Sin taxes and GST

Tobacco, harmful foods can be taxed more

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HEALTH HAZARD. Taxing times /ISTOCKPHOTO

In India, non-communicable Diseases (NCDs) account for 63-67 per cent of all deaths. Four major NCDs — cardiovascular diseases, cancers, respiratory conditions, and diabetes — cause nearly 80 per cent of premature NCD deaths.

Rising consumption of sugar sweetened beverages (SSBs), Ultra Processed Foods (UPFs), alcohol, and tobacco — alongside inactivity, obesity, poor diets, and pollution — are key drivers of India's NCD surge. Strong fiscal and policy measures to curb these products are crucial to reversing this trend.

The WHO has long advocated higher taxes on tobacco and now recommends similar measures for alcohol and sugary drinks, with potential taxes on UPFs under review.

The Finance Minister has hinted at GST rate rationalisation and slab restructuring — offering a timely opportunity to align taxes on tobacco, SSBs, and UPFs with WHO guidelines.

While tobacco has long been taxed to reduce consumption, SSBs and UPFs remain under-taxed. SSBs are taxed at 28 per cent but lack a dedicated health cess, and UPFs are often taxed at lower rates.

Alcohol taxation varies widely by State, leading to price disparities, with some States like Gujarat, Bihar, and Nagaland enforcing full bans. There remains considerable scope to increase tobacco taxes, close loopholes, and expand the tax base. There is an urgent need for a comprehensive health tax framework for tobacco, SSBs, and UPFs.

The 139th report of the Parliamentary Standing Committee on Health highlighted that tobacco products in India remain among the cheapest globally. Despite being taxed under the highest GST slab, their growing affordability poses a challenge for policymakers and economists. India's current tax share on tobacco is well below the WHO-recommended minimum of 75 per cent — around 58 per cent for cigarettes and just 22 per cent for bidis—revealing a significant gap in effective tobacco taxation.

A key issue in the post-GST regime is the stagnation of tobacco tax rates, which have not kept pace with rising incomes and inflation, leading to increased affordability of tobacco products over time. GST rates can't be revised annually due to structural constraints and the need for consensus in the GST Council, making changes slow and politically sensitive.

Tobacco products also attract two key non-GST levies: Central Excise Duty (CED) and National Calamity Contingent Duty (NCCD). Though CED was initially subsumed under GST, it was reintroduced in Budget 2019-20 to restore fiscal control. NCCD, introduced in 2001 for disaster relief, remains in place.

The GST Council is currently awaiting final reports from two key Groups of Ministers (GoMs): one on GST rate rationalisation and addressing inverted duty structures — and another tasked with recommending a post-2026 cess framework as the current Compensation Cess arrangement nears its end.

GST COUNCIL MEET

The 56th GST Council meeting is expected to consider a 40 per cent GST slab on sin goods. However, raising the rate from 28 per cent to 40 per cent alone may not suffice, especially with the Compensation Cess ending in 2026.

A comprehensive approach is needed — revising Central Excise Duty (CED) and National Calamity Contingent Duty (NCCD), and introducing a dedicated Health Tax on harmful products like SSB, UPFs and tobacco.

To sustain the impact of sin taxes, the Council may create a standalone, adjustable GST slab for these sin products, making them less affordable over time. An additional Health Tax, alongside CED and NCCD, can increase the overall tax burden within the GST framework, generate fiscal space, and fund public health initiatives like anti-tobacco efforts, awareness campaigns, and detox programmes — turning harmful revenue into healing.

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