

Increase in the Compensation Cess rate on cigarettes to make the total tax incidence on cigarettes in GST regime at par with the total tax incidence in pre-GST regime.

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In pursuance of the recommendations of the GST Council in its 14th Meeting held on 18.05.2017 and 19.05.2017, the Compensation Cess rates under Section 8 (2) of the Goods and Services Tax (Compensation to States) Act, 2017, was notified vide notification No.1/2017-Compensation Cess (Rate), dated 28.06.2017 on Intra-State or Inter-State supply of the specified goods, including cigarettes.

In respect of cigarettes, the Fitment Committee had recommended that in line with the weighted average VAT rate [28.7%], the GST rate on cigarettes may be kept at 28%. In addition, Compensation Cess may be levied on cigarettes at rates equal to 1.05 times the Specific Excise Duty Rates [net of NCCD]. However, this method of calibrating the Compensation Cess did not take into consideration the cascading of taxes [that is in earlier regime VAT being charged on value inclusive of the excise duty]. As a result, the total tax incidence on cigarettes in GST regime has come down, as compared to the total tax in pre-GST regime.

While any reduction in tax incidence on items of mass consumption would be welcome, the same would be unacceptable in case of demerit goods like cigarettes.

The GST Council in its 19th Meeting held today i.e. on 17.07.2017 reviewed the Compensation Cess rates on cigarettes and recommended the following increase in the same with effect from 00 hours on 18th July, 2017 i.e. the midnight of 17th and 18th July, 2017:

		Compensation Cess Rates		
Tariff Item		Present rate	Proposed Increase	New rates
	Non- filter			
2402 20 10	Not exceeding 65 mm	5% + Rs.1591 per thousand	Rs.485 per thousand	5% + Rs. 2076 per thousand
2402 20 20	Exceeding 65 mm but not 70 mm	5% + Rs.2876 per thousand	Rs.792 per thousand	5% + Rs. 3668 per thousand
	Filter			
2402 20 30	Not exceeding 65 mm	5% + Rs.1591 per thousand	Rs.485 per thousand	5% + Rs. 2076 per thousand
2402 20 40	Exceeding 65 mm but not 70 mm	5% + Rs.2126 per thousand	Rs.621 per thousand	5% + Rs. 2747 per thousand

2402 20 50	Exceeding 70 mm but not 75 mm	5% + Rs.2876 per thousand	Rs.792 per thousand	5% + Rs. 3668 per thousand
2402 20 90	Others	5% + Rs.4170 per thousand	31%	36% + Rs.4170 per thousand

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