GST ARTICLE

The Central Excise (Amendment) Bill, 2025: A Structural Realignment of Tobacco Taxation in India's Post-GST Cess Fiscal Framework

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Did You Know? A Constitutional Curiosity in India's Tax Landscape

Did you know that even after the introduction of GST, a tax reform that was widely believed to have subsumed nearly all indirect taxes, **Central Excise Duty continued to be levied on certain tobacco products**' This was not an oversight or a transitional anomaly. Instead, it was a conscious constitutional and legislative choice. The amended Entry 84 of the Union List in the Seventh Schedule to the Constitution expressly retained the Union's power to levy excise duty on specified goods, including **tobacco and tobacco products**, even in a post-GST environment.

This retention carries deeper constitutional significance. While GST sought to harmonise indirect taxation across the country, Parliament ensured that the Union preserved fiscal authority over demerit goods-products associated with substantial public health risks, entrenched consumption patterns, and long-standing taxation traditions. Tobacco, being one of the most regulated and socially sensitive commodities, remained within the domain of Union excise. In fact, tobacco is the only category of goods that continues to attract a **dual levy-both Central Excise and GST-**making it a unique constitutional and fiscal exception in the otherwise harmonised GST regime.

The Central Excise (Amendment) Bill, 2025 must therefore be understood not as a departure from the GST framework, but as a continuation of this carefully crafted constitutional design that deliberately maintains excise power over select products of national importance. This dual levy structure reinforces the Union's policy commitment to strong public health safeguards while ensuring fiscal stability during the phase-out of the GST Compensation Cess.

1. Introduction

The Central Excise (Amendment) Bill, 2025 marks a decisive moment in India's evolving indirect tax architecture. Enacted at the precise juncture when the GST Compensation Cess nears its statutory culmination, the Amendment represents a measured recalibration of the fiscal regime governing tobacco products. Rather than introducing a new layer of taxation, the Act restores and enhances India's traditional excise framework to ensure continuity in revenue flows, alignment with constitutional principles, and protection of long-standing public health objectives. The Amendment is therefore both corrective and forward-looking-it bridges a structural fiscal gap created by the sunset of the Compensation Cess, while reinforcing the Union's commitment to evidence-based tobacco control policy.

This piece is written in the context of the recent introduction-and swift parliamentary passage-of the Bill, which, at the time of writing, has been approved by both Houses of Parliament and awaits the President's assent. The speed and clarity with which the legislative intent has been expressed underscores the urgency of maintaining fiscal neutrality and safeguarding the constitutional design governing the taxation of demerit goods.

2. Background and Legislative Context

When GST was introduced in 2017, the Union retained excise duty only on a small group of demerit goods, notably tobacco products. To safeguard State finances during GST's initial years, Parliament enacted the GST Compensation

Cess, intended to operate for five years and later extended solely to service pandemic-related borrowings. Tobacco products therefore carried a unique **triple burden**-GST, Compensation Cess, and residual excise duty.

As compensation loans approached full repayment, the Compensation Cess framework was set to phase out. This would have inadvertently reduced the effective tax incidence on tobacco, undermining both fiscal stability and public health policy. The Central Excise (Amendment) Bill, 2025 intervenes precisely here, revising excise rates sharply upward to preserve the current total tax burden while eliminating reliance on a non-shareable cess mechanism.

3. Substance of the Amendment

The Amendment significantly enhances excise duties across all categories of tobacco products. Unmanufactured tobacco now attracts a higher duty; cigarette duties have been raised dramatically, calibrated by length and filtration; and chewing tobacco, hookah tobacco, and smoking mixtures all witness substantial increases. These revisions ensure that the discontinuation of the Compensation Cess does not erode the deterrent tax structure built over decades.

Crucially, the Amendment does not increase the overall tax incidence on tobacco beyond current levels at least for now. It shifts the tax burden from a temporary cess to a permanent excise duty, maintaining fiscal neutrality while protecting price stability. Neither the Union nor the States experience a revenue gap, and consumers face no sudden price dip that could encourage increased consumption.

4. Parliamentary Intent and Policy Rationale

Debate in Parliament demonstrates clear legislative intent. First, the Amendment ensures a smooth fiscal transition by replacing the revenue previously collected through the Compensation Cess. Second, it reiterates India's long-standing policy of using taxation as a tool to discourage tobacco consumption-especially among younger populations. Parliamentarians also highlighted ongoing diversification programmes aimed at shifting farmers away from tobacco cultivation, indicating a holistic approach to public health and economic restructuring.

5. Constitutional and Federal Dimensions

The Amendment is fully grounded in Parliament's authority under Entry 84 of List I of the Seventh Schedule as amended by the Constitution (101) Amendment Act, 2016, which expressly permits excise duties on tobacco products. This constitutional foundation is vital, as it underscores the Union's uninterrupted competence over tobacco taxation even in the GST era.

Equally significant is the shift from a cess to a shareable tax. Cesses are retained entirely by the Centre and fall outside the divisible pool, whereas excise duties must be shared with States under Article 270. By restoring excise as the principal levy on tobacco, the Amendment strengthens cooperative federalism, enhances the States' share of national revenues, and remedies structural distortions caused by the increasing use of cesses in the past decade.

The enhanced excise structure also meets constitutional tests of reasonableness. The increases bear a rational nexus to public health objectives, ensure continuity in public expenditure, and maintain stability in fiscal arrangements. They are proportionate, non-discriminatory, and aligned with both constitutional design and legislative competence.

6. Broader Implications

The Amendment has far-reaching consequences. For the Union Government, it restores excise as a predictable and robust revenue instrument. For States, it unlocks a greater share of revenues, strengthening fiscal autonomy and vertical equity. For industry, it necessitates operational recalibration and may give rise to classification or valuation disputes. For consumers, the high and stable tax burden continues to act as a strong deterrent against harmful consumption. Collectively, these dynamics reinforce both fiscal discipline and public health safeguards.

7. Conclusion

The Central Excise (Amendment) Bill, 2025 stands as a precise and purposeful legislative intervention at a critical juncture in India's fiscal trajectory. By shifting tobacco taxation from a temporary, non-divisible cess to a permanent, shareable excise duty, the Bill restores constitutional integrity to India's revenue-sharing framework and strengthens the financial footing of the States. At the same time, it maintains the historically high tax incidence necessary to restrain tobacco consumption, preserving the public health philosophy that has guided India's sin-goods taxation for decades.

Constitutionally sound, fiscally prudent, and socially conscious, the Amendment realigns India's indirect tax landscape with long-term federal, economic, and health priorities. As the GST regime matures, this reform serves as a timely and stabilising recalibration-one that ensures coherence, continuity, and constitutional harmony in the nation's approach to taxing one of its most consequential product categories.

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