

HC: Cess on Tobacco Must Be Based on Transaction Value, Not MRP

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REFER THE DECISION OF THE HON'BLE KARNATAKA HIGH COURT IN THE CASE OF

VKG Packers v. Union of India – [2025] 179 taxmann.com 602 (Karnataka)

In a significant judgment protecting the sanctity of the statutory valuation mechanism under GST, the Karnataka High Court has ruled that compensation cess on chewing tobacco must be levied on the **actual transaction value** and **not on the retail sale price (MRP)**.

The petitioner, *VKG Packers*, a manufacturer of chewing tobacco, supplied goods through intermediaries and paid compensation cess as per transaction value. However, the Central Government issued notifications seeking to impose cess based on a **notional MRP**, linking valuation to the retail price rather than the supply price. The petitioner challenged these notifications as being contrary to the Compensation to States Act, 2017, and the CGST Act.

After a detailed examination, the Court held that the **statutory framework clearly prescribes valuation based on Section 15 of the CGST Act**, i.e., the transaction value. The impugned notifications, by introducing MRP-based notional valuation, **altered the very basis of taxation** and were therefore **ultra vires** the parent statute.

The Court firmly rejected the government's justification that the change was necessary to prevent revenue leakage, observing that administrative convenience or possible evasion cannot override legislative intent. Consequently, the notifications were declared unsustainable in law.

This ruling reinforces the principle that **delegated legislation cannot override or modify the statutory scheme** and that valuation for cess must strictly follow the transaction value mechanism laid down by law.

// भगवान महावीर का संदेश //

"जीवो और जीने दो" — यही हो हमारा संकल्प।

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