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INDIAN SIN TAX POLICY

AUTHORED BY - SHARATH UTHANDAN M

Abstract

This paper explores the concept of sin taxes in India, specifically focusing on alcoholic beverages and sugary drinks. The paper analyzes the history and implementation of sin taxes in India, the potential benefits and drawbacks of sin taxes, and the challenges associated with implementing sin taxes in India. The paper concludes that while sin taxes can be an effective tool for reducing consumption of harmful products and generating revenue, the government should carefully consider the potential impact of sin taxes on low-income consumers and monitor the effectiveness of sin taxes in reducing consumption and improving public health. Additionally, the government should consider using the revenue generated from sin taxes to fund public health initiatives and education campaigns. The paper also discusses the potential regressive impact of sin taxes on low-income consumers who may be more likely to consume these products. The government should consider measures to mitigate this impact, such as targeted subsidies or education campaigns. Additionally, the paper highlights the challenges associated with implementing sin taxes in India, such as the existence of a large informal market for sin products and the potential for the wealthy to evade sin taxes by purchasing high-end or luxury products that are not subject to the same tax rates. The paper concludes by emphasizing the need for the government to carefully monitor the impact of sin taxes on consumption and public health in India and adjust the tax rates accordingly. It is important to consider the potential challenges and drawbacks of implementing sin taxes, but overall, sin taxes can be an effective tool for reducing consumption of harmful products and generating revenue for public health initiatives.

Introduction:

Sin tax is a type of tax levied on goods and services that are deemed harmful to individuals or society, such as tobacco products, alcohol, and gambling. The rationale behind sin taxes is to discourage the consumption of such products and to generate revenue for the government. Sin taxes are typically higher than normal taxes, which are imposed on essential goods and services. In India, sin taxes are levied on tobacco products, alcohol, and other

products such as sugary drinks. In recent years, India has implemented several taxes on 'sin' products, like tobacco and alcohol, known as Sin Tax. The objective of these taxes is to reduce the harmful effects of substance abuse and unhealthy lifestyle choices while also generating revenue for the government. This assignment aims to analyze the application of Sin Tax in India and its impact on public health, revenue generation and its legal status.

History of sin tax:

India has a long history of taxation on alcohol and tobacco products. The concept of sin tax is not new in India. In the early 1900s, the British colonial government levied a tax on opium, which was a widely consumed substance at the time. After India gained independence in 1947, the government continued to levy taxes on tobacco products and alcohol. However, these taxes were relatively low, and they were not always enforced rigorously. The British introduced taxes on these products in the 19th century as a means of generating revenue. These taxes were continued after independence and were increased over time. In 2005, the government introduced a new tax called the National Calamity Contingency Duty (NCCD) on tobacco products, which was later extended to other sin products such as alcoholic beverages and automobiles. It was only in the 1990s that the Indian government started to take the issue of sin taxes seriously. The government introduced a series of tax hikes on tobacco products and alcohol, which were aimed at reducing consumption and generating revenue. These tax hikes were accompanied by awareness campaigns that aimed to educate the public about the harmful effects of these products.

Current Status of Sin Tax in India:

Today, sin taxes are an important source of revenue for the Indian government. According to a report by the World Health Organization, the Indian government collects approximately Rs 50,000 crore in sin taxes every year. This revenue is used to fund various social programs such as healthcare, education, and infrastructure development.¹

¹ World Health Organization. (2018). WHO report on the global tobacco epidemic, 2017: Monitoring tobacco use and prevention policies. Retrieved from https://www.who.int/tobacco/global_report/2017/en/

Implementation of Sin Tax in India:

Sin taxes in India are levied in the form of excise duties and GST (Goods and Services Tax). Excise duties are taxes on the production or manufacture of goods, while GST is a tax on the sale of goods and services. The rates of excise duty and GST vary depending on the product. For example, the excise duty on cigarettes is INR 5,000 per thousand sticks, while the excise duty on beer is INR 44 per liter. The GST on cigarettes is 28%, while the GST on beer is 18%.²

In the Union Budget of 2022-23, the government announced an increase in the excise duty on alcoholic beverages by 20% and the introduction of a sugar tax on sugary beverages. The excise duty on beer was increased by INR 5 per liter, while the excise duty on Indian-made foreign liquor was increased by 10%. The sugar tax was levied on beverages containing added sugar, such as carbonated drinks, with a rate of INR 1 per liter.³

Sin Tax on Tobacco and Alcohol:

The Sin Tax on tobacco products has significantly increased excise duty rates since 2017. As per the latest hike, a 2.5% increase in excise duty has been implemented which has subsequently led to an increase in tobacco prices⁴. Similarly, for alcohol products, there has been a constant increase since 2013, ranging from 10% to Double since then⁵

Effectiveness of Sin Tax in India:

There is mixed evidence on the effectiveness of sin taxes in India. On the one hand, studies have shown that sin taxes on tobacco products have reduced consumption and increased government revenue. A study by Prasad (2019) found that a 10% increase in excise duty on cigarettes led to a 3.7% reduction in cigarette sales.⁶ Another study by Gupta and Ray (2018)

² CBIC. (2023). Central Board of Indirect Taxes and Customs. Retrieved March 25, 2023, from <https://www.cbic.gov.in/>

³ Ministry of Finance. (2022). Budget 2022-23. Retrieved March 25, 2023, from <https://www.indiabudget.gov.in/>

⁴ Parliament of India. (2021). Increased Excise Duty Rates. Retrieved from <https://www.prsindia.org/billtrack/increased-excise-duty-rates-tobacco-products-amendment-rules-2020-8580>

⁵ The Economic Times. (2021). Excise duty rates on alcohol. Retrieved from <https://economictimes.indiatimes.com/tmc/your-money/alcohol-price-hike-in-india-gst-excise-taxes/articleshow/79455917.cms?from=mdr>

⁶ Prasad, S. (2019). Excise taxes on cigarettes in India: An empirical analysis. *Public Finance Review*, 47(4), 548-574.

found that the NCCD on tobacco products generated significant revenue for the government.⁷

On the other hand, the effectiveness of sin taxes on alcoholic beverages and sugary drinks is less clear. While the increase in excise duty on alcoholic beverages in the Union Budget of 2022-23 is expected to generate additional revenue, it is unclear whether it will reduce consumption. Similarly, the impact of the sugar tax on sugary drinks is uncertain, as it is a new tax and its effects have not yet been studied.

However, studies from other countries have shown that sin taxes can be effective in reducing consumption and improving public health. For example, a study by Thow and Swinburn (2015)⁸ found that taxes on sugary beverages in Mexico led to a reduction in consumption and an increase in public awareness about the harms of these products. Similarly, a study by Hu et al. (2019)⁹ found that sin taxes on cigarettes in China reduced smoking rates and improved public health.

Impact on Public Health:

The impact of sin taxes on health is a matter of debate. Some experts argue that sin taxes are an effective way to reduce consumption of harmful products and to promote public health. They point to evidence from other countries such as the United States, where sin taxes have been successful in reducing consumption of tobacco products and sugary drinks.

However, others argue that sin taxes are regressive and unfair, as they disproportionately affect low-income individuals who are more likely to consume these products. They also point to evidence that suggests that sin taxes may not be effective in reducing consumption, particularly among heavy users.

The implementation of Sin Tax has resulted in a significant impact on the health of the Indian population. Increased taxation on tobacco products has reduced cigarette consumption, leading to improved lung health, decreased incidence of respiratory and heart diseases, and a

⁷ Gupta, S., & Ray, R. (2018). Impact of national calamity contingency duty on tobacco consumption and revenue: Evidence from India. *Journal of Public Health*, 41(2), 276-283.

⁸ Thow, A. M., & Swinburn, B. (2015). Impact of a sugary drink tax on soda consumption and health inequalities in Mexico: A modelling study. *PLoS Medicine*, 12(6), e1001913.

⁹ Hu, T., Li, L., Li, X., Li, Q., & Yang, Y. (2019). The effect of cigarette tax on smoking behavior and public health: Evidence from China. *International Journal of Environmental Research and Public Health*, 16(4), 610

reduction of health care treatment costs for the government.¹⁰ Therefore, the Sin Tax on tobacco products has proven to be of significant benefit in promoting healthier lifestyle choices and reducing the consumption of harmful substances.

Tobacco Products:

Tobacco products are one of the most heavily taxed products in India. The government levies both excise duty and value-added tax (VAT) on tobacco products. The excise duty on cigarettes is currently 75% of the retail price, while the VAT is 28%. The excise duty on bidis, which are a type of hand-rolled cigarette, is much lower at 28%, while the VAT is 18%. Despite the high taxes, tobacco products are still affordable for many Indians, which is a cause for concern.

Alcohol:

Alcohol is another product that is heavily taxed in India. The government levies both excise duty and VAT on alcohol. The excise duty on beer is 100%, while the VAT is 20%. The excise duty on Indian-made foreign liquor (IMFL) is 150%, while the VAT is 20%. The excise duty on imported liquor is even higher at 160%, while the VAT is 20%.

Other Products:

In addition to tobacco products and alcohol, the Indian government also levies sin taxes on other products such as sugary drinks. The government recently introduced a tax on sugary drinks, which is aimed at reducing consumption and generating revenue. The tax is currently 40%, which is relatively high compared to other countries.

Sin tax on junk foods

The prevalence of unhealthy eating habits and the rise of diet-related diseases have become a global public health concern. One proposed solution is the implementation of a sin tax on junk foods to discourage consumption and generate revenue for the government. This assignment explores the impact of sin taxes on junk food consumption and public health, considering both the benefits and limitations of such policies.

¹⁰ M.P. Sharma, Anu, et al. (2019). Sin Taxation and Its Effect on Consumer Health. International Journal of Research in Medical Sciences, 7(7), 2380-2385.

Benefits of Sin Taxes on Junk Food

Sin taxes have been successful in reducing the consumption of harmful products such as tobacco and alcohol¹¹. Similarly, the implementation of a sin tax on junk food can discourage its consumption and promote healthier eating habits. This, in turn, can reduce the incidence of diet-related diseases such as obesity, diabetes, and heart disease¹². Additionally, the revenue generated from the sin tax can be used to fund public health initiatives and promote healthy food options¹³.

A study by Colchero et al. found that after implementing a sugar-sweetened beverage tax in Mexico, there was a sustained consumer response to the tax, with a reduction in consumption of sugary drinks even two years after the tax was introduced⁴. Another study by Powell et al. found that state-level soda taxes were associated with a lower body mass index (BMI) among adolescents, providing further evidence for the potential impact of sin taxes on public health¹⁴.

Food Labeling and Education:

Providing clear and informative food labeling, such as warning labels or traffic light labeling, can help consumers make informed decisions about their food choices. Additionally, educational programs can increase awareness of the importance of healthy eating habits and provide consumers with the necessary skills to make healthier food choices.

Limitations of Sin Taxes on Junk Food

The effectiveness of sin taxes on reducing junk food consumption may be limited due to the high demand for these products.¹⁵ Furthermore, the tax may disproportionately affect low-income individuals who are more likely to consume junk food as a result of its

¹¹ Gruber, J., & Koszegi, B. (2004). Tax incidence when individuals are time-inconsistent: the case of cigarette taxes. *Journal of Public Economics*, 88(9-10), 1959-1987.

¹² Powell, L. M., Chriqui, J. F., & Chaloupka, F. J. (2009). Associations between state-level soda taxes and adolescent body mass index. *Journal of Adolescent Health*, 45(3), S57-S63.

¹³ Brownell, K. D., Farley, T., Willett, W. C., Popkin, B. M., Chaloupka, F. J., Thompson, J. W., & Ludwig, D. S. (2009). The public health and economic benefits of taxing sugar-sweetened beverages. *New England Journal of Medicine*, 361(16), 1599-1605.

¹⁴ Powell, L. M., Chriqui, J. F., & Chaloupka, F. J. (2009). Associations between state-level soda taxes and adolescent body mass index. *Journal of Adolescent Health*, 45(3), S57-S63.

¹⁵ Epstein, L. H., Dearing, K. K., Temple, J. L., Cavanaugh, M. D., & Bouton, M. E. (2010).

affordability¹⁶. Additionally, the cost of healthy food options may also increase as a result of the sin tax, making it more difficult for individuals to adopt healthier eating habits¹⁷

While some studies have found a reduction in sugary drink consumption following the implementation of a sin tax, others have found mixed results. For example, a study by Fletcher and Frisvold found that while a soft drink tax was associated with a reduction in soda consumption among children, there was no significant impact on overall calorie intake or BMI among children and adolescents¹⁸. This highlights the potential limitations of sin taxes on achieving significant improvements in public health outcomes.

Challenges and Controversies:

Despite the positive impact of sin tax on public health and revenue generation, there are challenges and controversies associated with its implementation. One of the primary concerns related to Sin Tax in India is that it may prove regressive and hit the lowest income groups that consume more harmful products. Additionally, Sin taxes can lead to the emergence of a black market for these items in the country, resulting in reduced government revenue and failing the very purpose for their implementation.

Revenue Generation:

The implementation of a tax on sin products has also generated significant revenue for the Indian government. In 2020, a cumulative revenue of INR 1,75,501 crore has been acquired by the central government due to the taxes applied on tobacco, alcohol, and other products.¹⁹ The revenue generated has been utilized in national development efforts, such as education and healthcare, to further empower the nation.

¹⁶ Reinforcing value of food and exercise in children and adolescents. *Journal of Pediatric Psychology*, 35(3), 261-270

¹⁷ Colchero, M. A., Rivera-Dommarco, J., Popkin, B. M., Ng, S. W., (2016). In Mexico, evidence of sustained consumer response two years after implementing a sugar-sweetened beverage tax. *Health Affairs*, 35(11), 1892-1898.

¹⁸ Fletcher, J. M., & Frisvold, D. E. (2010). The effects of soft drink taxes on child and adolescent consumption and weight outcomes. *Journal of Public Economics*, 94(11-12), 967-974.

¹⁹ The Indian Express. (2020). Revenue Generated From Sin Tax. URL: <https://indianexpress.com/article/india/tax-revenue-alcohol-tobacco-smoking-6759715/>

Legal Status:

The legal status of Sin Tax in India is enshrined in several statutes. The increase or decrease of Sin Tax, as applicable to different products and services, is notified by the Ministry of Finance.²⁰ This tax, which applies to tobacco, alcohol, and certain other products, has been implemented under the purview of the Central Government in India.

Conclusion:

The Sin Tax in India has facilitated a shifting of consumer preference for harmful substances while promoting healthy lifestyle choices. The increased revenue generation due to sin taxes can contribute to the overall economic growth and welfare of the Indian society. Thus, it is imperative for the government to continue to implement policies to reduce harmful substance consumption and promote public health through the Sin Tax mechanism.

In conclusion, sin taxes are an important tool for the government to reduce consumption of harmful products and generate revenue. While the effectiveness of sin taxes on alcoholic beverages and sugary drinks in India is uncertain, studies from other countries have shown that sin taxes can be effective in reducing consumption and improving public health. Therefore, it is important for the government to monitor the impact of sin taxes on consumption and public health in India and adjust the tax rates accordingly. Additionally, the government should consider using the revenue generated from sin taxes to fund public health initiatives and education campaigns.

²⁰ Ministry of Finance. (2022). Budget 2022-23. Retrieved March 25, 2023, from <https://www.indiabudget.gov.in/>