

GST Impact on Tobacco Sector : Post 56th GST Council Meeting

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The 56th GST Council meeting held on September 3-4, 2025, introduced significant reforms to India's indirect tax structure, particularly affecting tobacco and pan masala products. These changes represent a major shift towards a simplified two-slab GST system while introducing a special 40% rate for "sin goods" including tobacco products.

1. Major Structural Reforms:

- **Two-Slab GST Structure:** The council approved a simplified structure with only 5% and 18% regular rates
- **Special 40% Sin Tax:** Created for tobacco, pan masala, and other demerit and luxurious goods
- **Implementation Timeline:**

The Council was of the view that the changes in GST rates of goods and services need to be implemented with effect from 22 September 2025. However, keeping in view the requirement of funds to fulfill the obligation under the compensation cess account, the Council decided that the changes in GST rates may be implemented in a phased manner as follows:

- The changes in GST rates on services will be implemented with effect from 22 September 2025.
- The changes in GST rates of all goods except pan masala, gutkha, cigarettes, chewing tobacco products like zarda, unmanufactured tobacco and bidi, will be implemented with effect from 22 September 2025.
- Pan Masala, gutkha, cigarettes, chewing tobacco products like zarda, unmanufactured tobacco and bidi will continue at the existing rates of GST and compensation cess where applicable, till loan and interest payment obligations under the compensation cess account are completely discharged

2. Current Tax Structure on Tobacco Products:

➤ Goods and Services Tax (GST)

Product Category	Chapter/Heading/Sub-Heading /Tariff Item	Current GST Rate	New Rate (Post 56 th Meeting)	Implementation Date
Bidi Wrapper leaves (Tendu)	1404 90 10	18%	5%	To be Notified later
Indian Katha	1404 90 50	18%	5%	To be Notified later

Pan Masala	2106 90 20	28%	40%	To be Notified later
Unmanufactured Tobacco, Tobacco refused (other than tobacco leaves)	2401	28%	40%	To be Notified later
Cigar, Cheroots, Cigarillos and cigarettes, of tobacco or of tobacco substitutes	2402	28%	40%	To be Notified later
Bidi	2403	28%	18%	To be Notified later
Other manufactured tobacco and manufactured tobacco substitutes homogenized or reconstituted tobacco: tobacco extracts and essence	2403	28%	40%	To be Notified later
Product containing tobacco or reconstituted tobacco and intended for inhalation without combustion	2404 11 00	28%	40%	To be Notified later
Product containing tobacco or nicotine substitutes and intended for inhalation without combustion	2404 19 00	28%	40%	To be Notified later

➤ **GST Compensation Cess Structure**

The compensation cess structure underwent major changes in April 2023, shifting from ad valorem rates to Retail Sale Price (RSP) based rates for many products.

Updated Compensation Cess Rates (Effective April 1, 2023):

Product Category	Pre- April 2023 Rate	Current Rate (April - 2023 onwards)
Pan Masala	60%	0.32R Per Unit
Unmanufactured tobacco (without lime tube)	71%	0.36R Per Unit
Unmanufactured tobacco (with lime tube)	65%	0.36R Per Unit
Tobacco refuse	61%	0.32R Per Unit
Chewing tobacco (without lime tube)	160%	0.56R Per Unit
Chewing tobacco (with lime tube)	142%	0.56R Per Unit
Filter khaini	160%	0.56R Per Unit
Jarda scented tobacco	160%	0.56R Per Unit
Pan masala containing tobacco 'Gutkha'	204%	0.61R Per Unit

Note: R = Retail Sale Price

Cigarette Compensation Cess Rates:

Cigarette Type	Cess Rate
Filter cigarettes (≤65mm)	5% + Rs. 2,076 per thousand
Filter cigarettes (>65mm but ≤70mm)	5% + Rs. 2,747 per thousand
Filter cigarettes (>70mm but ≤75mm)	5% + Rs. 3,668 per thousand
Non-filter cigarettes (≤65mm)	5% + Rs. 2,076 per thousand
Non-filter cigarettes (>65mm but ≤75mm)	5% + Rs. 3,668 per thousand
Other cigarettes Containing Tobacco	36% + Rs. 4,170 per thousand

3. Tax Burden Analysis:

➤ Current Effective Tax Rates:

Product	GST Rate	Compensation Cess
Cigarettes	28%	5% + Rs.2076-3688 Per thousand
Pan masala	28%	0.32 R Per Unit (32% of RSP)

➤ Post- reform Tax Structure (When implemented):

Products	GST	NCCD	BED
For all Tobacco Products	40% (replacing current 28% + compensation cess structure)	Will continue (rates may be adjusted)	May continue or be absorbed into GST

Note: As per Section 15(2)(a) of CGST Act states that the value of supply shall includes any tax or duties levied under any law other than GST.

4. Price Impact Calculation

Example: 1 Cigarettes

Component	Current System	Post-40% GST
Base-price (per unit) (Cost+ NCCD +BED)	Rs.50	Rs.50
GST	Rs.14 (@28%)	Rs.33.33 (@ 40% of RSP)
Compensation Cess	Rs.4.576 (@5% +2076 per thousand)	-
Total Price (RSP)	Rs.68.576	Rs.83.33

Example 2: Pan Masala

Component	Current System	Post-40% GST
Base price	Rs.5.3125	Rs.5.3125
GST	Rs.1.4875	Rs.3.54
Compensation Cess	Rs.3.2 (32% of RSP)	-
Total Price (RSP)	Rs.10	Rs.8.85

5. Revenue Implications

➤ For Central Government:

- Current Collections: Tobacco taxes contribute approximately ₹50,000 crores annually
- Expected Impact: 40% GST rate may increase collections if consumption doesn't decline significantly
- Compensation Cess Phase-out: Will eventually eliminate ₹15,000-20,000 crores annual compensation burden

➤ For State Governments:

- Revenue Sharing: Under GST, states get 50% share vs current compensation cess going entirely to Centre
- Long-term Benefit: More predictable revenue stream post-compensation period.

6. Compliances and Administration Changes

➤ New Valuation Method:

- Retail Sale Price (RSP) Based: Compensation cess now calculated on RSP rather than transaction value
- Anti-Evasion: Reduces scope for under-invoicing and tax evasion
- Uniform Application: Same base for cess calculation across all states.

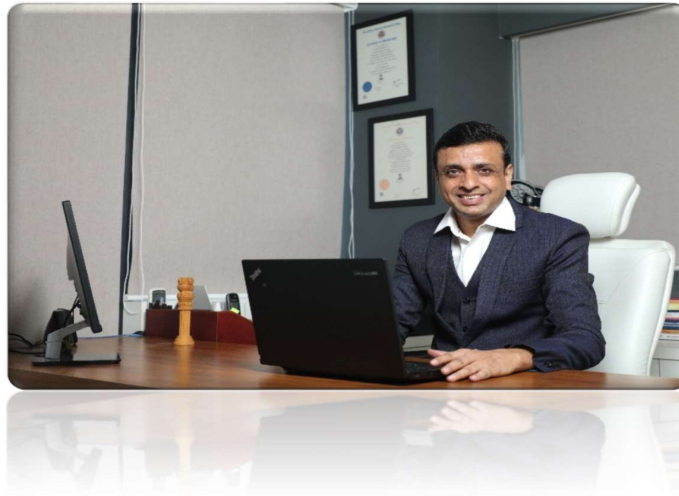
➤ Simplified Structure Benefits

- Reduced Litigation: Fewer rate disputes
- Easier Compliance: Two-slab system reduces classification issues
- Better Enforcement: Simplified structure aids tax administration.

➤ Conclusion

The 56th GST Council meeting represents a watershed moment in India's tobacco taxation policy. The shift to a 40% GST rate, while simplified in structure, significantly increases the tax burden on tobacco products, aligning with public health objectives while potentially boosting government revenues. The deferred implementation provides time for stakeholders to prepare, but the eventual rollout will fundamentally reshape India's tobacco market dynamics.

The reforms demonstrate India's commitment to both tax simplification and public health, creating a modern, efficient tax system that serves multiple policy objectives simultaneously.



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