

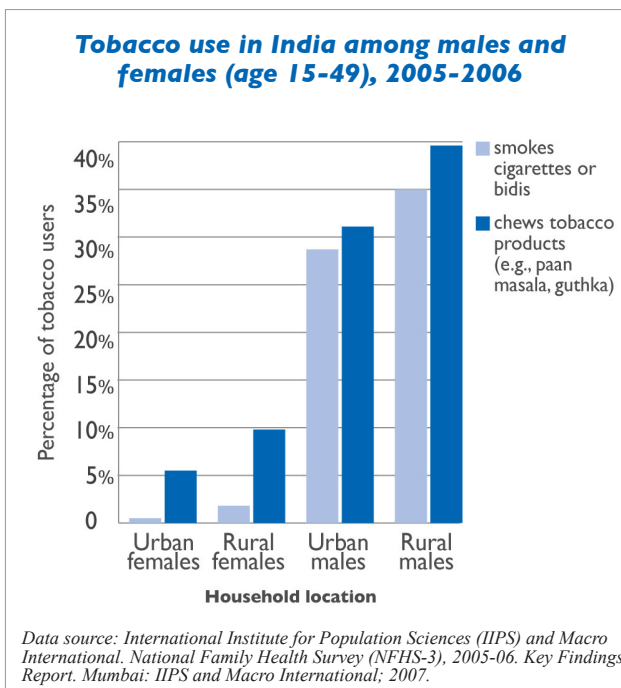
# Tobacco Taxes in India

Based on: *Economics of Tobacco and Tobacco Taxation in India* by Rijo M John, R. Kavita Rao, M. Govinda Rao, James Moore, R. S. Deshpande, Jhumur Sengupta, Sakthivel Selvaraj, Frank J. Chaloupka, and Prabhat Jha.

India's high smoking rate causes alarming health and economic costs. One of the most effective ways to reduce tobacco use in India is to raise the price of tobacco products through excise tax increases.

## Tobacco use in India

- Over 120 million Indians smoke, and 10% of the world's tobacco smokers live in India. India has the second largest group of smokers in the world after China.
- Almost a third of Indians—57% of all men and 11% of all women—consume some form of tobacco and many use more than one type of tobacco product.
- Bidis are the most popular tobacco product used in India. Bidis account for nearly 85% of total smoked tobacco in India.



## Impact of Tobacco Use in India

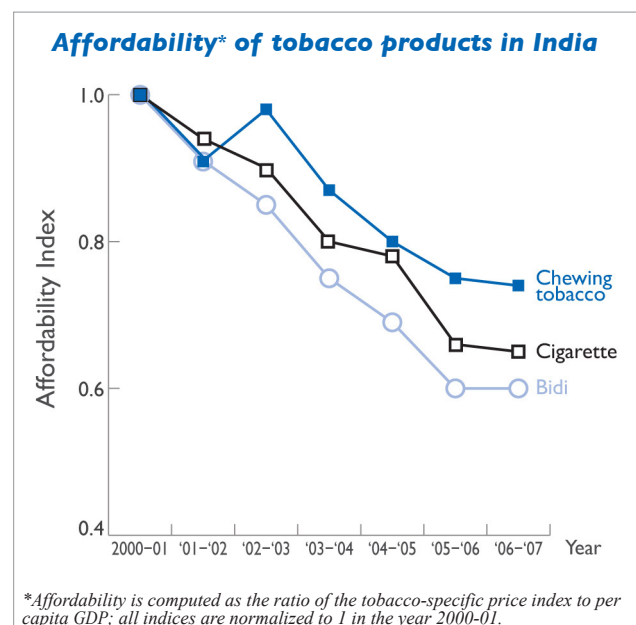
High smoking rates contribute to a significant number of early deaths and high healthcare costs.

- Each year, smoking kills more than 1 million Indians.
- Without any intervention, over 38 million bidi smokers and 13 million cigarette smokers alive today will die prematurely from diseases caused by tobacco use.

- Bidi and cigarette smokers die 6 to 10 years earlier than their non-smoking counterparts.
- Health costs for tobacco-related illnesses are high. Approximately Rs 300 billion (6.6 billion USD) from public and private funds was spent for the treatment of tobacco-related diseases in 2002-2003. This includes both treatment and other indirect costs including the cost of premature mortality.

## Tobacco Taxes in India are very low

- Bidis are very cheap in India—an average pack of bidis costs only Rs 4. Taxes on bidis are very low, averaging only 9% of retail price.
- Cigarette taxes account for approximately 38% of the retail price. This falls well below the rate recommended by the World Bank (from 65% to 80% of retail price) that is commonly present in countries with effective tobacco control policies.
- Taxes in India are complex and vary by tobacco product. Cigarettes are taxed based on their length; and differential taxes on hand- versus machine-rolled bidis make for a large market in very cheap tobacco products.
- Tobacco taxes in India are not regularly adjusted for inflation, and over time tobacco products are becoming increasingly affordable.



# Tobacco Taxes in India

## Higher taxes reduce tobacco use

The most effective way to reduce tobacco use is to raise the price of tobacco through tax increases. Higher prices discourage youth from initiating cigarette smoking and encourage current smokers to quit.

Studies of price elasticities in India find that a 10% increase in tobacco prices is estimated to reduce bidi consumption by 9.1% and cigarette consumption by 2.6%.

## Raising taxes saves lives and increases government revenue.

If India increases its tax rate on bidis from Rs 14 to Rs 98 per 1000 sticks (from 9% to 40% of retail price) and on cigarettes from Rs 659 to Rs 3691 per 1000 sticks (from 38% to 78% of retail price), 18.9 million lives will be saved among Indians alive today.

The increase in tobacco tax will provide the government with an additional Rs 183.2 billion (3.9 billion USD) in tax revenue.

### Impact of tobacco tax increase on bidis and cigarettes

IMPACT	Bidis (-0.91 elasticity) From 9% to 40% of retail price	Cigarettes (-0.26 elasticity) From 38% to 78% of retail price
Reduction in number of smokers (million)	23	4.7
Lives saved (million)	15.5	3.4
Additional tobacco tax revenues	Rs 36.9 billion 0.8 billion USD	Rs 146.3 billion 3.1 billion USD

## Recommendations

- 1. Increase bidi taxes substantially.** Increasing bidi taxes from Rs 14 to Rs 98 per 1000 bidis (from 9% to 40% of retail price) will increase government revenue by Rs 36.9 billion (0.8 billion USD). The price increase will avert up to 15.5 million premature deaths caused by bidi smoking.
- 2. Tighten policies regulating bidi production.** Eliminating the small producer exemption or limiting it to truly small companies, prohibiting the sale of unbranded bidis, and mandated reporting of bidi tobacco sales and purchases will ensure higher tax compliance.
- 3. Increase cigarette taxes substantially.** A cigarette tax increase to 78% of retail price will avert 3.4 million premature tobacco-related deaths, while at the same time raise about Rs 146.3 billion (3.1 billion USD) in new government revenue each year.
- 4. Simplify, extend and strengthen tobacco taxation.** The current tax system is complex. Simplifying the tax system by reducing differential taxes across products will help convey a clear message that all tobacco products are harmful. Regular adjustments of tobacco taxes to account for inflation would help ensure high relative prices across tobacco products.
- 5. Explore earmarking as a means of supporting additional tobacco control efforts.** Earmarked revenues can be used to support a comprehensive tobacco control effort and other social and public health programmes.