

WHY TOBACCO TAXES NEED TO BE INCREASED

Raising taxes on tobacco has two main benefits: 1) it reduces the consumption of tobacco and reduces the tobacco-related burden of disease and death; and 2) it raises revenue for the state budget. Therefore, raising taxes on tobacco is a win-win measure: a win for public health and a win for the state budget.

The first benefit: Raising taxes on tobacco reduces the consumption of tobacco, preventing children and adolescents from taking up smoking.

- International experience:** Evidence from many countries has shown that increasing the price of tobacco through higher taxes will encourage tobacco users to quit, or to reduce the number of cigarettes they consume, and prevent people from beginning to smoke.
- | Estimation of the impact of adding a specific tax at 4 2000 VND per pack from January 2020 | |
|--|---|
| Reduce number of smokers | 600 000 fewer smokers |
| Reduce premature deaths | 300 000 fewer cases of premature death |
| Increase tax revenue | Increase tax revenue by 6.3 trillion VND per year |
- WHO guideline:** A 10% price increase on a pack of cigarettes would be expected to reduce the demand for cigarettes by about 4%, on average, in high-income countries and by about 5% in low- and middle-income countries.
 - Stronger impact on youths and adolescents:** Tax measures are particularly effective for children and adolescents – an estimated 10% increase in cigarette prices will reduce tobacco use by 10% or more among young people, a much stronger impact compared to the adult group.

The second benefit: Increasing taxes on tobacco helps raise revenue for the state budget.

- World Bank:** A 10% increase in taxes globally would increase government revenues by 7%.
- WHO:** Governments around the world can collect US\$ 141 billion more from tobacco taxes by raising taxes on cigarettes by just US\$ 0.80 per pack in all countries.

While tobacco tax increases help reduce consumption, they also lead to increased tax revenues for the following reasons:

- Tobacco is a commodity that is addictive; therefore, the rate of reduction in consumption will be lower than the rate of price increases.
- Due to population growth, even if the rate of smoking is reduced, there is always a pool of potential new smokers. As a result, a reduction in the number of total smokers often takes a long time.

Thailand: From 1993 to 2012, cigarette taxes increased from 55% to 87% of the wholesale price, which is equivalent to an increase from 120% to 670% of the factory price. As a result, tax revenues increased fourfold (from US\$ 500 million in 1993 to US\$ 2.1 billion in 2015) while the nationwide smoking rate dropped from 32% in 1991 to 19.9% in 2015, with cigarette consumption fluctuating at around 2 billion packs per year.

WHY TOBACCO TAXES NEED TO BE INCREASED

Tobacco use causes huge health and economic burden in Viet Nam

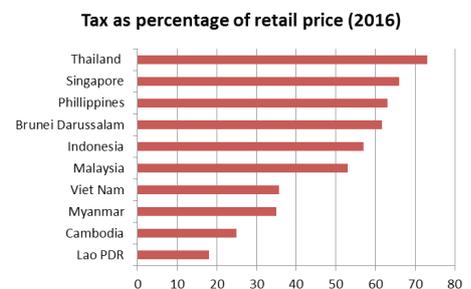
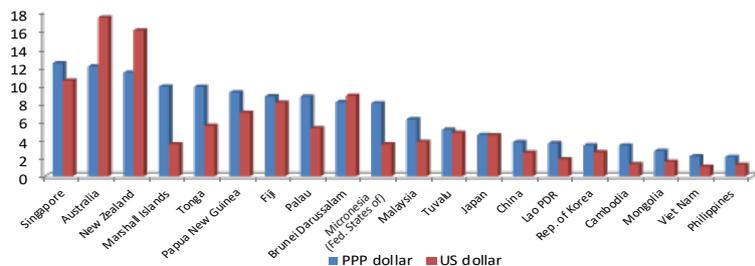
- More than 40 000 deaths caused by tobacco-related diseases occur each year in Viet Nam.
- The economic losses were estimated at more than đ 24 trillion per year. These are health-care services costs and productivity loss due to illness and premature deaths from smoking.
- In addition, Vietnamese people spend đ 31 trillion annually to buy cigarettes (2015 GATS).

Tobacco products become more and more affordable

- From 2005 to 2016, nominal income per capita increased by 4.7 times; meanwhile, the price of a popular brand of cigarettes increased by 2.2 times.
- relative income price (RIP), calculated as the percentage of income required to purchase 100 packs of cigarettes (20 cigarettes each), has fallen significantly in past decade. The RIP for the most popular brand fell steadily from around 9% in 2005 to 4.3% in 2016.

Tobacco tax and price in Viet Nam very low compared with other countries

- Under the current tax law, excise taxes on cigarettes are equal to 70% of the factory price. However, when tax is calculated as percentage of retail price, e.g. the international standard for the tobacco tax rate, the current tobacco tax in Viet Nam only accounted for 35.6% of retail price. This is much lower than the world average of 56% and lower than most ASEAN countries.
- As a result, prices of cigarettes in Viet Nam are lower than in most of the countries in the Western Pacific Region; Viet Nam ranked 19 of 20 countries in terms of the price of the most sold brand.



Recommendations

1. Viet Nam should add a specific tax of đ 2000 or optimally of đ 5000 per pack by 2020.
2. Tobacco taxes should be increased regularly to keep up with the increase of income and inflation.
3. Taxes should increase until reaching 70% or more of the retail price, as recommended by WHO.

RECOMMENDATIONS ON OPTIONS FOR TAX INCREASE

The *National Strategy on Tobacco Control through 2020* aims to reduce the smoking rate in:

- Adult males: to 39% in 2020
- Youths (15–24 years): to 18% in 2020.

Option to achieve the objective of the National Strategy

WHO experts estimate that in order to achieve the targets of the National Strategy, tobacco taxes should be high enough so as to reduce the male smoking rate by 3 percentage points in 2020. To achieve the above targets, tobacco taxes should be increased by $\text{₫} 2000$ per pack, with details as below:

From 1 January 2020, in addition to the current tax, apply a specific tax of $\text{₫} 2000$ per pack of 20 cigarettes.

Optimal tax increase option

Taxes and prices in Viet Nam are very low, so the Government should consider a higher tax rate. Therefore, it is recommended that the optimum tax increase plan for Viet Nam should be an increase of a specific excise tax of $\text{₫} 5000$ per pack. The proposed tax increase plan should be:

From 1 January 2020, in addition to the current tax, apply a specific tax of $\text{₫} 5000$ per pack of 20 cigarettes.

Impact of the two options

Indicators	Option 1: Adding a specific tax of $\text{₫} 2000$ per pack from 1/1/2020	Option 2: Adding a specific tax of $\text{₫} 5000$ per pack from 1/1/2020
Reduce male smoking rate	From 45.3% (2015) to 42% (2020)	From 45.3% (2015) to 39% (2020)
Reduce number of smokers	by 600 000 smokers	by 1.8 million smokers
Reduce number of mortalities	300 000 cases	900 000 cases
Increase tax revenue	$\text{₫} 6.3$ trillion per year	$\text{₫} 10.7$ trillion per year

Policy documents related to tobacco taxes in Viet Nam

Party Resolution on Health Care in the New Situation

Resolution No.20/NQ-TW dated 25 October 2017 has directed “increase the excise tax on goods that are harmful to health such as alcoholic drinks, carbonated drinks, cigarettes so as to limit the consumption”.

Tax System Reform Strategy for 2011–2020

The *Tax System Reform Strategy* stipulates that for excise tax: “[the Government] to formulate a road map of tax adjustment for tobacco, beer, wine and automobiles to regulate consumption and implement international commitments...[and] study the application of the combination of an ad valorem and specific taxes for a number of taxable goods and services”.

WHY IS IT NECESSARY TO ADD A SPECIFIC TAX TO EXCISE TAX?

Disadvantage of the ad valorem tax (the current type of excise tax in Viet Nam)

Ad valorem tax has some shortcomings, including:

- It is difficult to ascertain the real price of the product and creates a risk of price transfer by producers.
- The ad valorem tax system tends to create a big price gap among cigarette products, thereby reducing the effectiveness of tax increases, as consumers will buy cheaper brands instead of quitting when the tax increases.
- The system also encourages the production of low-cost cigarettes – thereby increasing access to and the use of tobacco among children and adolescents.

The definitions of types of taxes

Specific tax: a fixed amount of tax levied per unit of a product, such as packs of cigarettes or by weight, by a carton of cigarettes or by the number of cigarettes.

Ad valorem tax: calculated as percentage of the price of the product at a certain point in the supply chain, such as the factory price, wholesale price or retail price

Mixed tax system: uses both specific and ad valorem

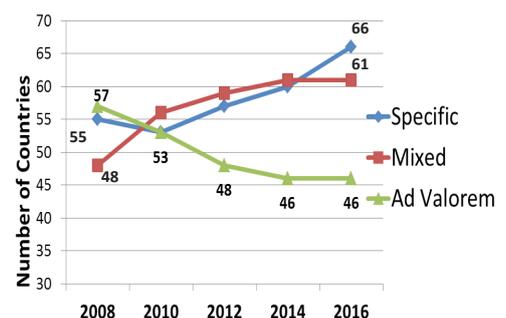
Specific tax is simpler and more effective way of collecting taxes

The method of specific tax collection has obvious advantages:

- Specific tax reduces the price difference between cigarette products. Therefore, this tax helps reduce the number of inexpensive cigarette products, which in turn reduces the access and use of tobacco among children and adolescents.
- It reduces the risk of price transferring between producers and distribution companies.
- It is easier to manage and predict tax revenue collection.

Trend in the world

- Fewer countries are using the ad valorem tax system and instead are shifting to specific taxes or mixed taxes.
- In South-East Asia, most countries (7 out of 10) are also applying specific or mixed taxes. The remaining three countries that still rely on ad valorem tax only are Cambodia, Myanmar and Viet Nam.



Recommendations

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2. Tobacco taxes should be increased regularly to keep up with the increase of income and inflation.
3. Taxes should increase until reaching 70% or more of retail price, as recommended by the WHO.

IS EXCISE TAX INCREASE A MAIN REASON FOR CIGARETTE SMUGGLING IN VIET NAM?

The short answer is NO

Cigarette smuggling in Viet Nam can be traced to two main reasons:

First reason: cigarettes are smuggled into Viet Nam to avoid import tax

- There is a need to distinguish between import taxes, which are applied only to imported cigarettes, and other taxes such as excise taxes and value added tax (VAT) that are applied to all cigarettes.
- The Government of Viet Nam is maintaining a high import tax in order to reduce the import and consumption of foreign cigarettes. The rate is now 135% of import prices.
- It is estimated that, after the import tax is applied, the excise tax and VAT will then be applied. Thus, if a pack has an original import price of $\text{₫} 10\,000$, the selling price will be at over $\text{₫} 50\,000$ per pack after applying the import tax and other taxes.

Therefore, whether the excise tax is low or high, there will still be strong motivation to smuggle cigarettes to avoid import tax.

Second reason: due to user habits – or “taste” – smokers prefer well-known, illicit brands

The taste preference is detailed in the following three points:

1. According to the reports from the Viet Nam Tobacco Association, in recent years about 80–90% of the smuggled cigarettes belong to the two brands: Hero and Jet. These brands have high levels of tar and nicotine and are more suitable for heavy smokers.
2. These brands are most popular in two southern regions in Viet Nam. According to the 2015 GATS, nearly 92% of Hero and Jet brands are consumed by smokers from the south-east and the south-west regions.
3. Smokers of smuggled cigarettes are willing to pay higher prices for smuggled brands than domestically produced brands. According to the 2015 GATS, the average prices of Hero and Jet are 30–60% higher than the average price of other legal tobacco brands in Viet Nam.

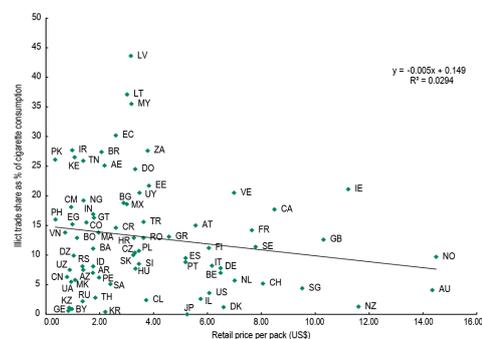
Global experience: high cigarette taxes & prices do not mean high levels of smuggling

Evidence in 76 countries shows that:

In countries with lower tobacco prices, smuggling is even more common than in countries with higher tobacco prices, (as can be seen in the figure.)

The World Bank recommended that:

“Smuggling is a serious concern. But even in the face of smuggling, the evidence from a number of countries shows that tax increases still increase revenues and reduce cigarette consumption.”



Recommendations

1. Viet Nam should sign and ratify the Protocol to Eliminate Illicit Trade in Tobacco Products.
2. Viet Nam should strengthen enforcement of smuggling control both along its border and at points of sale. Authorities should focus on provinces and areas with high cigarette smuggling.
3. Viet Nam should cooperate with neighbouring countries to address the smuggling issue.

DOES RAISING TAXES ON TOBACCO HAVE A NEGATIVE IMPACT ON EMPLOYMENT IN VIET NAM?

The short answer is NO

Evidence from various countries shows that raising tobacco taxes does not have a negative impact on employment. This is also likely the case for Viet Nam due to several reasons:

Cigarette production does not drop sharply in the short term

Cigarettes are addictive, and it is very hard to quit smoking. Furthermore, even if the prevalence of smoking decreases, the number of smokers may not decrease as the population continues to increase and new smokers enter the market.

Raising tobacco taxes increases employment and positively impacts GDP

The 2017 World Bank report on tobacco taxes concluded that, "When cigarette consumption drops after a tax rate hike, money not spent on tobacco products will mostly flow to other economic sectors, stimulating their production and so creating jobs there, while contributing to economic diversification. Studies show that over time there is likely to be a net gain rather than a loss in employment in nearly all countries that raise tobacco excise rates."

Thailand: between 1993 and 2015, comprehensive tobacco control measures were applied, in addition to 10 separate tax increases. As a result, the smoking rate fell from 32% to 19.9%. However, the consumption still fluctuated at around 2 billion packs per year.

In Viet Nam, a study by the Institute of Public Policy and Management at the National Economics University (2014) shows that if the Government had increased the tax rate from 65% to 85% in 2014, total production in the economy would have increased by 0.09% (equivalent to đ 1.98 trillion) and the total employment would have increased by 0.12% (equivalent to 60 278 jobs).

Even if production decreases to a level at which a reduction in labour would be required, the proportion of workers affected in the tobacco industry would be very small

There are about 600 000 employees in the tobacco industry in Viet Nam, accounting for 0.31–0.35% of the country's labour force, including workers, farmers, traders and service providers:

- **For tobacco farmers:** Viet Nam still imports about half of its tobacco leaves annually. Consequently, even if consumption decreases, the tobacco industry can reduce the import of raw materials; therefore, it will not affect the tobacco growers in the country. Even if the farmers do not grow tobacco, they can grow other crops that generate no less income than tobacco.
- **For distributors/sellers:** In Viet Nam, retail sales of tobacco products are often made in convenience stores and in tea and coffee shops that also sell many other products. Therefore, if the retail sales of cigarettes decrease, it will not affect the income of these retailers significantly.
- **For labourers in the cigarette industry:** The number of labourers in the cigarette industry represents a very small share of the labour force of the tobacco industry (about 0.13%). Hence, they can be supported for retraining to adapt to jobs in other sectors, if necessary.

Recommendations

1. For the whole economy, a tobacco tax increase will result in a net gain in employment.
2. Tobacco taxes should be increased to benefit employment and the whole economy.

VIET NAM'S EXPERIENCE FROM TAX INCREASES IN RECENT YEARS

Recent tax adjustment and increases in Viet Nam

Viet Nam has adjusted and increased tobacco taxes three times since 2006:

1. In 2006, the excise rate on cigarettes was adjusted from three levels (25%, 45% and 65%) to a uniform level of 55%, calculated on the factory price.
2. In 2008, the excise tax rate increased from 55% to 65%, calculated on the factory price.
3. In 2016, the excise tax rate increased from 65% to 70%, calculated on the factory price.

The tobacco tax rate had not changed for a long period from 2008 until 2016.

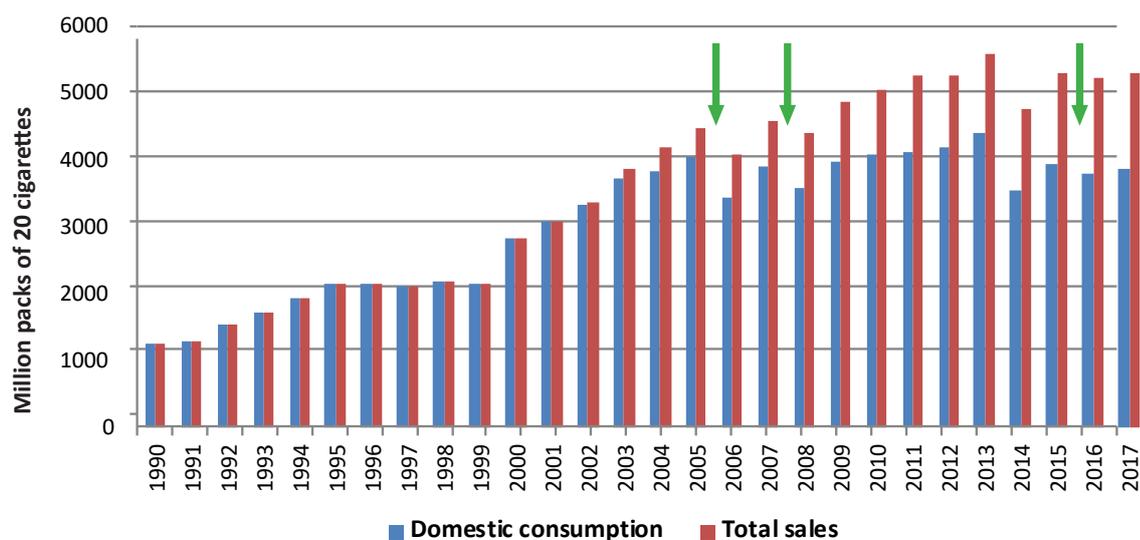
When the tax is calculated as a percentage of retail price, e.g. the international standard for the tobacco tax rate, the current tobacco tax in Viet Nam only accounted for 35.6% of retail price. This is much lower than the world average of 56% and lower than most ASEAN countries.

Common characteristics and impacts of the recent tax increases

In general, these are quite small tax increases and have not produced much impact.

1. **Consumption decreased only in the year of the tax adjustment and then increased in the following years.** As can be seen in Figure 1 below, domestic consumption fell in 2006 and then increased the following year; the same pattern occurred in 2008–2009. In 2016, consumption fell slightly, and it was expected to increase again in the following years.

Figure 1. Tobacco consumption in Viet Nam, 1990–2017



Source: Data from General Department of Statistics, reports of the Tobacco Association, Vinataba Tobacco Corporation.

2. **The price increased after the tax increase but the increase was not enough to keep up with the increase in the income and inflation:** As can be seen in Figure 2, from 2005 to 2016 nominal income per capita increased by 4.7 times, meanwhile, the price of a popular brand of cigarettes increased by 2.2 times. At the same time, the relative income price (percentage of income required to purchase 100 packs of cigarettes) of the most sold brand has reduced from 9.3% of GDP per capita to 4.3% of the GDP per capita (Fig. 3).

Figure 2. Retail (nominal) price of cigarettes and income per capita Viet Nam, 2005–2016

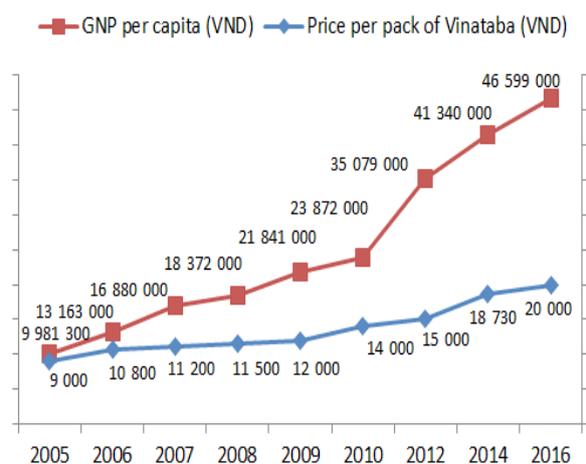
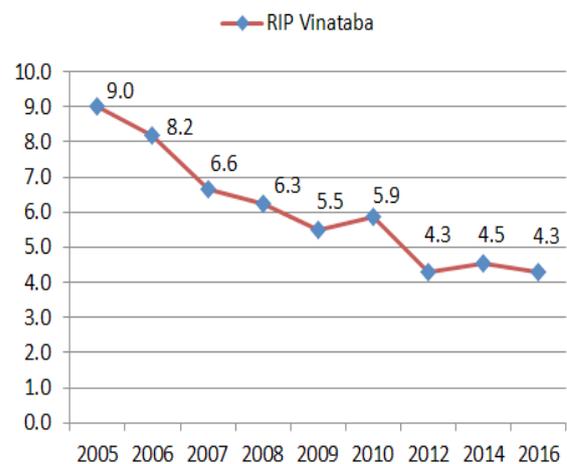


Figure 3. Relative income price (RIP), most popular brand 2005–2016



3. **Government tax revenues increased in the first year of tax increases, however, at a modest level.** This is because the tax increases were also modest – it is estimated that tax revenue increased by đ 1 trillion in 2008 and by đ 1.25 trillion in 2016.

Lessons learnt and recommendations from tax increases in 2008 and 2016

- (i) Increasing tobacco taxes helps reduce tobacco consumption. However, personal income continues to rise due to economic growth. As a result, if the tax increases at a relatively low rate it will only drive down consumption for a year before consumption once again rises. Taxes must be increased regularly over time to keep up with the pace of economic growth.
- (ii) Taxes increases have two benefits: they reduce consumption and increase budget revenue.
- (iii) Viet Nam's current tax rate is very low, only 35.6% of the retail price; therefore, tobacco taxes must be high enough to significantly reduce tobacco consumption and to generate additional tax revenue. Taxes should increase until reaching 70% or more of retail price, as recommended by the WHO.

Recommendations

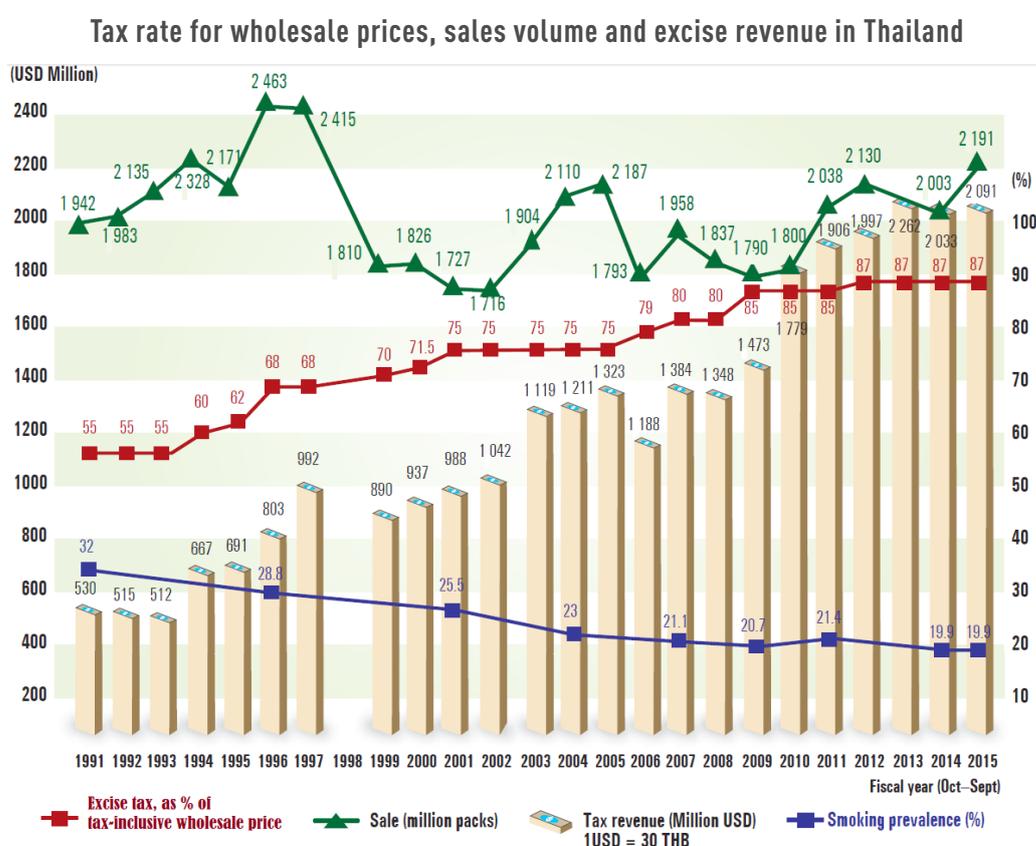
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EXAMPLES OF SUCCESSFUL TOBACCO TAX POLICIES

THAILAND

Tobacco tax policy in Thailand

As can be seen in the figure below, from 1993 to 2012, the Thai Government increased the excise tax on cigarettes 10 separate times, about one tax increase every two years. As a result, The tax rate has increased from 55% to 87% of the wholesale price, which is equivalent to an increase from 120% to 670% of the factory price.



Impact of the tax increase

- **Increased cigarette prices.** Tobacco prices increased from 15 baht per pack (1993) to 65 baht per pack (2015).
- **Reduce smoking rate.** The national smoking rate dropped from 32% in 1991 to 19.9% in 2015, while tobacco production did not change much, due to population growth, fluctuating at around 2 billion packs per year.
- **Premature deaths avoided due to tax increase:** (Source: David T. Levy, March 2007)
 - › 5729 lives saved in 2006
 - › 31 867 lives saved in 1993–2006
 - › 18 409 lives will be saved in 2026
 - › 319 456 will be saved in 1993–2026
- **Increased revenue collection.** tobacco tax revenue increased more than four times, from US\$ 500 million in 1993 to US\$ 2.1 billion in 2015.
- **No increase in tobacco smuggling:** Thailand's GATS 2011 survey showed that only 4.8% of smokers used smuggled cigarettes.

PHILIPPINES

Tobacco tax structure and tobacco tax reform process in the Philippines

The Philippines applies the specific excise tax system:

- Prior to 2012, the Philippines used a four-tiered tax system, with various tax rates ranging from 2.72 Philippine pesos (PHP) to 28.3 PHP per pack of cigarettes.
- In 2012, the Philippines adopted the *Tax Reform Act*, the so-called “sin tax”, shifting the four-tiered tax structure to a two-tiered tax structure.
- 2013–2016: Tax increase steadily year after year
- 2017: Reached a common tax rate of 30 PHP (roughly US\$ 0.75) per pack of 20 cigarettes.
- After 2017: Tax rates will continue to be increased 4% every year.

Impact of tax increase

- **Increased cigarette prices:** After applying the excise tax increase, the average price per cigarette pack increased from 21.12 PHP in 2012 to 31.26 PHP in 2013.
- **Reduced consumption:** Domestic consumption fell from 5.76 billion packs in 2012 to 4.97 billion packs in 2013. The rate of smoking among Filipino adults dropped from 29.7% in 2009 to about 23.8% in 2015. The smoking rate among young people (13–15 years) dropped from 6.8% to 5.5%.
- **Increased budget revenue:** Government budget revenue from taxes on tobacco increased by more than twofold, from \$ 680 million in 2012 to \$ 1.66 billion in 2013, despite declining sales. Tax revenue continued to rise to \$ 2.2 billion in 2016. Much of the increase in revenues is being used for the national health insurance programme.

Comparison between Thailand, the Philippines and Viet Nam

As seen in the table, Thailand and the Philippines both have less consumption but collect about 3 times the amount of tobacco tax collected in Viet Nam.

Country	Tobacco tax as a percentage of retail price	Consumption (million packs)	Revenue from tobacco tax (US\$ million)
Thailand (2015)	70%	2191	2091
Philippines (2014)	53%	3638	2200
Viet Nam (2015)	36%	3900	708