

# Cigarette industry body wants GST Council to roll back tax increase

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KOLKATA: Cigarette industry body, The Tobacco Institute of India (TII) has appealed to the GST Council to review the increase in cess on cigarettes and roll back the tax increase to the revenue neutral level arguing that the steep revision will put pressure on the legal cigarette industry, adversely impacting Indian tobacco farmers and revenue collection, and will increase smuggling and illicit cigarette trade in the country.

TII said in a release issued on Tuesday that the impact of the increase in the compensation cess announced is significantly higher than the estimated reduction in tax incidence on cigarettes under the new tax regime. "Thus the incidence of tax as per the revised levy on cigarettes is not in keeping with the fundamental GST principle of revenue neutrality," the body said.



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The GST Council at its meeting on Monday increased the compensation cess rate on various segments of cigarettes ranging from Rs 485 to Rs 792 per thousand cigarettes. For the king size cigarettes, there is 31% increase in the ad valorem component of the cess.

Reports by analysts peg cigarette prices are set to go up by 7-9% due to the increase in cess, with maximum price hike likely for the premium king size cigarette brands. As per analyst reports, the effective tax under GST has gone up by 11-15% which along with the 6% hike in the last Budget amounts to almost 16-17% total hike in taxes this fiscal. The maximum tax hike has happened in the premium king size segment at around 21%. As a result, the cigarette industry has faced the increase in taxation and price hike for the sixth successive year.

A report by Morgan Stanley says market leader ITC, which accounts for three out of four cigarettes sold in India, will need 12-13% weighted average cigarette price hike hereon with around 20% price increase in the king size segment to offset the tax increase. "Given that ITC has already taken around 4% price hike versus the average of FY 2017, we expect an incremental 8-9% pricing action over the next few days," it said.

The cigarette industry body said the additional tax burden caused by the increase in the compensation cess rate will exacerbate the pressure on the entire legal cigarette value chain which is already reeling under a huge tax burden on account of the continuous increase in excise duties on cigarettes, which have cumulatively gone up by 131% over the last six years and resulted in legal cigarette industry volumes shrinking by more than 25% since 2012-13.

It said illegal cigarette trade already constitutes around one-fifth of the cigarette industry in the country. India as per studies is already the fourth largest market for illegal cigarettes in the world. According to Euromonitor International, illegal cigarettes have more than doubled, having increased to 23.9 billion sticks in 2015 from a level of 11.1 billion sticks in 2004. The body quoted studies conducted by FICCI which indicate that the revenue loss to the government on account of illegal cigarettes is in excess of Rs 9000 crore per annum.

Source: <http://economictimes.indiatimes.com/industry/cons-products/tobacco/cigarette-industry-body-wants-gst-council-to-roll-back-tax-increase/printarticle/59652049.cms>