8. Pan Masala Cess- Economy

Centre moves Bills for pan masala cess and higher duties on tobacco products. To offset the fiscal gap from the expiring GST Compensation Cess, the Union Government has introduced two bills to hike central excise duties on tobacco and implement a capacity-based cess on pan masala machines. This aims to maintain the tax burden for public health deterrence and curb tax evasion in the unorganized sector through machine-linked monitoring.

Introduction of New Legislation

Event- On December 1, 2025, the Union Government introduced two significant Bills in Parliament.

Objective- To protect tax revenues and address the fiscal gap anticipated due to the impending end of the GST compensation cess on tobacco products.[1]

The Bills-

1. The Health Security se National Security Cess Bill, 2025
2. The Central Excise (Amendment) Bill, 2025

Rationale- These Bills Introduced

End of the GST Compensation Cess

Origin- Introduced in 2017 to compensate States for revenue losses post-GST rollout.[2]

Crisis- COVID-19 (2020–22) caused a sharp drop in collections, forcing the Centre to borrow funds.

Current Status- The government is nearing the completion of interest repayment on these loans.[3] Consequently, the cess on tobacco is scheduled to end soon.[4]

Impact- The discontinuation would remove a major revenue stream, creating an immediate fiscal gap.[5]

Protecting Revenue and Maintaining Deterrence

Tax Incidence- Without the cess, the effective tax burden on tobacco would drop significantly.[6]

Consequences- Revenue Loss- Tobacco contributes over ₹50,000 crore annually to the exchequer. Health Impact- Lower prices would reduce the deterrence effect, potentially increasing consumption.

Solution- The *Central Excise (Amendment) Bill* empowers the government to raise central excise duties to keep the overall tax burden (and prices) stable.[7]

Tackling Leakages in Pan Masala Manufacturing

Problem- The sector is plagued by under-reporting of production and opaque practices to evade taxes.[8]

Solution- The *Health Security se National Security Cess Bill* introduces a capacity-linked system.

Mechanism- Taxation will be based on the number or capacity of machines installed, rather than the actual declared quantity of production.[9] This aims to replicate the success of earlier capacity-based systems used for gutkha.

Key Provisions of the Bills

Feature	Central Excise (Amendment) Bill, 2025	Health Security se National Security Cess Bill, 2025
Primary Goal	Offset revenue shortfall post-GST cess end.	Plug tax evasion in pan masala/tobacco units.
Method	Allows higher excise duties on tobacco products.	Levies cess on installed machines or manufacturing processes.
Key Mechanism	Maintains stable tax incidence (price stability).	Self-declaration of machines is mandatory for factories.
Scope	Focus on maintaining public health deterrence.	Can be extended to other notified goods in the future.

Current Status of Tobacco in India

Market Size- Estimated at 8,000 tonnes in 2024; projected to grow to 987.5 thousand tonnes by 2033 (IMARC Group).

Global Standing- India is the world's second-largest producer of tobacco (~9% of global output).[10]

User Base- Approximately 267 million (26.7 crore) users (derived from 2016-17 data) or 48 million users aged 15+ (latest WHO 2024 data citation).

GATS-2 (2016–17) Data-28.6% of adults consume tobacco (42.4% of men and 14.2% of women).

Analysis- Previous Cess/Duties Failed to Reduce Consumption

Despite high taxes (52–60% of retail price on cigarettes), consumption has not dropped significantly due to-

Product Substitution (Uneven Tax Burden)

Taxation is not uniform across categories. Users switch from expensive cigarettes to cheaper alternatives like bidis or smokeless tobacco (gutkha/khaini) rather than quitting.

Increased Affordability

Income vs. Price- Between 2014 and 2023, India's economic growth outpaced tax increases.

Real Price- Incomes rose faster than tobacco prices, making products more affordable relative to disposable income, even after the GST cess hikes in 2017 and 2020.

Tax Evasion in the Unorganized Sector

The industry (especially bidis and smokeless tobacco) is dominated by small, informal units.[11]

CAG Finding (2019)- Detected tax evasion of over ₹2,400 crore in smokeless tobacco units due to under-reporting of machine capacity.

Industry Interference

Adaptability- Companies introduce micro-packs (₹5, ₹10 units) and low-priced variants to keep products accessible.

Lobbying- Aggressive resistance against steep excise revisions reduces the "shock value" of new taxes.

Case Study- GST Compensation Cess (2017–2020)

Action- Cigarette taxes hiked by 10–15% in 2017.

Result- Only marginal reduction in cigarette sales.

Reason- Massive switching to bidis and smokeless tobacco, leaving total demand largely unaffected.

The Way Ahead- Strategies for Success

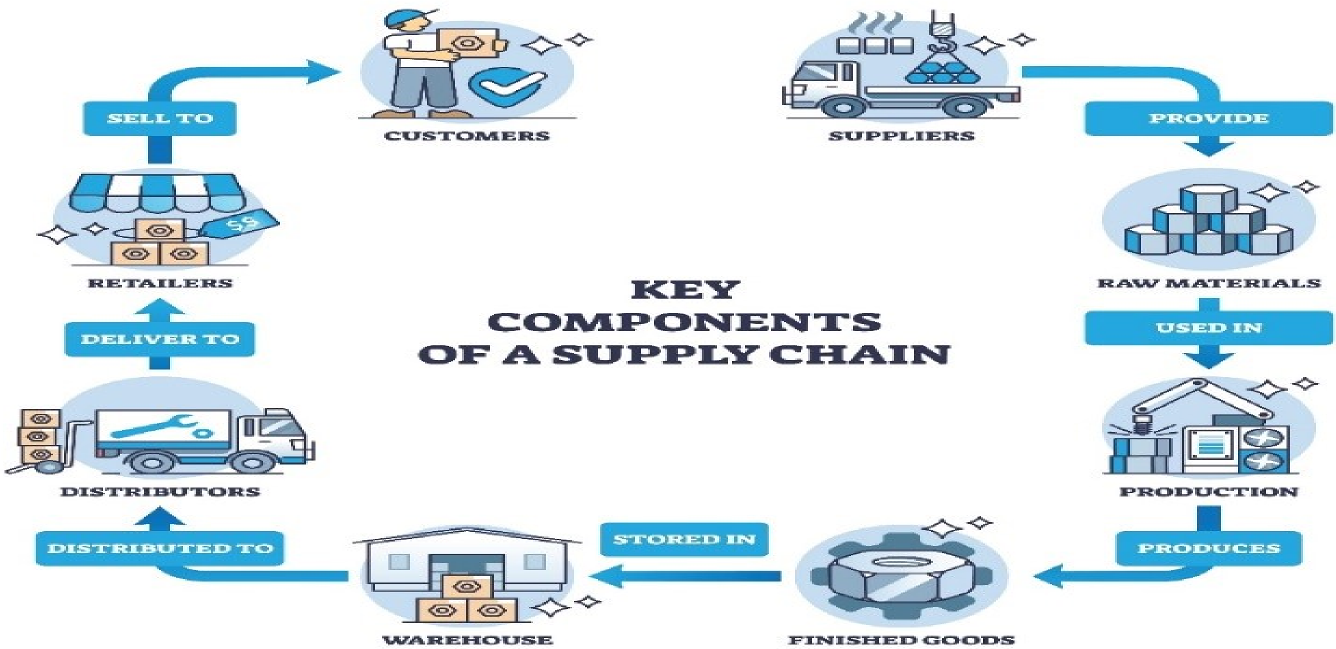
To effectively curb tobacco use, the following measures are recommended

Uniform and Inflation-Indexed Taxation

Shift Strategy- Move from product-specific tax to a uniform regime across cigarettes, bidis, and smokeless tobacco.

Close the Gap- Bidis currently cost as little as ₹0.25–0.50 per stick; raising their tax is crucial to prevent substitution.

Inflation Indexing- Implement an automatic annual adjustment to ensure tobacco does not become



more affordable as incomes rise. *Global Example*-Philippines Sin Tax Reform (2012) saw smoking prevalence drop from 28% to 22.7% by using uniform taxation and inflation adjustments.

Strengthen Enforcement (Unorganized Sector)

Focus- 70–80% of consumption comes from bidis/smokeless tobacco (informal sector).

Tools- Mandatory digital registration, machine-based monitoring (as proposed in the new Bill), and real-time excise tracking.

Implement Track-and-Trace Systems

Objective- Curb illicit trade and smuggling.

Mechanism- Adopt WHO-FCTC recommended systems including QR-coded packaging and cross-state data integration. *Global Example*- Brazil reduced illicit cigarette trade from 30% to 8% using digital tax stamps.

Expand Public Health & Cessation Support

The Gap- While ~38% of smokers attempt to quit, only 4–6% succeed due to lack of support.

Interventions- Strengthen cessation services in primary health centres. Integrate Nicotine Replacement Therapy (NRT) under Ayushmann Bharat-PMJAY. Mass media campaigns targeting youth.

Conclusion

Taxation alone is insufficient due to affordability issues, product substitution, and evasion. India requires a comprehensive approach combining uniform inflation-indexed taxation, capacity-based enforcement (via the new Bills), track-and-trace technology, and robust cessation infrastructure.

Source- https- //www.thehindu.com/news/national/gst-cess-bill-tobacco-pan-masala-nirmala-sitharaman-lok-sabha-parliament-winter-session-december-1-2025/article70343912.ece/amp/