

## **HIGHER RATE ON PAN MASALA & TOBACCO PRODUCTS & OTHER COMPLICANCES FROM 1<sup>ST</sup> FEBRUARY 2026**

As per notifications dated 31<sup>st</sup> December 2025, there has been major changes in the taxation of pan masala and tobacco products, effective from February 1, 2026, include a higher flat GST rate of 40% and the introduction of a new Health and National Security Cess. These changes replace the previous system of 28% GST plus compensation cess.

### **Key Changes for Pan Masala and Tobacco**

**Increased GST Rate:** Pan masala, cigarettes, and other tobacco products now fall under a special, higher GST rate of 40%. This replaces the former 28% GST slab, which was abolished for most goods in September 2025.

**New Cess Structure:** The GST compensation cess, which previously applied to these "sin goods," has been discontinued and replaced by separate levies.

Pan Masala attracts a new Health and National Security Cess, which is a capacity-based duty levied on the number of packing machines installed and their speed, rather than the actual production value.

**Tobacco Products attract an additional excise duty.**

**Tax Calculation Method:** The basis for calculating the GST on these products has shifted from the transaction value to the Retail Sale Price (RSP) declared on the package. This is intended to improve tax compliance and prevent under-reporting by manufacturers.

**Mandatory RSP Declaration:** All pan masala pack sizes, including small packs previously exempted, must now mandatorily display the Retail Sale Price and other declarations to ensure transparency for consumers.

**Bidis Exception:** Bidis are an exception and attract a lower GST rate of 18%, but are also subject to additional excise duties.

These changes aim to maintain a high overall tax burden on products considered harmful to public health while simplifying the general GST structure into primarily two slabs (5% and 18%) for most other goods and services.

**FURTHER New act The Health Security se National Security Cess Act, 2025 will be applicable from 1<sup>st</sup> February 2026** Under which Every taxable person as per section 3 of the Health Security se National Security Cess Act, 2025 (hereinafter referred to as 'the Act') must register. An application for registration shall be made in **FORM HSNS REG-01** through the ACES portal. Where machines of the products are installed in more than one factory, separate registration shall be required for each factory.

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PARAS SHAH & CO