3. New Tax Regime for Tobacco & Pan Masala- Economy

Govt notifies February 1st as date from which additional excise duty to be levied on tobacco products From February 1, 2026, the government will replace the GST Compensation Cess on tobacco and pan masala with a new "Health and National Security Cess" (specifically for pan masala) and additional excise duties (for tobacco products), alongside a revised GST structure where most items attract 40% tax while bidis are taxed at 18%

New Tax Regime for Tobacco and Pan Masala (Effective February 1, 2026)

1. Overview of the Announcement

Effective Date- The new tax structure comes into effect on February 1, 2026.

Core Change- The government will levy additional excise duties and a specific Health and National Security Cess on tobacco products and pan masala.

Nature of Levies- These new levies are applied over and above the Goods and Services Tax (GST). They are not a substitute for GST.

Impact on "Sin Goods"- The overall tax incidence on these goods will increase to discourage consumption and raise revenue for specific sectors.

2. Legislative Basis

The new measures are grounded in two specific Bills approved by Parliament in December 2025

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

3. Discontinuation of GST Compensation Cess

Cessation- The existing GST Compensation Cess, which is currently levied at varying rates on these products, will cease to exist from February 1, 2026.

Transition- It is being replaced by the new specific cess and excise duties mentioned above.

4. Revised Tax Structure and Rates

The new regime introduces a differentiated tax structure based on the product category.

GST Rates (Revised)

Product Category	New GST Rate	Previous Status/Notes
Pan Masala, Cigarettes, Tobacco	40%	Increased base GST rate.
Bidis	18%	Reduced from the previous 28%.

Additional Levies (Over and above GST)

Product Category	Type of Additional Levy
Pan Masala	Subject to Health and National Security Cess.
Cigarettes & Tobacco Products	Subject to Additional Excise Duty.

5. Implementation Framework

To ensure effective enforcement and collection, the Finance Ministry has notified specific rules-

Rule Name- Chewing Tobacco, Jarda Scented Tobacco and Gutkha Packing Machines (Capacity Determination and Collection of Duty) Rules, 2026.

Objective- To lay down a strict framework for determining the production capacity of manufacturers. To streamline the collection of excise duties based on machine capacity to prevent tax evasion.

6. Background- GST Compensation Cess

Definition- An additional tax imposed on specific goods (like tobacco and cars) to compensate State governments for revenue losses arising from the transition to the GST regime.

Timeline

1. Introduction- July 2017 (Launch of GST).
2. Original Tenure- 5 years (Ended June 2022).
3. Extension- It was extended until March 31, 2026, primarily to cover loan repayments for revenue shortfalls during the COVID-19 pandemic.

Applicability- It was levied in addition to GST and Central Excise Duty. (Note- For the specific products mentioned above, this cess is being discontinued early on Feb 1, 2026, to be replaced by the new levies).
Source- https-//www.newsonair.gov.in/govt-notifies-february-1st-as-date-from-which-additional-excise-duty-to-be-levied-on-tobacco-products/