

MITIGATION OF ECONOMIC LOSSES FROM TOBACCO CONSUMPTION AND PRODUCTION IN INDIA THROUGH TAX REFORMS

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Abstract—Tobacco consumption and production create substantial economic and social costs in India through healthcare expenditure, productivity losses, premature mortality, environmental degradation, and poverty. India has nearly 267 million tobacco users, representing around 29% of the adult population. Tobacco-related diseases cause approximately 1.35 million deaths annually in the country. According to the World Health Organization (WHO), the total economic cost attributable to tobacco use in India during 2017–18 amounted to INR 1.77 trillion (USD 27.5 billion), equivalent to approximately 1.04% of India's GDP. In contrast, tobacco tax revenue accounted for only 12.2% of the total economic burden. This paper examines the economic losses associated with tobacco consumption and production in India and evaluates the role of tax reforms in mitigating these losses. The study argues that higher and uniform taxation, inflation-indexed tax systems, and earmarking tobacco tax revenue for healthcare and farmer rehabilitation can significantly reduce tobacco consumption and improve public health outcomes. The paper concludes that fiscal policy reforms remain one of the most effective tools for reducing the long-term economic burden of tobacco in India. ([World Health Organization](#))

Index Terms—Tobacco taxation, economic burden, GST, public finance, healthcare expenditure, tobacco control, India.

I. Introduction

Tobacco consumption is one of the leading causes of preventable death and disease worldwide. India is currently the second-largest producer and consumer of tobacco after China. Tobacco products in India include cigarettes, bidis, cigars, gutkha, khaini, zarda, and several smokeless tobacco variants. The affordability and wide availability of these products have contributed to high levels of tobacco consumption across different socio-economic groups.

According to the Global Adult Tobacco Survey (GATS) 2016–17, approximately 267 million adults aged 15 years and above use tobacco in India, accounting for nearly 29% of the adult population. Among them, smokeless tobacco users constitute the largest segment. Tobacco-related diseases are responsible for nearly 1.35 million deaths annually in India. In 2020, tobacco-related cancers alone accounted for nearly 27% of the total cancer burden in the country. ([World Health Organization](#))

The economic burden arising from tobacco use exceeds the revenue generated through tobacco taxation. WHO estimates indicate that for every INR 100 earned by the government through tobacco excise taxes, the Indian economy loses approximately INR 816 due to healthcare expenditure and productivity losses. These losses include direct medical expenses, indirect morbidity costs, and premature mortality costs. ([World Health Organization](#))

Tobacco taxation has emerged globally as one of the most effective fiscal tools for reducing tobacco consumption. Higher tobacco taxes reduce affordability, discourage youth initiation, and encourage cessation among existing users. However, India's tobacco taxation system has historically remained fragmented, particularly because bidis and smokeless tobacco products continue to face relatively lower taxation compared to cigarettes.

This study analyses the economic losses associated with tobacco consumption and production in India and evaluates the effectiveness of tax reforms in reducing these losses.

II. Objectives of the Study

The primary objective of this study is to analyse the economic losses arising from tobacco consumption and production in India. The study also aims to examine the structure of tobacco taxation in India, evaluate the effectiveness of recent tax reforms, and suggest policy recommendations for strengthening tobacco taxation as an instrument of public health and economic welfare.

III. Research Methodology

The study is descriptive and analytical in nature and is based entirely on secondary data. Data have been collected from reports published by the World Health Organization, the Global Adult Tobacco Survey, government publications, GST policy reports, academic journals, and economic research studies. Statistical data relating to tobacco consumption, healthcare expenditure, mortality, tax revenue, and economic costs have been analysed to evaluate the effectiveness of tobacco tax reforms in India.

IV. Economic Losses from Tobacco Consumption in India

4.1 Healthcare Expenditure

Tobacco consumption contributes significantly to non-communicable diseases such as cancer, cardiovascular diseases, chronic respiratory illnesses, stroke, and tuberculosis. These diseases impose a severe financial burden on India's healthcare system.

According to WHO estimates, the total economic cost attributable to tobacco use in India during 2017–18 amounted to INR 177,341 crore (INR 1.77 trillion). Of this, nearly 22% represented direct costs while 78% represented indirect costs arising from productivity losses and premature deaths. Direct medical expenditure on tobacco-attributable diseases alone amounted to INR 37,344 crore, while direct non-medical costs amounted to INR 1,364 crore. Tobacco-related healthcare expenditure accounted for approximately 5.3% of India's total health spending during the period. ([World Health Organization](#))

The burden of treatment is particularly severe because India continues to rely heavily on out-of-pocket healthcare expenditure. Poor households are often pushed into debt and poverty due to prolonged treatment costs associated with tobacco-related illnesses.

4.2 Productivity Losses

The indirect economic costs of tobacco use arise mainly from reduced labour productivity and premature mortality. Tobacco users frequently suffer from absenteeism, lower work efficiency, disability, and premature retirement. Premature deaths reduce workforce participation and national productivity.

WHO estimates show that approximately 78% of the total economic burden of tobacco use in India arises from indirect productivity losses. Men account for nearly 91% of the total economic burden due to higher

tobacco consumption rates among males. Smoking alone contributes approximately 74% of the total economic cost, while smokeless tobacco contributes around 26%. ([World Health Organization](#))

India's economically productive age group between 35 and 69 years bears the largest share of these losses. The loss of skilled and semi-skilled labour negatively affects economic growth and reduces household income levels.

4.3 Poverty and Household Financial Burden

Tobacco consumption disproportionately affects low-income households. Studies indicate that poor households spend a significant portion of their disposable income on tobacco products instead of essential goods such as food, healthcare, and education. WHO estimates suggest that in several low-income households globally, tobacco expenditure accounts for more than 10% of household consumption expenditure. ([World Health Organization](#))

In India, bidi smoking remains particularly prevalent among low-income populations due to its affordability. A study on bidi smoking estimated that the total economic cost attributable to bidi consumption alone amounted to INR 805.5 billion in 2017, representing approximately 0.5% of India's GDP. The study also found that excise tax revenue from bidis accounted for only about 0.5% of the total economic cost generated by bidi smoking. ([Centre for Public Policy Research \(CPPR\)](#))

High out-of-pocket healthcare expenses associated with tobacco-related diseases further deepen poverty and increase financial vulnerability among disadvantaged households.

4.4 Environmental Costs

Tobacco cultivation and production also generate substantial environmental costs. Tobacco farming contributes to deforestation, excessive pesticide usage, soil degradation, and water pollution. WHO estimates indicate that tobacco waste is among the largest forms of litter globally, with cigarette butts accounting for nearly 30–40% of items collected during urban and coastal clean-up drives. Globally, nearly 10 billion cigarette butts are discarded into the environment every day. ([World Health Organization](#))

The curing and processing of tobacco require large quantities of fuelwood, thereby accelerating forest depletion in tobacco-growing regions. Environmental degradation caused by tobacco cultivation imposes long-term ecological and economic costs on society.

V. Economic Implications of Tobacco Production

India is one of the world's largest tobacco-producing countries and tobacco cultivation provides employment to millions of farmers, labourers, processors, traders, and retailers. Tobacco exports contribute significantly to foreign exchange earnings. However, the economic benefits generated by tobacco production are outweighed by the long-term social and healthcare costs arising from tobacco consumption.

Tobacco farming also exposes workers to occupational hazards such as nicotine poisoning, respiratory illnesses, and pesticide exposure. Child labour continues to remain a concern in certain tobacco-growing regions. The dependence of rural households on tobacco cultivation creates structural economic vulnerabilities because tobacco prices fluctuate significantly based on domestic and international demand.

Although the tobacco industry contributes tax revenue and employment, the broader economic losses arising from tobacco-related diseases, environmental degradation, and productivity decline substantially exceed these fiscal gains.

VI. Tobacco Taxation in India

6.1 Pre-GST Tax Structure

Before the implementation of the Goods and Services Tax (GST) in 2017, tobacco products were taxed through multiple indirect tax mechanisms including central excise duty, value added tax (VAT), additional excise duty, and National Calamity Contingent Duty (NCCD). The multiplicity of taxes resulted in significant variation in tax rates across states and products.

This fragmented tax structure created price disparities that allowed consumers to shift towards cheaper tobacco alternatives. Bidis and smokeless tobacco products remained relatively inexpensive despite their significant health risks.

6.2 GST Regime

Under the GST regime, tobacco products were placed in the highest tax slab of 28% along with a compensation cess. Although cigarettes faced relatively higher taxation, bidis and smokeless tobacco products continued to enjoy lower effective tax rates. Consequently, tobacco products in India remained comparatively affordable.

Research analysing affordability trends between 2007–08 and 2017–18 found that the affordability of bidis remained largely unchanged while chewing tobacco became increasingly affordable. In 2017–18, purchasing 1000 grams of bidis required only 1.72% of per capita state domestic product, while chewing tobacco required only 1.18%. ([WHO IRIS](#))

This indicates that existing tax increases were insufficient to substantially reduce the affordability of tobacco products.

6.3 Recent Tax Reforms

India has recently considered restructuring tobacco taxation following the proposed phase-out of GST compensation cess. Proposed reforms include introducing additional excise duties and capacity-based taxation systems to strengthen tax administration and reduce tax evasion.

Discussions surrounding revised tobacco taxation structures suggest substantial increases in excise duties. Recent market reactions indicate that higher tobacco taxes can significantly affect tobacco company profitability and consumer prices. Reports indicate that proposed tax reforms in 2026 involved excise duties ranging from INR 2,050 to INR 8,500 per 1,000 cigarettes depending on cigarette length.

Such measures aim to maintain high retail prices and discourage tobacco consumption.

VII. Role of Tax Reforms in Mitigating Economic Losses

7.1 Increasing Tobacco Prices

Raising tobacco taxes is one of the most effective strategies for reducing tobacco consumption. Higher taxes increase retail prices and reduce affordability, particularly among youth and low-income consumers who are highly price-sensitive.

WHO recommends that tobacco taxes should account for at least 75% of the retail price of tobacco products. Higher prices discourage initiation among adolescents and encourage cessation among existing users. Increased taxation also generates additional government revenue that can be utilised for healthcare and social welfare programmes. ([World Health Organization](#))

7.2 Uniform Taxation Across Products

India's tobacco market remains highly segmented. Lower taxation on bidis and smokeless tobacco products encourages substitution rather than cessation. Consumers often switch from highly taxed cigarettes to cheaper alternatives.

A uniform tax structure across all tobacco products would reduce substitution effects and improve public health outcomes. Equal taxation would also simplify tax administration and reduce opportunities for tax avoidance.

7.3 Inflation-Indexed Taxation

If tobacco taxes are not revised regularly in line with inflation and income growth, tobacco products gradually become more affordable over time. Research indicates that the affordability of bidis and chewing tobacco did not decline significantly in India between 2007 and 2018 despite tax reforms. ([WHO IRIS](#))

Therefore, annual inflation-indexed tax revisions are necessary to ensure that tobacco products become progressively less affordable.

7.4 Earmarking Revenue for Healthcare

Higher tobacco taxes can generate substantial public revenue. A portion of this revenue should be earmarked specifically for healthcare infrastructure, cancer treatment, tobacco cessation services, and awareness campaigns.

Investment in preventive healthcare programmes can significantly reduce long-term healthcare expenditure arising from tobacco-related diseases.

7.5 Supporting Farmer Transition

Tobacco tax reforms should be accompanied by policies that support tobacco farmers in transitioning towards alternative crops and livelihoods. Government assistance through subsidies, agricultural training, crop diversification programmes, and institutional credit can reduce dependence on tobacco cultivation and improve rural economic sustainability.

VIII. Challenges in Implementing Tobacco Tax Reforms

One of the major challenges in implementing tobacco tax reforms is resistance from the tobacco industry. Industry representatives frequently argue that higher taxes may reduce employment opportunities, increase smuggling, and negatively affect farmers. However, evidence suggests that the public health and economic benefits of higher taxation significantly outweigh these concerns.

Another challenge arises from the informal nature of the bidi sector. Informal production networks complicate tax administration and increase opportunities for tax evasion and under-reporting of production. Illicit trade and smuggling also weaken the effectiveness of tobacco taxation policies.

Nevertheless, improved digital monitoring systems, stricter enforcement mechanisms, and capacity-based taxation can help reduce tax leakages and improve compliance.

IX. Policy Recommendations

India should substantially increase specific excise taxes on all tobacco products because specific taxes are more effective than ad valorem taxes in reducing consumption. A uniform taxation framework should be introduced across cigarettes, bidis, and smokeless tobacco products to eliminate substitution effects.

Tobacco taxes should be revised annually based on inflation and income growth to ensure declining affordability over time. The government should strengthen tax administration through digital tracking systems and stricter compliance monitoring to reduce illicit trade and tax evasion.

A dedicated tobacco control and healthcare fund should be created by earmarking a portion of tobacco tax revenue for cancer treatment, cessation services, and public health infrastructure. Simultaneously, comprehensive economic rehabilitation programmes should be introduced for tobacco farmers and workers to facilitate their transition towards sustainable alternative livelihoods.

X. Conclusion

Tobacco consumption and production impose enormous economic costs on India through healthcare expenditure, productivity losses, premature mortality, environmental degradation, and poverty. India loses approximately 1% of its GDP annually due to tobacco-related diseases and deaths, while the tax revenue generated from tobacco products covers only a small fraction of these losses. ([World Health Organization](#))

Comprehensive tobacco tax reforms can significantly reduce these economic losses. Higher and uniform taxes reduce affordability, discourage consumption, improve public health outcomes, and generate additional government revenue. Inflation-indexed taxation, stricter tax administration, healthcare investment, and support for agricultural transition can further strengthen the effectiveness of tobacco control policies.

A well-designed tobacco taxation strategy is therefore essential not only for improving public health but also for promoting long-term economic sustainability and social welfare in India.

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