

National security cess not on essential goods, says FM Nirmala Sitharaman

Opposition claims it will revive ‘inspector raj’, hurt MSMEs

By: [Express News Service](#)

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Union Finance Minister Nirmala Sitharaman in Rajya Sabha. PTI

Union Finance Minister Nirmala Sitharaman said Thursday that the proposed Health and National Security Cess will be levied only on demerit goods, like pan masala, and not on essential commodities, and the revenue will be shared with states for spending on health schemes.

While moving the ‘Health Security Se National Security Cess’ Bill, 2025, Sitharaman said its purpose is to create a “dedicated and predictable resource stream” for two domains of

national importance—health and national security.

During a discussion on the Bill, she said, “This is a cess, and it is placed not on any essential commodity. The purpose of this Bill is to levy a cess on demerit goods, which are associated with significant health risks. We wish to impose such a cost, so that it is a deterrent, so people tend not to use it.”

“Part of the revenue from this cess will be shared with states through health awareness or other health-related schemes/ activities,” Sitharaman said.

Sitharaman said that pan masala will be taxed at the maximum 40% rate under GST based on its consumption, and there will be no impact of this cess on GST revenues. “Right now it is 28% GST plus compensation cess at a varied rate. The GST is on consumption basis, not on production. Yesterday, (on Wednesday) tobacco also attracted excise duty. Since pan masala is not excisable, through this new Bill, we are proposing tax on production of it through this cess,” she said.

“It is imposed not on consumption but on machine-linked and capacity-based. It is on capacity and not on production... We are not discussing how much they are producing but on production capacity. So, each factory will have a different liability. It will not impact the GST system at all,” she said.

Introduced this December 1, the Bill aims to “augment the resources for meeting expenditure on national security and for public health, and to levy a cess for the said purposes on the machines installed or other processes undertaken by which specified goods are manufactured or produced and for matters connected therewith or incidental thereto”.

During a discussion, DMK member Sumathi accused the Centre of relying excessively on cesses to raise revenue, calling it “cessification of governance, not justification of governance”. Sumathi pointed out that Sitharaman herself noted how sharply cess revenues have risen. “Ambedkar had warned that good intentions are of no value if the instruments are flawed. This Bill is precisely that—good intentions trapped in a flawed instrument,” she said and claimed that Micro, Small, and Medium Enterprises (MSMEs) would be “hit the hardest” by it.

RJD member Sudhakar Singh wondered how the imposition of cess would prevent the consumption of tobacco and pan masala. On the lines of Bihar, the production and sale of pan masala and related products should be banned, he demanded.

Congress MP Varun Chaudhary warned the proposed legislation would revive “inspector raj” and argued that a capacity-based cess would increase bureaucratic interference. “What will happen to small factories?” he said and urged the government to send the Bill to a Select Committee.

Defending the Bill, BJP MP Jagdambika Pal said, “This is perhaps the first Bill where we are committing to show where every paisa collected from a demerit good will go.”

Terming health and national security the country’s highest priorities, Pal said: “For the first time, a guarantee for both has been brought through one legislation.” “The mool bhawna (of the Bill) is health and national security... if the system is transparent, our revenue (generation) will be stable, and there will be a reduction of tax evasion in the pan masala (manufacturing) sector... I believe it (the Bill) is in national interest and it should be passed with a complete consensus,” he said.

Samajwadi Party MP Virendra Singh said, “I support this Bill on the basis that it (the cess) will be used for the nation’s security and people’s health as this House has been assured by the Finance Minister and would not be diverted elsewhere.”

However, TMC MP Saugata Roy argued that the government was “so desperate for funds” that it was now depending on demerit goods to finance national security. “... The government is thinking on two lines: on one hand, it spends money like water on unnecessary buildings; on the other, it taxes pan masala to fund security,” Roy said.

NCP MP [Supriya Sule](#) demanded why pan masala was not being banned and questioned the non-utilisation of cess. She said that her party would be happy to lend its support to the proposed legislation if Sitharaman clarified about the utilisation of revenue collected.

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