through higher taxation can therefore generate indirect gains in household welfare, particularly among low-income families.

Tax Alone Won't Work

Tax reform, while central, cannot operate in isolation. Its effectiveness depends on complementary measures in enforcement and cessation support.

India already has a comprehensive legal framework under the Cigarettes and Other Tobacco Products Act (COTPA), which restricts sales to minors and near educational institutions. The primary challenge lies in implementation. Strengthening monitoring systems, improving reporting mechanisms, and focusing enforcement efforts in high-burden states would significantly enhance the impact of existing regulations.

At the same time, cessation support remains limited relative to the scale of the problem. India has approximately 267 million tobacco users, yet only a small proportion successfully quit each year. Expanding access to basic cessation interventions can make a substantial difference. Training frontline health workers to deliver simple protocols such as Ask, Advise, Refer would broaden reach, while making nicotine replacement therapies available through Jan Aushadhi outlets could improve affordability and access.

Tobacco control rests on a combination of measures including taxation, enforcement, prevention, and cessation, with each reinforcing the others.

Fixing the Distortion

India's tobacco policy challenge is not merely that tobacco is under-taxed. It is that tobacco is taxed unevenly across products in ways that distort consumption choices. Correcting this requires aligning taxes across products and ensuring that affordability does not rise over time. Earmarking a portion of additional revenue for health services and cessation support can further strengthen this approach. Ultimately, tobacco control will depend less on how much is taxed, and more on how relative prices shape what people choose to consume.

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