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UNVEILING THE BURDEN OF 'SIN': A CRITICAL ANALYSIS OF SIN TAX POLICY IN INDIA

India has advanced by attaining the nation's total development, including its infrastructure, economic growth, education, foreign trade, and positive international reputation, build up, but India needs more revenue to maintain this growth. On the other hand, there are problems like obesity, heart disease, diabetes, high blood pressure, gambling, and smoking that are impeding this progress. India will need to establish a system to deal with all of these health issues and to create more cash that can be used for the overall development of the nation. This system is known as the sin tax.

The government imposed an additional tax burden, known as the sin tax, on goods that are damaging to society such as cigarettes, tobacco, narcotics, soft drinks, candy, fast food, etc. with the aim of decreasing the habit of consuming these goods and boosting the source of revenue.

The study on the sin tax was conducted using descriptive research, and secondary sources like journals, reports, etc. were employed to get the data.

The goal of this study is to weigh the benefits and drawbacks of enacting a sin tax. It will either benefit society or put a burden on those with lesser incomes and the underprivileged. However, in general, sin taxes can be a useful instrument for lowering consumption of harmful items and generating funds for public health efforts. It is vital to take into account the potential difficulties and disadvantages of their implementation.

KEYWORDS: Sin Tax, Fat Tax, Sugar Tax, Tax on Tobacco and Cigarettes.

INTRODUCTION:

Sin tax refers to a specific type of tax that is levied on goods or services that are considered harmful to society or associated with negative externalities, such as health risks, social costs, or environmental damages. The term "sin" is often used metaphorically to refer to goods or services that are deemed morally or socially undesirable, such as tobacco, alcohol, sugary beverages, gambling, and other vices.

The rationale behind sin tax is twofold. First, it aims to discourage the consumption of harmful goods or services by increasing their price, which can lead to reduced demand and lower consumption. Second, it aims to generate revenue for the government, which can be used to offset the costs associated with the negative externalities or fund public health programs, education, or other social initiatives.

Sin taxes are often implemented as excise taxes, which are specific taxes on the production or sale of goods or services, and they are typically levied in addition to regular sales or value-added taxes. The tax rates for sin taxes can vary depending on the type of good or service, the level of harm associated with it, and the policy objectives of the government.

Sin taxes are a controversial policy tool, with arguments both in favor of and against their implementation. Proponents argue that sin taxes can reduce consumption of harmful goods or services, promote public health, and generate revenue for government programs. Critics argue that sin taxes can be regressive, disproportionately affecting low-income individuals, may not always achieve the desired behavioral change, and can lead to unintended consequences such as smuggling or illicit trade.

Sin tax policies vary across different countries and jurisdictions, with some implementing relatively high sin tax rates, while others have limited or no sin taxes. The design and impact of sin taxes depend on various factors, including the specific goods or services subject to the tax, the tax rates, the effectiveness of enforcement, and the social and economic context of the country or region.

HISTORICAL DEVELOPMENT OF SIN TAX IN INDIA:

The historical development of sin tax in India can be traced back to the early 20th century when the British colonial government introduced taxes on certain goods and services that were deemed harmful or morally undesirable. Over the years, sin tax policy in India has evolved in response to changing social, economic, and health considerations. Here is a brief overview of the historical development of sin tax in India:

Pre-Independence Era: During the British colonial rule in India, sin taxes were introduced on goods such as opium, betel nut, and salt. These taxes were primarily aimed at generating revenue for the British government and controlling the consumption of goods that were associated with health risks or social problems.

Post-Independence Era: After gaining independence in 1947, the Indian government continued to levy sin taxes on certain goods, primarily for revenue generation purposes. For example, taxes on alcohol, tobacco, and certain luxury goods were introduced or increased during this period to generate revenue for the government and address social issues related to health and morality.

Economic Liberalization Era: In the 1990s, India embarked on a path of economic liberalization and market-oriented reforms. As part of these reforms, there were efforts to rationalize and streamline the tax system, including sin taxes. During this period, sin taxes on tobacco and alcohol were increased, and new sin taxes on items such as soft drinks and luxury cars were introduced as a means to generate revenue and promote public health.

Recent Years: In recent years, there have been ongoing discussions and debates on sin tax policy in India. The government has periodically revised sin tax rates, both increasing and decreasing them, in response to changing economic, social, and health considerations. There have also been discussions on expanding the scope of sin taxes to cover additional goods or services, such as sugary beverages, as a means to address health concerns related to non-communicable diseases like obesity and diabetes.

IMPLEMENTATION OF SIN TAX IN INDIA:

At present, the government imposes a Goods and Services Tax (GST) of 28%, the highest tax slab, on cigarettes and tobacco products. Additionally, there are other supplementary taxes that result in the total tax burden on cigarettes being as high as 50-60 percent, which is lower than the recommendation of the World Health Organization (WHO). According to the World Health Organisation (WHO), the total economic costs from tobacco use from all diseases in India in 2018 was about $27.5 billion. Currently, the government levies GST of 28%, the highest in the tax slab, on cigarette and tobacco products such as pan masala. Further, there are additional taxes taking the total tax incidence on cigarettes to as much as 50-60%, which is lower than that recommended by the WHO.[1]

Studies have indicated that the total tax burden of cigarettes in India is about 52 per cent, which is much lower than 75 per cent as recommended by WHO. According to WHO, increasing the retail prices of cigarettes and tobacco products is the most effective measure to discourage consumption of these products.

Finance Minister Nirmala Sitharaman has announced a 16 per cent increase in the customs duty on cigarettes. The announcement was made in the Union Budget 2023 presented by Finance Minister Nirmala Sitharaman. This increase in the tax by 16 per cent on cigarettes clearly shows the government's plans to further strengthen the tobacco control policy. The World Health Organization (WHO) recommends a uniform tax of at least 75 per cent for each tobacco product.

The total tax burden is currently about 53 per cent for cigarettes, 22 per cent for bidis and 60 per cent for smokeless tobacco. This shows that there is enough scope to enhance tax that will not have much impact on the earnings of the industry but will certainly help cut down tobacco consumption. Revenue earned through taxation can be invested for providing alternative jobs to poor and tribal people associated in tobacco related business,”

Currently 28% of the adult population of the country is using tobacco products while the tobacco burden amounts to Rs 1,77,341 crores which is 1 per cent of India’s GDP.

various researches show that increasing tax by 10% can reduce smoking by 08% in middle income countries like India. More than 40 countries around the world have levied tobacco taxes at more than 75% including Sri Lanka (77%) and Thailand (78.6%) in our region.2

Tobacco is one of the most prominent risk factors associated with cancer as well many other diseases like respiratory, stroke and heart attacks. Nearly 27 crore adults of 15 years age and above used tobacco in some form or the other, as per Global Adult Tobacco Survey-India (GATS -2016-17). India is the second largest consumer and the third largest producer of tobacco.

[1] Retrieved from https://www.financialexpress.com/economy/on-world-no-tobacco-day-a-fact-sheet-on-sin-taxes-on-cigarettes-tobacco-products-in-india/2543382/

[2] https://www.dailypioneer.com/2023/sunday-edition/tax-hike-on-cigarettes-welcome-move--but-more-tobacco-control-measures-needed.html

In India, there are two types of sin taxes: excise taxes and GST (Goods and Services Tax). While GST is a tax on the sale of goods and services, excise duties are levies on the production or manufacture of commodities. Depending on the product, different rates apply for GST and excise duty.

The government announced a sugar tax on sugary drinks and a 20% rise in the excise duty on alcoholic beverages in the Union Budget for 2022–2023 respectively. While the excise duty on foreign liquor made in India increased by 10%, the excise duty on beer increased by INR 5 per litre. A sugar tax of INR 1 per litre was imposed on beverages with added sugar, such as fizzy drinks.

Besides GST, government slaps additional taxes on tobacco products, taking the total tax incidence on cigarettes to as much as 52.5 per cent. This is why tobacco products including cigarettes, cigar, alcohol and other items are sold at a much higher rate than their production cost.

Added sugar carbonated beverages are subject to a higher tax in India.

Tobacco products, aerated beverages, and pan masala are some of the sin items that are subject to an additional cess under the present GST framework.

Around 270 million adults in India who are 15 and older use tobacco products. Cancer is one of many chronic diseases for which tobacco use is a significant risk factor. The World Health Organisation estimates that it causes 1.35 million deaths in India each year.

As they are subject to a high cess, tobacco items are subject to the highest GST rate of 28%. To make up for any revenue losses brought on by the introduction of the GST, the government pays the states a cess.

Unmanufactured tobacco with a brand name is subject to a 65% cess, whilst perfumed zarda is subject to a 160% cess. Gutkha-containing pan masala is subject to a 204% cess.

Currently, cigarettes carry a 5% surcharge plus a maximum of Rs 4,170 per 1,000 sticks. The entire tax burden is roughly 52.7% for cigarettes, 22% for bidis, and 63.8% for smokeless tobacco as a percentage of the final tax-inclusive retail price.

However, this is still far less than the tax that the World Health Organisation (WHO) advises.

A compensation cess is levied under the GST law on cigarettes and tobacco products at the same falls under the category of sin goods. Likewise, under Central Excise laws, there is excise duty and National Calamity Contingent Duty (NCCD) levied.

GST has made cigarettes and tobacco products only marginally more expensive than in the pre-GST era. Tobacco products still continue to be affordable in India. Despite the latest proposal in Budget 2023 of hiking the NCCD by almost 16%, it still only impacts the selling price of cigarettes by a few rupees.

Tobacco is now taxable from the stage tobacco leaves due to the implementation of GST. Rate of unmanufactured tobacco is covered under two heads under the tariff and both have the same "HSN Code of 2401". The two heads are "Tobacco leaves" and "Unmanufactured Tobacco - tobacco refuse (other than tobacco leaves)" with rate of GST charged at 5% and 28% respectively.