



KAMARAJ IAS ACADEMY
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GST reform and unfinished business in tobacco control

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Context

- As India marks eight years since the introduction of the Goods and Services Tax (GST) on July 1, 2017, it is worth reflecting on this landmark reform
- India commemorates **eight years of GST implementation** on **July 1, 2025**, marking a transformative milestone in its **indirect taxation system**. Launched in 2017, GST aimed to simplify the tax structure, improve compliance, and unify the Indian market.

About GST

- **Replaced multiple indirect taxes:** VAT, excise duty, service tax, octroi, etc.
- Instituted under the **"One Nation, One Tax" principle**.
- Enabled the creation of a **common national market**, enhancing economic federalism.
- **Harmonised tax rates across states**, improving ease of doing business.
- Introduced the **Input Tax Credit (ITC)** mechanism, eliminating cascading taxes.
- **Digitisation of compliance via GSTN, e-way bills, and e-invoicing** reduced human interface and corruption.
- Abolition of inter-state checkpoints reduced logistics costs and **cut transport time by ~20%**.

Revenue Performance and Fiscal Impact

- GST is now a **major source of tax revenue** for both Centre and States.
- ₹22.08 lakh crore gross GST collection in 2024–25 (a 9.4% YoY increase).
- Monthly average collection in FY25 is above ₹1.8 lakh crore, reflecting broad-based economic activity.
- **Better tax buoyancy** supports fiscal consolidation.

Governance and Institutional Mechanism

- Administered by a **GST Council**, a federal body comprising the Union and State Finance Ministers.

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- Operates on the principle of **cooperative federalism**, though recent decisions have seen some Centre -State frictions (e.g., compensation issues during COVID-19).

Challenges in Public Health: Tobacco Taxation

- Despite being a sin good, **tobacco taxation under GST is suboptimal**.
- Tobacco causes 3,500 deaths/day, with an economic burden of ₹2.34 lakh crore annually (1.4% of GDP in 2017).
- In contrast, average GST revenue from tobacco is ₹55,100 crore/year, indicating **under-taxation**.

Global Best Practices and WHO Benchmarks

- **WHO recommends a minimum 75% tax** burden on tobacco (of retail price).
- India's current tax burden: 22% for bidis, 54% for cigarettes, 65% for smokeless tobacco.
- **No significant tax hikes on tobacco since GST launch**—a missed opportunity for public health gains.