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Karnataka Distillers Warn Tax Shift Will Hurt Cheap Liquor

The proposed excise overhaul could raise prices for budget brands, they say, while favoring premium labels from multinational companies

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Local alcohol manufacturers in Karnataka have asked Chief Minister Siddaramaiah to reconsider a proposed excise tax system that they say would favor multinational premium brands and hurt cheaper domestic products, according to people familiar with the discussions and a letter submitted by the Karnataka Distillers Association.

The state government is preparing to shift to an alcohol-in-beverage, or AIB, tax structure, which would base excise duty on the amount of alcohol in each beverage. Officials have said the change is meant to align Karnataka with a globally recognized method of taxing liquor and follows an announcement in the chief minister's budget speech. But distillers who met Siddaramaiah in Bengaluru said the plan would raise costs for local producers, reduce demand for lower-priced liquor and put jobs and investment at risk.

Under the draft rules placed in the public domain for comment, AIB is defined as the alcohol content per liter of liquor, including brandy, whisky, gin, rum, beer and low-alcohol beverages. The government also plans to cut the number of pricing slabs to eight from 16. Distillers say that change would make premium brands cheaper by about 16% to 20%, while budget brands could become about 20% more expensive.

The association said small and medium-sized distilleries mostly operate in the first five slabs of the current price range, where declared prices are under Rs 750 per case. Those companies, it said, would be hit hardest if taxes rise on lower-priced liquor. The group also argued that Karnataka's proposed duties on premium spirits and beer are lower than those in neighboring Telangana and Andhra Pradesh, which could weaken local producers further.

The concern among distillers is not only about pricing but also about market share. They said higher taxes on cheaper liquor could reduce legal sales among lower-income consumers, while larger companies with stronger brands and deeper pockets would be better able to absorb changes without losing volume. Smaller regional players could face pressure on both sales and profitability.

According to the letter, the first four pricing slabs account for about four-fifths of Karnataka's excise revenue and 76% of sales volume. Distillers warned that sharp price increases in that segment could push some consumers away from legal alcohol and toward illicit liquor or other banned substances.

The issue comes as Karnataka has set an excise revenue target of Rs 45,000 crore for 2026-27, up by Rs 4,000 crore from the previous year. One distiller who did not want to be identified said the government appears to be counting on higher collections from

economy and budget brands to meet that goal.

The state has also said it wants to give manufacturers more freedom in pricing. Distillers countered that any such flexibility would mainly apply to premium labels, while prices for cheaper brands would still remain under government control.