

Taxation on tobacco products

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Context- On India, tobacco taxes have not increased significantly since the implementation of the Goods and Services Taxation (GST) over five years, making these products increasingly affordable, as recent studies show.

Key Highlights

- Adam Smith, in his famous work *The Wealth of Nations*, argued that commodities like sugar, rum and tobacco, though not necessary for life, are widely consumed, and thus good candidates for taxation.
- One problem is the overuse of ad valorem taxes, which are not effective in reducing consumption. Many countries use a specific or mixed tax system for harmful products.
- An ad valorem tax is a tax based on the assessed value of an item like real estate or personal property. All ad valorem taxes are levied based on the determined value of the item being taxed.
- There is a huge discrepancy in taxation between tobacco products.
- Other than cigarettes accounting for only 15% of tobacco users, they generate 80% or more of tobacco taxes.
- Particularly Bidis and smokeless tobacco have low taxes, encouraging consumption.
- Taxes should be made more consistent across all tobacco products, as none is more or less harmful than the others.
- The main principle behind tobacco taxation must be in protecting public health.
- It is reson for concern that while most countries regularly increase taxes on tobacco products to make them less affordable, India has not increased taxes on any tobacco products in over five years.

- It may undo much of the progress seen in a 17% reduction in tobacco use from 2009-10 to 2016-17.