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FROM COUNTER TO QR CODE: RETHINKING EXCISE DUTY AND VAT IN TAMIL NADU'S DIGITAL LIQUOR ECONOMY

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ABSTRACT:

In the Indian tax system, Tamil Nadu's liquor industry holds a place of its own. Drinks for human consumption are excluded from the Goods and Services Tax, so states have to rely on their own excise duty and value added tax (VAT) regime, and liquor taxation is a major source of state revenue and a regulatory instrument; the Tamil Nadu State Marketing Corporation (TASMAC) move to introduce online booking and digital payments in 2026 is a landmark in liquor administration, as for the first time the entire transaction from booking an order to making the payment and taking delivery can be captured in the electronic mode, which this paper examines from a taxation angle, and the significance of the electronic shift is not just in replacing cash with QR code payment but in providing a reliable digital trail between stock, sales, payment and the resulting tax liability, while the paper discusses the constitutional and statutory basis of liquor taxation, the role of excise duty and VAT, and the problem of revenue leakage in TASMAC.Recently the Madras High Court has reviewed the issues, including matters of billing and MRP compliance and the legal opposition to the online booking scheme. In addition, the paper considers the 2026 extra levy on manufacturers and asks if a retail digital approach can stem leakage at the procurement and manufacturing end. The conclusion is that while digitalization may improve tax administration, it must be woven into inventory, audit, excise and VAT systems. Just a QR payment is not a substitute for sound tax controls.

Keywords:

Liquor Taxation, Digitalisation, TASMAC, Excise Duty, VAT, Digital Payments, Tax Administration, Revenue Leakage, Online Liquor Booking, Tamil Nadu.

INTRODUCTION:

Liquor Taxation has always been significant in the state budget of India. In the Constitution, states are allocated the right to tax and regulate liquor. Despite the introduction of the nation-wide GST in 2017, there was no change in this state budgetary revenue. Thus, Tamil Nadu continued to levy a separate tax and excise duty on liquor. The liquor market is therefore an example of the practice of tax administration at the state level.

The liquor market is an important source of income for the state government. Since the income obtained from liquor sales constitutes a significant part of the government's income, the efficiency in liquor sales, be it in billing, stock control, procurement, or collection, is of prime concern to the government. Considering these factors, the push for digital liquor transactions is more relevant to tax policy than to customer convenience.[1]

In 2026, government of Tamil Nadu made introduced a system for TASMAC that enabled users to order liquor online. Using this system, user selects the liquor they desired, made an online payment for the order, and picked up the order from a designated store.

It explores liquor taxes as guided by the Indian Constitution and some sections of the Tamil Nadu Prohibition Act, 1937, certain portions of the Tamil Nadu Value Added Tax Act, 2006, Official audits and government documents, recent court judgments and published materials on liquor taxes and digital taxes. The paper analyses the challenges and opportunities created by the digitalization of liquor taxes regarding the identification, recording, verification, and protection of liquor taxes.

The main argument is that digitization has no tax significance unless it creates an auditable chain for the physical movement of liquor to the final tax liability. Although a QR code is able to record a payment, it is not possible for a QR code to determine whether liquor was procured correctly, whether the correct amount was recorded, whether the sanctioned price was charged, and whether the tax was accounted for. For this analysis, the distinction between downstream digitization and upstream revenue leakages is key.

2. LEGAL AND TAX FRAMEWORK OF LIQUOR IN TAMIL NADU:

In Indian Constitution, as per listed in Article 246 and the Seventh Schedule and in List II, under Entry 51, States can levy excise duties on alcoholic liquors meant for human consumption. Under Entry 54, there is a reference to levying taxes on the sale of specified goods, within the Constitution. As such, the Constitution of India, through these provisions, makes a distinction for liquor taxation among the various indirect taxes.[2]

The GST framework also makes no difference to this taxing authority. Under the Central Goods and Services Tax Act, 2017, the levy of central GST is provided for in Section 9 of the Act, while alcoholic liquor meant for human consumption is outside the purview of the Act. Such a distinction creates a unique data environment, as the sale of retail liquor does not come under the normal GST return framework.[3]

Thus, for Tamil Nadu, we need to look at its own statutory framework. The main legal framework for prohibition and licensing of and control over intoxicating liquor is the Tamil Nadu Prohibition Act, 1937. For the sale of alcoholic liquor, the Tamil Nadu Value Added Tax Act, 2006, is applicable. The State's excise rules control the licensing and movement of liquor.[4]

TASMAC is the only government-owned and operated corporation in the wholesale and retail liquor trade in Tamil Nadu. Its centralization gives the State information at various points of the supply chain. If the manufacturing, procurement, movement, storage, and sales data are combined, the State can utilize that data for compliance checks and audits based on the risk analysis. Separation of systems will not affect the volume of digital information in the absence of integrated systems.[5]

The fiscal implications of liquor taxation are also recognized in scholarly writings. Rajaraman's study of liquor taxation in India evaluated the relationship of taxation, liquor consumption, and State revenue. He documented that liquor taxation cannot be restricted to a simple consumption tax. It has positive fiscal and regulatory implications. Accuracy of the tax base is important in Tamil Nadu because tax policy and enforcement can affect both fiscal and behavioural outcomes in the marketplace.[6]

3. DIGITALISATION OF LIQUOR SALES AND TAX COLLECTION:

The rise of the use of digital technology to conduct liquor sales has transformed the way of recording and monitoring the transactions. The online booking and payment system created by TASMAC in Tamil Nadu gives the chance to enhance efficiency and tax administration. Nevertheless, the success of the taken digital measures relies on linking the payment data to sales, stock, and tax liabilities.

3.1 Digitalization: From Cash Transactions to an Electronic Tax Trail:

The 2026 Online Booking Project Changes the Way a Retail Liquor Transaction is Recorded A customer can pick up liquor from a TASMAC outlet after choosing a product, placing an order and making payment online. The immediate aim is to provide convenience and reduce the handling of cash. But from a tax point of view, the more important feature is the ability to create a transaction record with product, quantity, price, outlet, time and payment information.[7]

3.2 Limits of QR-Based Digitalization:

Tax reform is not synonymous with digital payment. The tax significance only applies where payment information can be matched to the underlying sale. In case of a digital payment of Rs 1,200, the administration should be able to find out what products were sold, how many such products, the applicable price and the calculation of tax on that transaction Otherwise, the digital record will only reflect money moving from one account to another.

This principle is consistent with broader research on digital tax administration. The OECD work on Tax Administration 3.0 describes digitalization as a shift to embed taxation into the systems in which economic transactions take place. Electronic invoicing and reporting at transaction level are valuable as they can reduce information gaps between taxpayers and administrations.[8]

Empirical research to date offers evidence of improved compliance in appropriate circumstances through the use of digital transaction records. Bellon and co-authors, after examining VAT e-invoicing in Peru find that reported sales, purchases and VAT liabilities increase after the adoption of electronic invoicing. The study is relevant to Tamil Nadu as it illustrates the ways in which electronic records may improve the information available to tax administrations. But it doesn't prove that every digital payment automatically increases revenue.[9]

A more recent study of electronic payments in Uruguay provides a useful caution as well. Brockmeyer and Saenz Somarriba found that the increased use of electronic payments did not necessarily mean higher tax compliance. This is an important implication where digitization of payments and tax compliance are related but not identical.

The administration has to tie the digital payment to a legally taxable transaction and use the information obtained for verification.[10]

The tax usefulness of online liquor booking for Tamil Nadu can be assessed by the ability to connect five records, they are stock received, stock sold, sale value, payment received and tax due. When these five elements come together, digitalization is a tax-control mechanism. The benefit is still limited even if they are kept in separate systems.

4. TASMAC REVENUE LEAKAGE: THE UPSTREAM PROBLEM:

Looking at digital retail in isolation is not possible, as there is a bigger supply chain context. The fact that the issue of revenue leakages at TASMAC indicates that possible weak points can appear at production and procurement stages, means that it is important to see if a digital retail system can really solve the problem at the retail level if the challenge emerges upstream.

4.1 Revenue Leakage Beyond the Retail Counter:

The recent TASMAC controversy shows why the retail digitization should not be confused with complete revenue protection. In 2025, the Enforcement Directorate looked into alleged financial irregularities involving liquor manufacturers and suppliers associated with TASMAC. The investigation reports referred to alleged inflated expenses, fabricated purchases and the generation and routing of unaccounted cash. These allegations are elements of an investigative and judicial process and should not be considered as finally adjudicated tax losses. [11]

The tax significance of the allegations is their place in the supply chain. If manipulation happens at the manufacturing, procurement or supply stage, a digital system introduced at the retail counter will not automatically detect it. The tax process involves manufacturing procurement transport retail stock sale payment tax payment. QR systems mostly help lock down those final stages.

In 2026, further allegations on unrecorded collections in the TASMAC supply chain led to a State-level dispute. Since the allegations are still under investigation, they should be treated as reported irregularities rather than established revenue losses.[12]

In Tax system, the big and major issue is bookkeeping and maintaining all official accounts and funds which are moving through the supply chain.

5. BILLING, MRP AND RETAIL ACCOUNTABILITY:

The question of retail transparency has now become a judicial issue in recent proceedings before the Madras High Court. The Court has emphasized proper billing and compliance with Maximum Retail Price in TASMAC transactions. These directions are more important than consumer protection because a bill is also a tax record. It identifies the transaction, price and quantity and generates evidence that can be compared to sales and stock data.[13]

It is obvious that mandatory billing is relevant for taxes. Where the sale is without proper bill, the administration may lose an important source of evidence as to the taxable transaction. If the actual payment is not recorded, the difference between the amount collected and the approved price is also hard to trace. Digital billing and payment can assure the judicial view on transparency in transaction.

This is also consistent with the larger analysis of this paper. Tax compliance starts with accurate recording. A digital system has to do more than just record that a customer paid money. It should create or retain a transaction record that identifies the product, quantity and approved price, and that can be reconciled to the outlet's inventory.

This judicial development is especially significant in view of the online booking challenge discussed next. A digital system, if legally valid and well integrated with billing, can help in compliance. Digitalization may lead to a new system if the legal authority, data structure or audit trail is not sufficient to solve the accountability problem.

5.1 Additional Levy on Liquor Manufacturers:

Through the imposition of a new tax on liquor producers by the State in the year 2026, it becomes apparent that revenue protection can necessitate intervention even at the stages prior to retail. The new tax was announced to be ₹90 for each IMFS case and respective amounts were proposed for other categories of liquors with expectations of a significant additional revenue inflow. The legality status and mode of functioning need to be analyzed through the corresponding regulation and notifications rather than solely relying upon media reports.[14]

The conclusion for digital tax administration from this experience is quite unambiguous. Online booking may bring about some reduction of cash handling issues and enable better records at the retail level but on its own it will not prevent any leaking problems upstream. The system has to allow for the integration of manufacturing and excise records with documents for procurement and turnover of goods, as well as stock and sales.

6. THE LEGAL CHALLENGE TO TASMAC'S DIGITAL LIQUOR INITIATIVE:

The implementation of the online liquor booking scheme also gives rise to the questions of the legal authority and regulations under which the system operates. The pending cases before the Madras High Court are thus significant for both the functioning of TASMAC and for the validity and reliability of the digital transaction documents issued in the course of the project.

Pending Madras High Court Proceedings:

The introduction of the online liquor booking scheme itself was challenged at the Madras High Court. The petition raises concerns about the legal ground for implementing the digital system by executive orders and challenges the Tamil Nadu Liquor Retail Vending Rules, 2003.[15]

The question of taxation is a more narrow one than that of constitutionality or general public policy. It is necessary to determine whether a digital liquor sale system introduced by the executive order can provide a legitimate transaction document for tax and audit purposes. Taxation requires statutory authority. A system that records transactions but lacks a sufficiently clear legal framework of the transaction, record retention and official use may create uncertainty for both the taxpayer and the administration.

The litigation process thus offers a chance to look into a fundamental tax administration principle. The State can apply technology to ensure transaction documentation and reconciliations, but the taxable event, the rate, the liability and the powers of collection must remain grounded in the law.

In case the online process withstands scrutiny in court, its tax utility could be explored through regulations in relation to digital invoices or receipts, transaction identifiers, data retention, correcting errors, access to the information by authorized persons and reconciliations with stock. In any case where the process is altered as a result of the proposed litigation process, the same tax principles would remain pertinent.

7. SUGGESTIONS TOWARDS AN INTEGRATED DIGITAL LIQUOR TAX SYSTEM:

Digital methods of payment alone cannot resolve all problems of liquor tax administration. The efficiency of digitalization will depend on how well the data on payments correlates with the data in regards to stock, procurements, excise, VAT, and audits. A system integrating all this information would facilitate the identification of discrepancies in payments while enhancing the revenue protection of the State.

7.1 Integration of the data of stock, sales, excise and VAT:

It is imperative to improve coordination between the entities in charge of TASMAC, excise duties and VAT. Since liquor is outside the GST system, the data might be fragmented. The controlled sharing of relevant data would enable the authority to correlate data on stock, sales, and taxes, thus revealing inconsistencies. Sharing should only be limited to the necessary information for verification purposes and should not lead to double taxation.

7.2 Risk-based audit and revenue protection:

The availability of digital records should allow for successful stock checking. Each outlet shall keep account of its initial stock, incoming stock, sales, and end stock, which can be compared with payment records. Abnormal shortages, frequent adjustments or high price fluctuations should indicate caution, allowing the officers to pay attention to questionable transactions instead of relying solely on routine inspection.

7.3 Clear Rules for Additional Liquor Tax:

The basis for calculating and collecting any additional taxes on liquor should be clearly defined, and the rules should specify the taxable base, who shall pay the tax, the applicable rate, the point at which the tax is payable and the procedures for assessment and collection of the tax; if additional taxes are based on the quantity/volume of liquor, digitized inventory records can help with easier assessment and verification, but digitization by itself cannot prevent collocation or the misuse of authority.

7.4 Strengthening Digital Controls Against Revenue Leakage:

The digital records in respect of procurement, stock and transactions should be supported by audit trails, access controls, segregation of duties, and independent reconciliation, and while technology can help reduce revenue leakage, it can be effective only when accompanied by strong administrative controls and oversight.

7.5 Data Governance and Correction Mechanism

: The digital system should clearly define who can access transaction data, the period for which the information should be retained and how incorrect records can be corrected, and it should also provide a simple and transparent process for challenging incorrect digital entries.

Without such a mechanism, an erroneous electronic record might be difficult to challenge merely because it appears in an official system.

7.6 Moving from Digital Payment to Tax Integration:

The main focus should not stop at replacing cash payments with digital payments. The system should gradually move towards recording the product, quantity, price and sale and then connecting this information with stock, excise, VAT and audit records. Such integration would make digitalisation more useful for tax administration and revenue protection and would provide a stronger system than digital payment alone.

8. CONCLUSION:

A digital transaction framework should not be seen as mere digitalization of the process of purchasing liquor. As alcoholic liquor consumed by humans continues to fall outside the ambit of GST, the state continues to maintain an excise and VAT structure where accurate transaction information becomes critical. Digital bookings and QR-based payment could help enhance the information but it will do so effectively only if the digital transaction record can be linked to the underlying taxable transaction.

As the revenue leakage allegations against TASMAC show, any irregularities that may exist in the manufacturing and procurement process of alcohol will require something more than digitalization of the retail process. At the same time, as the ruling from the Madras High Court shows, proper documentation of the sale through bills and MRPs continues to be important for revenue protection. The challenge to the online initiative also shows that digital tax administration requires a legal underpinning. Thus, Tamil Nadu needs to build a comprehensive system in which manufacture, movement, stocking, retailing, payment and taxation can all come under same process.

As a result, an electronic system becomes beneficial only if the information obtained from it has been utilized in tax collection. Reconciliation of sales with inventories and payments would allow detecting any shortfalls, erroneous entries, or suspicious transactions. Additionally, monitoring the movement of goods from the point of purchase to the retail stage would be facilitated. Nonetheless, technology cannot alone prevent revenue loss in all possible forms. Effective supervision, timely audits, and clearly delineated responsibility among those in charge of operating the system are also needed.

A convenient and easy procedure to rectify errors must be implemented because wrong entries can impact the tax treatment of the transaction, and from this perspective digitalisation should not be seen as an end in itself but as a means to an end for better tax administration. Its real benefit will be felt when digital transaction data is properly linked with existing excise, VAT, inventory and audit systems, and the transition from counter-based transactions to QR-code payments will be worthwhile only if each QR transaction is part of a complete and verifiable chain of tax information.

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