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Karnataka Draft Liquor Policy: Industry Reactions to AIB-Based Tax Reform

The International Spirits and Wines Association of India (ISWAI) highlights the impact on consumer prices, noting that prices will rise in lower slabs but decrease in prestige and above segments. ISWAI's Suresh Menon explains the changes in excise duty.



by admin

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KARNATAKA DRAFT LIQUOR POLICY: INDUSTRY REACTIONS TO AIB-BASED TAX REFORM

CIABC (ANANT S. IYER):
'PROGRESSIVE STEP, BUT EXECUTION WILL BE CRUCIAL'

BALANCED OUTCOMES:

- AFFORDABILITY & PRICING
- INDUSTRY SUSTAINABILITY
- QUALITY REVENUE

AIB TAX REFORM

- 1-5 slabs (85% volumes) have already de-grown ~6% after May'25 duty hike. Don't risk further decline!
- Volume contraction hits the entire value chain – distilleries, bottling units, ancillary industries, farmers (grains, molasses)!
- Beer shift may not be revenue accretive – IMFL gives 4-6x higher excise per case. Watch health & price distortions with other states.

We'll engage constructively to ensure an equitable, sustainable policy for consumers, industry & long-term revenue.

BREWERS ASSOCIATION OF INDIA (VINOD GIRI):
'A WATERSHED MOMENT'

AIB-based taxation will optimise revenue and meet public health goals of moderation!

AIB = ALCOHOL-IN-BEVERAGE

- ✓ TAX ON ALCOHOL, NOT ON WATER
- ✓ WHO RECOMMENDED GOLD STANDARD
- ✓ ADOPTED BY MAJOR GLOBAL ECONOMIES

Karnataka links revenue goal with public health. First state in India to do so. Kudos to CM Siddaramaiah! Hope others follow.

REFORMS BEYOND TAXATION:

- Full deregulation of price fixation
- Simplified taxation framework
- Auto-renewal of manufacturing licences
- Online approvals
- 24-hr operations for distilleries & breweries
- Tourism opportunities around breweries

BETTER BUSINESS. STRONGER ECONOMY. MORE INVESTMENT!

ISWAI (SURESH MENON):
HOW THE NUMBERS CHANGE

| EARLIER | NOW (PROPOSED) |
|---|--|
| ED @ ₹50/BL (= ₹450/case quarts or ₹432/case nips) | ED @ ₹1,000/litre of alcohol (= ₹3,850/case quarts or ₹3,700/case nips) |
| AED on per BL rate linked to 16 DP slabs | ED per litre of alcohol – common for Spirits & Beer |

We welcome AIB tax, and will suggest improvements in beer slabs.

AED for SPIRITS in 8 slabs (vs 16)

- Slab 1: LOWER than earlier
- Slabs 2-5: HIGHER than earlier
- Slabs 6-8: LOWER than earlier

AED now on ALCOHOL-IN-BEVERAGE (3.85 litres per quarts @ 42.8%)

IMPACT ON CONSUMER PRICES

Slabs 1-5: **PRICES UP**

Prestige & above segments: **PRICES DOWN**

GOOD NEWS FOR PREMIUM DRINKERS! BALANCED IMPACT OVERALL.

Karnataka's decisions could set a precedent for other states – a broader shift in how alcohol is taxed across India.

Karnataka's proposed overhaul of its excise framework through the introduction of an Alcohol-in-Beverage (AIB) based taxation system has got contrasting reactions from key industry bodies. While the move is being hailed as a progressive reform aligned with global standards, concerns have also been raised about its potential impact on affordability, industry balance, and state revenues.

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The Director General of the Confederation of Indian Alcoholic Beverage Companies (CIABC), Anant S.lyer offering a measured but cautionary response, acknowledged the intent behind the reforms while warning that execution will be critical to avoid unintended consequences.

“The introduction of the Alcohol-in-Beverage (AIB) mechanism is a progressive step and reflects the Government’s intent to reform the sector. However, the framework must be carefully calibrated to deliver balanced outcomes across three critical pillars—consumer affordability and pricing outcomes, industry sustainability with scalable production, and government revenue with an emphasis on the quality of revenue. It is equally important that the policy is not perceived as favouring any particular category, including beer, as currently proposed.”

Iyer emphasised that Karnataka’s earlier transition away from country liquor toward regulated Indian Made Foreign Liquor (IMFL) has been a significant public policy achievement, and cautioned against disrupting this balance.

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“Karnataka’s historical transition from country liquor to regulated, quality IMFL has been a notable public policy success. In this context, affordability for the mass consumer remains paramount, particularly in the lower IMFL slabs (1–5), which account for over 85% of monthly industry volumes. Following the duty increases in May 2025, these segments have already witnessed a degrowth of approximately 6%, and the current policy direction risks further deepening this trend in FY26–27.”

He further warned of ripple effects across the broader ecosystem if volatility continues.

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“Sustained volume contraction with the proposed AED for 1-5 slabs of spirits will have a cascading impact across the value chain—from distilleries and bottling units to ancillary industries—while also affecting the agricultural ecosystem dependent on grains and molasses. This, in turn, poses a downside risk to overall industrial and agriculture ecosystem.”

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While acknowledging the benefits of premiumisation, Iyer raised questions about revenue implications if consumption patterns shift toward beer.

“While the rationalisation of duties in Slab 6 and above is a welcome step that supports premiumisation, any structural shift favouring beer may not be revenue accretive. Data across states consistently indicates that IMFL generates four to six times higher excise revenue per case compared to beer. Further, the perception that beer consumption has a significantly lower impact on health is often overstated, as higher consumption volumes often offset the lower alcohol strength.”

He also pointed to potential interstate price distortions as a risk factor. “It is also important to ensure that pricing remains aligned with neighbouring states. Any emerging price distortions—particularly in beer, despite higher ex-brewery costs in Karnataka—could lead to market imbalances. We remain committed to engaging constructively with the Karnataka Government to help shape a policy framework that is equitable, sustainable, and aligned with consumer interest, industry viability, and long-term revenue optimisation.”

Brewers Association calls it a ‘watershed moment’

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The Brewers Association of India has strongly endorsed the proposed AIB-based taxation system, positioning it as a globally aligned and forward-looking reform.

Welcoming the draft notification, BAI Director General Vinod Giri described the move as transformative for both revenue optimisation and public health.

“The AIB-based taxation mechanism is a watershed moment which will not only optimise revenue, but also meet public health goals of moderation.”

The draft notification, issued on April 18, 2026, proposes amendments to the Karnataka Excise (Excise Duties and Fees) Rules, 1968, introducing a taxation framework that directly links duty to the actual alcohol content in beverages rather than total liquid volume.

“The new rules outline a taxation system which is based on premise that the product to be taxed is the alcohol and not the water that accompanies it. This is the WHO recommended gold standard for alcohol taxation and is widely followed in the world.”

Giri credited the state leadership for pushing through a reform that aligns fiscal and health objectives.

“By announcing AIB-based taxation mechanism, Karnataka has become the first state in the country to explicitly link revenue maximisation goal of the State with desired public health outcomes. We commend Honourable Chief Minister Siddaramaiah for bringing in such a major excise policy reforms in India. We hope that other states too will soon implement an explicit linkage of tax with alcohol content in their excise policy soon.”

He reiterated that the reform reflects international best practices and strengthens Karnataka’s reformist credentials.

“The AIB-based taxation mechanism is recommended by global health bodies like the WHO and is now adopted by all major global economies. This major policy reform will help Karnataka government optimise revenues while addressing the public health goals of moderation. This progressive step has once again reinforced Karnataka’s image as a progressive and reformist State in the country.”

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While largely supportive, the BAI indicated that it may propose refinements to beer-specific slabs.

“While the BAI has wholeheartedly welcomed the AIB-based taxation, it believes that few suggestions regarding slabs in beer would improve this model further. BAI will soon be submitting this separately to the Karnataka government.”

Giri also highlighted broader reforms bundled with the policy, particularly those aimed at improving ease of doing business.

“The reforms in the new Excise rules go beyond to also bring about step changes in Ease of Doing Business for the alcobev sector such as full deregulation of government-administered price fixation, simplification of taxation framework, auto-renewal of manufacturing licences, online approvals, 24-hour operations for distilleries and breweries, and creating tourism opportunities around breweries. Such progressive steps will promote state’s economy and the industry and make Karnataka more attractive investment destination.”

As Karnataka moves forward with finalising the policy, stakeholder consultations and fine-tuning of slabs will be crucial. The state’s decisions could also set a precedent for other regions, potentially triggering a broader shift in how alcohol is taxed across India.

Prestige & Above Segments Price Decline Expected: ISWAI



Suresh Menon, Adviser, Tax & Regulatory Affairs of the International Sugar Association of India (ISWAI) explained how excise duty was charged in

Earlier, the state charged excise duty @ ₹ 50/Bulk litre (BL) (= 450/ case of quarts or

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₹432/ case of nips) and the additional excise duty (AED) on a per BL rate linked to 16 Declared Price (DP) slabs.

Now, he pointed out, the Excise Department had proposed to charge @ ₹1,000 per litre of alcohol (= ₹3,850 per case of quarts or ₹3,700 per case of nips). The ED rate per litre of alcohol is now common across Spirits and Beer.

The AED for spirits is now in eight slabs (compared to 16 earlier)—the first five have the same DP range as earlier while the next 11 slabs have been combined into 3 slabs—2 for IMFL and 1 for BII and BIO. This is an estimate based on DPs although the tariff does not make such a distinction.

AED is also now to be charged basis alcohol in beverage (3.85 litres per quarts @ 42.8%) and in the new slabs wherein # 1 is lower than earlier; # 2-5 is higher than earlier; and # 6-8 is lower than earlier. While AED in Slab # 1 is lower than the current level, the much higher new ED rate makes the consumer prices of products in #1 higher than earlier.

And as a combined result of the changes in ED and AED, consumer prices will also show a similar trend—prices will go up in the first 5 slabs; and will come down in the prestige and above segments. The second part (prestige and above) is obviously very welcome, Menon concluded.

Liquor Policy Karnataka Excise

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