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GST Reform and Unfinished Business in Tobacco Control

Context

- As India commemorates the **eighth anniversary of the Goods and Services Tax (GST) on July 1, 2025**, it is timely to evaluate this transformative tax reform.
- Launched in 2017 under the banner of **'One Nation, One Tax,'** the GST **replaced a complex web of indirect taxes, establishing a unified national market** and harmonising tax structures across states.
- While **its economic and administrative efficiencies are undeniable**, its shortcomings, especially in tobacco taxation, reveal a critical blind spot that calls for urgent corrective measures.

Goods and Services Tax (GST): A Landmark in Tax Reform

- By replacing multiple indirect taxes such as VAT, service tax, and excise duties, **GST streamlined tax collection and reduced the compliance burden for businesses.**
- The **creation of a common national market** significantly improved the ease of doing business and enabled more seamless inter-state trade.
- Notably, **the digitisation of processes, through instruments like the e-way bill, enhanced transparency** and curtailed tax evasion.
- These **measures collectively contributed to improved logistics efficiency**, cutting transportation time by up to 20% and lowering associated costs.
- The **gross GST collections for 2024-25 soared to an unprecedented ₹22.08 lakh crore**, registering a year-on-year growth of 9.4%. This consistent revenue generation underscores GST's role as a cornerstone of India's fiscal architecture.

The Fault Lines in GST's Structure

- **Tobacco Taxation and Public Health**
 - Tobacco usage in India **remains a catastrophic public health concern**, accounting for over 3,500 deaths daily and imposing an **annual economic burden of ₹2,340 billion**, equivalent to 1.4% of GDP in 2017.
 - However, **the GST regime has failed to meaningfully escalate taxation on tobacco products**, a proven strategy for reducing consumption.
 - **Pre-GST (2009-2017), regular hikes in excise duties** and VAT contributed to **a 17% decline in tobacco use.**

- In contrast, **post-GST stagnation in tax hikes has made tobacco increasingly affordable.**
- Average GST revenues from tobacco over the last five years stood at ₹551 billion, substantially lower than the associated health and economic costs.
- **The overall tax burden on tobacco products remains below the World Health Organisation (WHO) recommended threshold** of 75% of retail prices: just 22% for bidis, 54% for cigarettes, and 65% for smokeless tobacco.
- **Structural Flaws: The Ad Valorem Trap**
 - The structural design of GST heavily relies on ad valorem taxation, levies based on product value, which, **while integral to GST, is poorly suited for curbing harmful product consumption.**
 - Fixed specific excise taxes, levied per unit of product, are **internationally acknowledged as more effective in reducing tobacco use** because they resist industry manipulation of retail prices.
 - Since GST's inception, **the share of specific central excise duties in tobacco taxation has plummeted: from 54% to 8% for cigarettes, 17% to 1% for bidis, and 59% to 11% for smokeless tobacco.**
 - This decline is compounded by glaring inconsistencies.
 - **Although bidis are the most widely consumed smoked tobacco product in India and equally harmful as cigarettes,** they are under-taxed and exempt from the GST compensation cess.
 - This **omission disproportionately benefits low-cost tobacco products consumed by the economically disadvantaged,** amplifying both health inequity and fiscal inefficiency.

The Way Forward

- **Dual Strategy for Reform**
 - Addressing the deficiencies in tobacco taxation requires **a recalibrated strategy that integrates public health priorities with fiscal policy.**
 - **Raising GST rates on tobacco to the statutory maximum of 40%,** as permitted under current law, coupled with a substantial increase in specific excise duties, represents a powerful dual-pronged approach.
 - **Such a mixed tax structure, combining ad valorem and specific components, has demonstrated greater effectiveness globally,** both in reducing consumption and bolstering revenues.
- **Debunking the Illicit Trade Argument**
 - A recurring counterargument by the tobacco industry is that **higher taxes fuel illicit trade.**
 - However, **empirical studies refute these claims.** Independent estimates suggest that illicit cigarettes account for merely 2.7% to 6.6% of India's market, far below the industry's inflated claim of 25%.
 - **Factors like regulatory enforcement and border control play a far greater role** in curbing illicit trade than pricing alone.
 - India, **having ratified the WHO Protocol to Eliminate Illicit Trade** in Tobacco Products, **must now focus on its rigorous implementation.**

Conclusion

- As the GST Council considers rationalisation and structural reform, **public health must be brought to the forefront.**
- The **139th Parliamentary Standing Committee Report (September 2022)** emphasised that **India's tobacco products remain among the most affordable globally** and urged higher taxation as a corrective measure.
- The **eighth anniversary of GST offers more than a moment of celebration, it provides a critical opportunity to reinforce the GST regime** as a dynamic instrument not just of economic efficiency, but also of social responsibility.

GST Reform and Unfinished Business in Tobacco Control FAQs

Q1. When was GST implemented in India?

Ans. GST was implemented in India on July 1, 2017.

Q2. What major issue exists in GST's approach to tobacco taxation?

Ans. The major issue is that GST has not significantly increased taxes on tobacco products, making them more affordable and undermining public health goals.

Q3. What is the WHO's recommended tax burden on tobacco products?

Ans. The World Health Organization recommends that the total tax burden on tobacco products should be at least 75% of the retail price.

Q4. Why are specific excise taxes preferred for tobacco?

Ans. Specific excise taxes are preferred because they are more effective in reducing tobacco consumption and are less vulnerable to industry price manipulation.

Q5. What key reform is suggested for tobacco taxation under GST?

Ans. It is suggested that the GST rate on tobacco products be raised to the peak rate of 40%, along with a substantial increase in specific excise duties.

Source: **The Hindu**

In a Perilous World, India Must Read the Tea Leaves Well

Context

- **India's foreign policy**, once celebrated for its strategic balance and nuanced diplomacy, is **now confronting a profound existential crisis.**
- From the intensifying China-Pakistan nexus to the escalating Israel-Iran conflict, **the assumptions that underpinned India's foreign policy for decades are now being severely tested.**
- Therefore, **it is important to examine the multiple dimensions of the current crisis**, critique India's recent foreign policy choices, and propose key recalibrations to secure its strategic future.

Multiple Dimensions of the Current Crisis in India's Foreign Policy

• The Breakdown of Strategic Equilibrium

- India's foreign policy was **traditionally designed to balance relationships across ideological and strategic divides.**
- However, **recent events have disrupted this delicate equilibrium.** The re-election of Donald Trump and his Make America Great Again doctrine, previously perceived as a boon for Indo-U.S. relations, has taken an unpredictable turn.
- **Trump's claim to have mediated a ceasefire** between India and Pakistan, endorsed publicly by Pakistan's military leadership but denied by India, **has placed New Delhi on a potential collision course with Washington.**

• Strategic Ambiguity in West Asia: A Failing Doctrine

- India's **policy of equidistance between Israel and Iran is another pillar now crumbling** under the weight of international realignments.
- The **recent Israel-Iran conflict**, which escalated dramatically following Israel's targeted attacks on Iranian nuclear sites with American support, **represents a significant shift in the global security landscape.**
- The **use of the GBU-57 bunker-buster bombs** by the U.S. marks a **dangerous normalisation of the nuclear discourse in international politics.**
- **India's non-committal stance**, issuing vague calls for restraint, **has rendered it largely irrelevant in the debate.**
- **Worse, it risks alienating both Israel and Iran**, undermining years of diplomatic effort aimed at preserving strategic autonomy in West Asia.

• Neutrality: A Strategic Liability

- In the present geopolitical climate, **India's long-standing posture of neutrality is increasingly being viewed as indecision** or even weakness.
- With mounting threats on its borders and little global support during the India, Pakistan conflict, **New Delhi is discovering the limitations of non-alignment in a world leaning heavily toward hard power.**
- Despite its aspirations to lead the Global South, India has found few allies when needed most.

The China Factor

• China-Pakistan Nexus: A Growing Threat

- Perhaps the **most pressing threat** to India's national security comes from the **deepening military and strategic ties between China and Pakistan.**
- The **India-Pakistan conflict in May should not be viewed as an isolated incident** but as a harbinger of deeper, more sustained pressure.
- **China's infusion of advanced military technologies**, such as the J-10C and JF-17 fighters into Pakistan's arsenal, and its integration into Pakistan's defence planning systems, **presents a complex and evolving challenge.**

- This **partnership is not merely transactional but strategically symbiotic**, aiming to encircle and constrain India's regional influence.
- **China's Strategic Vision: Reading Between the Lines**
 - China recently released white paper on **National Security in the New Era** which offers revealing insights into its strategic worldview.
 - By framing development and security as two wings of a single bird, **China articulates a doctrine that places technological and supply chain security at the heart** of its national strategy.
 - **India would do well to study these documents** with the same seriousness it reserves for overt military threats.

The Way Forward

- **Lessons from Global Military Strategy**
 - India must **urgently assess its own preparedness** for protracted and technologically complex conflicts.
 - Drawing lessons from the Russia-Ukraine war and the UK's defence capability audit, **India needs a comprehensive reassessment of its defence posture.**
 - This **includes evaluating its ammunition reserves, modernising its cyber and electromagnetic warfare infrastructure**, and prioritizing artificial intelligence, drone countermeasures, and loitering munitions.
 - **A piecemeal or reactive approach will no longer suffice** in an era of hybrid warfare and high-speed escalations.
- **Recalibrating India's Foreign Policy: A Strategic Imperative**
 - To navigate this uncertain terrain, **India must abandon outdated doctrines** and adopt a more pragmatic, assertive, and strategically consistent foreign policy.
 - First, it **needs to move beyond moralistic calls** for restraint and actively engage in shaping regional security narratives.
 - Second, **New Delhi must forge deeper security partnerships**, not only with Western powers but also with key Asian and African states, based on mutual defence, intelligence sharing, and technological cooperation.
 - Third, **India must invest in credible hard power capabilities** while enhancing its diplomatic visibility in crisis zones like West Asia and the Indo-Pacific.

Conclusion

- The **continued reliance on non-alignment and neutrality has rendered India vulnerable** and strategically sidelined.
- **In the face of an aggressive China-Pakistan alliance**, a transactional and unpredictable United States, and rapidly shifting regional fault lines, **India must evolve its foreign policy from one rooted in moral posturing to one grounded in strategic realism.**
- **A clear-eyed recognition of global power dynamics** and a recalibration of its defence and diplomatic strategies are not just advisable, **they are essential for safeguarding India's sovereignty and global**

standing in the years to come.

In a Perilous World, India Must Read the Tea Leaves Well FAQs

Q1. What major threat does India face from its neighborhood?

Ans. India faces a significant threat from the growing military and strategic partnership between China and Pakistan.

Q2. Why is India's neutrality in the Israel-Iran conflict criticised?

Ans. India's neutrality is criticized because it has made the country appear indecisive and has weakened its influence in West Asia.

Q3. How has Donald Trump's foreign policy affected India?

Ans. Donald Trump's foreign policy has disrupted India's diplomatic balance by favoring Pakistan and challenging India's version of recent regional events.

Q4. What lesson should India learn from the UK and Ukraine?

Ans. India should learn the importance of assessing its defense readiness and modernizing its military infrastructure to prepare for future conflicts.

Q5. What is the key recommendation for India's foreign policy?

Ans. The key recommendation is that India should shift from moral posturing to a more pragmatic and strategically realistic foreign policy approach.

Source: **The Hindu**

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