



# Bidi Industry in India

## The Tax Treatment: Summary and Recommendations

### Basic Facts

Before turning to the recommendations, we summarize the basic facts regarding the tax treatment of bidis and cigarettes.

- For bidis the excise rates (per 1,000 sticks) depend on whether they are handmade or machine-made. However, over 98% of all bidis are handmade.
- Bidis produced by manufacturers producing less than 2 million bidis a year without machines are exempt from the excise duty. To produce more than 2 million bidis in a year requires only 6 rollers making 1,000 bidis a day.
- The excise rate on handmade bidis was increased 33 percent in 2006/07 and an additional 16% in 2007/08.
- Over the period, 1993/94 to 2006/07, excise revenue from bidis fell relative to the revenue from cigarettes.
- On a per stick basis, the excise duty on handmade bidis (Rs 14 per 1,000) is only 8% of the excise duty on micro non-filter cigarettes (Rs 168 per 1,000).
- The excise duty on micro non-filter cigarettes is 21% of the duty on regular filters.
- If the excise burden is measured as a percentage of the retail price, the burden on handmade bidis is 8.8% while the burden on cigarettes is 33% or higher.
- The excise duty on both bidis and cigarettes, as a percent of retail price, is about 10 percentage points lower if the general consumption part of CENVAT is not considered a “true” excise duty.
- Although there are no specific figures on how many bidis are produced annually — estimates range from 750 billion to 1.2 trillion — only 360 billion bidis were tax paid in 2006/07, so 52 to 70 percent of bidis were untaxed.
- The excise rate on bidis cannot be considered in isolation from the excise rate on cigarettes, particularly micro non-filter cigarettes, which compete with bidis. When the excise rate on micro non-filter cigarettes was cut in half in 1994/95, excise revenue from bidis flattened and the micro non-filter share of the cigarette market increased to 19%. The market share of micro non-filters fell as the excise rate on these cigarettes increased more rapidly than the rate on handmade bidis.



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### Recommendations

The priority reforms in the taxation of bidis would be as follows:

- The distinction between handmade and machine-made bidis should be abolished.
- Prior to simplification of cigarette excises, the excise rate on bidis should be increased from Rs 14 to at least Rs 168 per 1,000 sticks, which would tax bidis per stick the same as micro non-filter cigarettes. If adopted, this reform would increase the average retail price from about Rs 4 to Rs 8 per packet of 25 bidis.
- To ensure that the small producer exemption is limited to truly small manufacturers, the term “manufacturer” for purposes of this exemption should include all companies that are owned or controlled directly or indirectly by the same interests. Consideration should be given to eliminating the prohibition on excise taxation authorities conducting routine inspections of small bidi manufacturers, which could be accompanied by appropriate safeguards for the integrity of this process. Alternatively, the small producer exemption could be eliminated entirely.
- To improve compliance, there should be no unbranded bidis sold to consumers. The identity of the manufacturer should be required to be printed on the bidi wrapper.
- Also to improve compliance, each person selling processed bidi tobacco to a manufacturer or a manufacturer’s representative should be required to report all sales and each bidi manufacturer should be required to report all purchases of tobacco.

Introduction of a national GST will provide an opportunity to rationalize and simplify the tax treatment of tobacco products, as follows:

- Under the national GST, excisable goods should be treated the same as other goods. In particular, the April 2007 exemption of bidis from the state VATs should not be taken as a precedent.
- There should also be a single rate for cigarettes (per 1,000 sticks), which would initially be set higher than the rate for regular filter cigarettes. Collapsing the six current rates into a single rate may need to be phased in.
- Over several years the excise rate on bidis per 1,000 sticks — handmade or machine-made — should be increased to the rate for all cigarettes.