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Karnataka’s alcohol-content tax cut per capita pure alcohol consumption 2.4%

Excise revenue rose 13.4%, with total beverage sales up 16%, suggesting a shift toward lower-strength drinks

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Karnataka’s per capita consumption of pure alcohol fell 2.4% in the five months through September after the state changed the way it taxes alcoholic drinks, according to an analysis released on Thursday, November 12, by the Brewers Association of India, an

industry group.

The group said pure alcohol consumption per person declined to 1.59 liters between May and September, down from 1.63 liters in the same period a year earlier. The drop followed the state’s introduction on May 11 of an Alcohol-in-Beverage tax system that ties duties to the amount of alcohol contained in a drink rather than only to the product category.

The figures suggest consumers did not simply buy less alcohol overall. The association said the total volume of alcoholic beverages sold in Karnataka rose 16% over the period, even as the amount of pure alcohol contained in those drinks fell. That points to a shift toward lower-strength products rather than a broad fall in beverage purchases.

The tax change appears to have affected both buying habits and product formulation. Beer and wine accounted for 45% of total alcoholic beverage sales in Karnataka, up from 36% a year earlier, the group said. At the same time, several makers of economy Indian-made foreign liquor, or IMFL, cut the alcohol strength of their products to 40% from 42.8%. As a result, the average strength of IMFL sold in the state fell to 40.5%, according to the association.

State revenue moved in the opposite direction from pure alcohol consumption. Karnataka’s excise collections rose 13.4% from a year earlier to Rs 22,191.63 crore during April through September, the association said. That combination of higher revenue and lower alcohol intensity is likely to draw attention from other state governments in India, where alcohol taxes are a major source of public income.

Vinod Giri, director general of the Brewers Association of India, said the speed of the decline stood out. He said there are international examples of alcohol consumption falling after taxes are linked more closely to alcohol content, but described the change in Karnataka as unusually fast.

The data also showed a more modest shift in spirits volumes than in alcohol content. IMFL case sales increased 1.1% during April through September, compared with a 1% decline in the same period a year earlier. That means spirits sales did not collapse under the new regime, but the products sold appear to contain less alcohol on average.

The development matters beyond Karnataka because it offers an early example of how tax policy tied directly to alcohol content can reshape the drinks market. If the pattern holds, such a system could push brewers, winemakers and distillers to adjust recipes, reduce strength and reposition brands to stay competitive, especially in lower-priced segments where small changes in taxation can have a large effect on shelf prices.

That could be especially significant in a large spirits market such as Karnataka, where low-cost IMFL has long played a central role. A system that rewards lower alcohol content may favor beer and wine, encourage lighter versions of spirits, and change how producers compete across categories. It may also create pressure on manufacturers to rethink packaging, pricing and margins as consumers respond to lower-strength options.

Karnataka is one of India’s biggest alcohol markets, so policy changes there are closely watched by producers and investors. The state’s results are likely to add to the debate over whether alcohol taxes should be designed mainly to maximize revenue or also to influence what consumers drink and how strong those products are.

For now, the clearest shift is in alcohol intensity. More beverages were sold in Karnataka between May and September, but the average amount of alcohol in those beverages went down after the May 11 tax change, according to the industry analysis.