Include bidis in GST regime

The government should ensure that all tobacco products, including bidis and smokeless tobacco, are taxed at the highest rate of the Goods and Services Tax (GST). GST is a unique opportunity to reform and modernise India’s tax system, which has opportunities for selectivity and discretion. The bidi sector is an example, as bidis were initially exempt from value-added tax and small-scale producers were exempt from excise. India’s large-scale bidi producers were quick to take advantage of the small producer exemption to evade excise taxes by creating small companies that, in fact, remained under their ownership and control.

The bidi sector may now be lobbying for a lower rate of GST. The government should strongly resist any such efforts, and increase the rate of GST and cess on bidis to ensure a fair and equitable tax regime. Bidis should be classed as a home-based industry, rather than gain any further preferential treatment.

Protecting health of citizens

One of the reasons that bidis have historically been sheltered from taxation is because it is perceived as the “poor man’s puff”. However, the government has a responsibility to protect the health of its citizens. If India lowers taxes on bidis, it will be discriminatory against the poor because it is the poor who suffer the greatest burden in terms of diseases caused by smoking. Tobacco use is thus closely linked with poverty throughout the world via high medical expenditures and loss in household earnings.

In China, for example, medical expenditure due to smoking was found to increase the urban and rural poverty rates by 15 per cent and 0.7 per cent respectively. A recent study in India found that the odds of “catastrophic hospitalisation expenditures” for cancer patients was more than double the same odds for communicable diseases in India. In total, the economic cost of tobacco use in India has been estimated at Rs.104,500 crore per year. Notably, these costs do not fully account for the poor who cannot afford the healthcare they need. In Bangladesh, it was found that 60 per cent of patients diagnosed with a smoking-attributable disease did not seek further treatment due to cost. The barrier imposed by the high cost of medical treatment is that for these reasons that tobacco control has been categorised as a “poor policy” by many countries.

India has made substantial progress on tobacco control since becoming party to the WHO Framework Convention on Tobacco Control. This includes higher taxes on cigarettes and chewing tobacco. However, bidi taxes have seldom been raised and thus remain abysmally low. Indeed, we estimate that the real or inflation-adjusted excise rate on bidis is 20 percent lower compared to a decade ago. At the very least, levying the highest rate of GST on bidis will help ensure that bidi taxes do not decline further in inflation-adjusted terms.

Protection for bidi smokers

It is also important to examine tobacco control from the perspective of social equity. Many tobacco control policies have successfully reached India’s cigarette users, particularly the urban middle classes. However, bidi smokers in rural areas have not enjoyed the same level of protection. The rural poor have much lower access to TV and radio and thus do not necessarily benefit from campaigns warning against the dangers of smoking. Similarly, smoke-free public places are less well enforced in rural areas, while the availability of cessation services is lower in remote areas.

Tobacco taxation is actually the most effective measure for reducing tobacco use among bidi smokers and the rural poor. Yet it is being underutilised in India. To protect the health of all its citizens, the government should raise taxes on all tobacco products. It should also apply the same high rate of GST to all tobacco products equally.

Taxation as a fiscal policy is a ‘win-win’ situation. It not only increases revenue generation but also reduces the consumption of tobacco, especially for the young and poor. Realistically, the greatest barrier to raising taxes on bidis is the potential negative impact this might have on bidi workers. This is a valid concern — these workers currently have few livelihood alternatives available to them and so they are heavily exploited as a cheap form of labour by the middlemen in the trade. However, this problem will not be solved by neglecting it. Experience has shown that dedicated funds often financed by tobacco taxes can help the rural poor to transition out of the tobacco industry — or at least gain access to better welfare services. In India, some of the extra revenue from higher bidi taxes could be used to expand livelihood programmes, particularly those that provide women with bidi rolling.

India’s GST reform is a historic opportunity to implement a system of taxation that strongly supports sustainable development across its many dimensions, including health equity, poverty and good governance. We encourage the government to ensure that all tobacco products, including bidis and smokeless tobacco, are taxed at the highest rate of GST and subject to additional cess to protect the most vulnerable sections of the society, the poor.

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