

Tax stamps role in implementing ideal state excise policy

Mr. Chander Jeena, Secretary, Authentication Solution Providers Association (ASPA) speaks to Lopamudra Ganguly on how important it is to enhance revenue, reduce consumption, curbing illicit liquor trade and consumer empowerment & engagement in authentication.



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What is an ideal Excise Policy and what is the role of Tax Stamps in it? Tell us about the different factors behind it.

Maximisation of government revenue to generate resources that can be utilised to finance Departmental projects is always accorded a high priority on the agenda of the policymakers and our policy planners have found excise taxes on alcohol and other sin products to be a dependable and significant revenue source. However, when it comes to framing a policy such as Excise Policy, the Excise & Taxation Department has to give due weight to the health and well-being of the citizens of the State. An ideal Excise Policy, therefore, not only has to strike a delicate balance between the twin objectives of preventing dominance of liquor mafia or social degeneration on the one hand and securing an optimum revenue for the Government on the other, but also has to address the concerns of all the four key stakeholders i.e. the government, the manufacturers, the licensees and most important of all, the consumers. While there

are various other factors that also play a significant role in achieving the State Excise Objective, it explores the role of Phygital Tax Stamps Programme role in State Excise Policy in the current scenario.

How important are excise revenue for the States in India and how much has the State Excise increased post Covid -19?

Importance for Excise Revenue for State; post-GST implementation / Covid-19: Excise revenue from alcoholic beverages has always been an important source of own tax revenue for states in India. Post GST & Covid-19 crisis, its significance has increased as revenue from state excise (from alcoholic beverages) and stamp duty and registration fees (mainly levied on sale of property) are now the major sources where State Governments have autonomy to levy taxes. If one were to exclude SGST (rates of which are decided in the GST Council) from States' own revenues, the share of state excise and stamps and registration fees in States' own revenues has increased significantly, from around 20% to 40%, in the post-GST regime.

While framing the policy, what are the key challenges?

Reduce Alcohol consumption – Socioeconomic issues: In current scenario, most of the States are now facing dual challenges to improve the existing healthcare systems as well as to identify increasing public finance, which have been under considerable strain. While the State Excise Department has pressure to enhance excise revenue, they don't wish to be in a situation where they are increasing alcohol consumption. According to the World Health Organization (WHO), harmful alcohol consumption resulted in more than 3 million deaths in 2016, and most of these deaths occur in low and middle income countries. Reducing the harmful use of alcohol is amongst United Nations Sustainable Developments Goals to be achieved by the year 2030.

When it comes to framing a policy such as Excise Policy, the Excise & Taxation Department must give due weight to the health and well-being of the citizens of the State. The key challenge is to create a fine balance between optimisation of revenue while giving proper weight to social consideration and ramifications. Worldwide experts recommend, increase in taxes for sin products as one important element to reduce consumption as well as to enhance revenue. Nevertheless, policymakers face strong opposition to raising taxes on alcohol and other sin products from producers and their allies who persistently raise concerns about the impact of tax increases on revenues, employment, illicit trade, and the poor. However, evidence from around the world demonstrates that these arguments are either false or greatly exaggerated and none justify inaction. Taxes and prices can have a major impact on curbing this illegal trade, but need to be supported by strong governance and high-level security. According to a global think tank, "The Task Force on Fiscal Policy for Health findings over 50 million premature deaths could be prevented if countries implemented tax increases large enough to raise product prices of tobacco, alcohol and sugary beverages by 50% over the next 50 years". The Task Force-commissioned analysis, published in the report "Health Taxes to Save Lives", found that the impact of these taxes, projected to yield over US\$20 trillion in revenue, would be highest in low- and middle-income countries, where

consumption and associated healthcare costs and productivity losses are growing.

Is illicit trade a major obstacle in achieving State Excise objectives?

While the intention of higher taxes is to reduce consumption, this rarely occurs at the ground level. On the contrary, consumption either remains the same, or consumers turn to neighbouring States for their consumption or they turn to smuggled or counterfeit products. In India, as the liquor comes under State Excise Policy, the lack of technological tools for identification, monitoring of supply chain, different pricing policy and lack of coordination between enforcement authorities create chances for counterfeiters to benefit from pilferage in systems.

Is prohibition the answer to curb illicit liquor trade?

Prohibition is not the only answer and also has unintended consequences. Many times, prohibition leads to increased illicit liquor business and a parallel economy of illicit liquor trade. Bootleggers started selling alcohol at a higher price, pushing the poor towards cheap drugs and hooch. For example, in Bihar, sale of other drug products have increased significantly. As per the latest report from the Narcotics Control Bureau, Bihar tops the chart in consumption of opium and hashish. Similarly, liquor is prohibited in Gujarat, however, according to a recent study 38% of youth in Gujarat consume alcohol. Other than this, 12% of people are consuming other forms of drugs such as cannabis. In the last two years, police had seized liquor valued ₹ 254 crore. The Government had confirmed that due to prohibition there is an increase in smuggling from a neighbouring State. In the last two years, 1,32,415 country liquor, 29,989 IMFL liquor cases were reported. The step has increased the consumption of illicit liquor and loss of revenue. Now the State Government is demanding compensation cost from central as they are losing ₹15,000 crore annually due to prohibition. India needs to look beyond prohibition and develop a comprehensive national policy to tackle alcohol and other forms of additives.

Tax Stamps in India & their role in curbing illicit trade, consumer protection, and revenue enhancement, recent developments, and key learnings:

Tax Stamps have always been an

important authentication solution used by Government authorities to curb the illicit trade, protect the consumer and to increase the excise revenue. Today across the globe, 81 countries are using cigarette and alcohol tax stamps. In India, 22 States (including Union Territories) are already using approximately 22 billion Tax Stamps per annum. The success of Tax Stamps in India comes from their dual role in supply chain monitoring and visual authentication, for both enforcement authorities and consumers. However, this dual role needs to be supported by the appropriate organisation and regulation of the Indian liquor trade. If we do not integrate both digital and non-digital (physical and sensory) authentication methods into our approach, then we risk wasting the major investments that are about to be made in track and trace. Of course, there are no completely foolproof processes or systems.

There are, however, complexities within these processes and systems that can deter both professional and not-so-professional counterfeiters. There are always two primary objectives involved: One is to provide safe, genuine products while protecting the revenue stream of the government, and second, of course, is to be able to catch offenders.

Conclusion:

Tax Stamps beyond tax collection tools:

Policymakers need to study the importance of Tax Stamps in the global context and apply such solutions in all States in India. In India, the Excise Department needs to think about Tax Stamps as a tool beyond tax collection tools. The existence of cheaper, less sophisticated, less effective stamps and marks potentially dilute the value proposition around their use as platforms to implement the global guidelines. Instead of using it as a mere product, they need to re-frame their work on their Tax Stamp Programme as an opportunity for consumer & industry empowerment. The new generation Tax Stamps with technological innovation in security printing, serialized coding, data processing, and mobile communications, can be into sophisticated devices with additional roles that related to product authentication, supply chain security and data intelligence. This will ensure and help the State Excise Department in building their policy towards reducing consumption and optimisation of revenue. 