

VIETNAM

Tobacco Tax

Report Card

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Department of Tax Policy - Ministry of Finance, Vietnam
HealthBridge Foundation of Canada
Southeast Asia Tobacco Control Alliance

Prevalence of tobacco use

The latest data available on smoking prevalence in the country is the Global Adult Tobacco Survey (GATS) in 2015, which estimated that smoking prevalence was 45.3% among adult men aged 15 and above (but more than 60% among men aged 25-54 years) and 1.1% among adult women. Overall, 22.5% of the Vietnamese adult population use tobacco products, or about 15.6 million out of the total population.¹

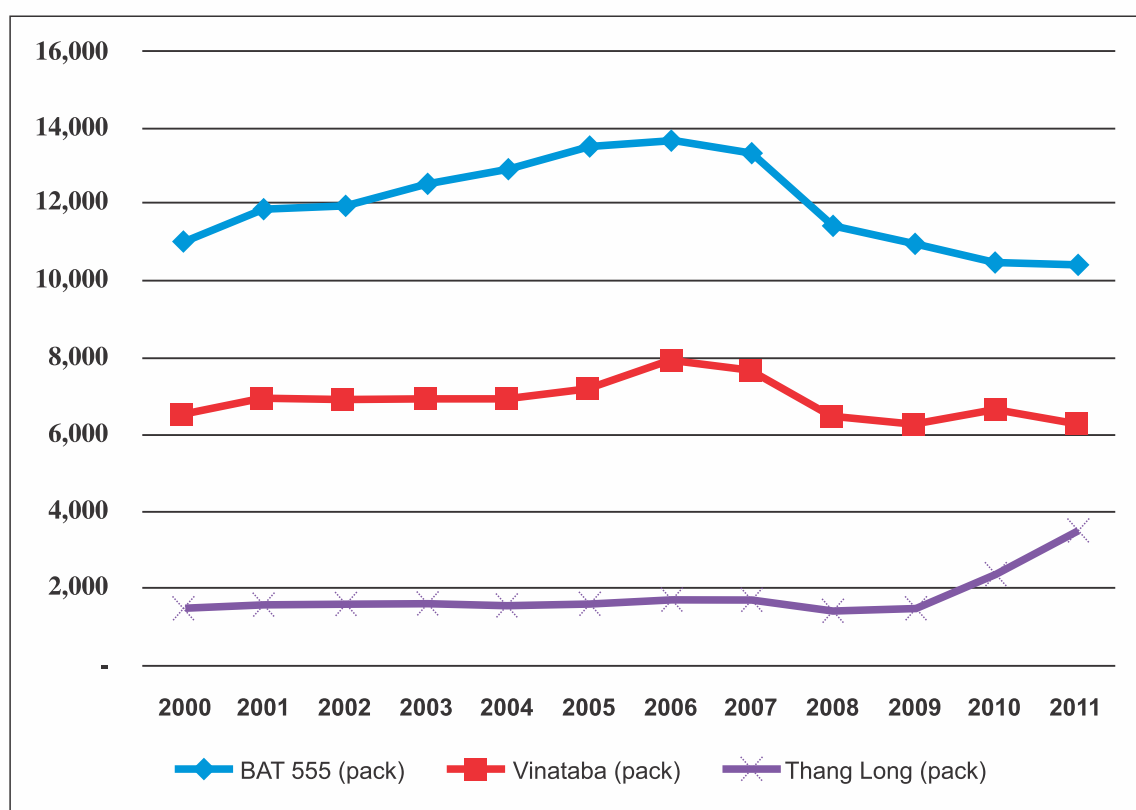
The smoking rate is also higher among rural residents compared to those living in urban areas.¹

Average retail price (1 USD = 22,300VND, as of 1 Sep 2016)²

A pack of Vinataba, the most popular³ local brand, VND 20,200 (USD 0.90), while a pack of the most popular domestically produced foreign brand, Craven A, costs VND 20,600 (USD 0.92).⁴

Tobacco product price trends in Vietnam from 2000 to 2011 (Figure 1) clearly shows that the real prices (adjusted for inflation over the base year 2000) of premium (555) and medium-priced (Vinataba) cigarettes rose slightly from 2001 to 2007 but decreased from 2008 to 2011; economy-priced cigarettes (Thang Long) fluctuated in the period of 2000-2007 (compared to the base year) but increased in 2010 and 2011.⁵

Figure 1: Real prices (VND) of three cigarette brands (1998-2011)



(Source: *Cigarette Tax and Prices: Affordability and Impacts on Consumption and Revenue*, SITT 2013)

¹ Ministry of Health Vietnam, *Global Adult Tobacco Survey*, 2015

² From <https://treasury.un.org/operationalrates/OperationalRates.php#V>

³ Most popular brand: defined as the brand that has the largest market share, based on data from 2016 Euromonitor report

⁴ Department of Tax Policy and HealthBridge. *Tobacco Retail Price survey in Hanoi and Ho Chi Minh*, December 2016

⁵ *Cigarette Tax and Prices: Affordability and Impacts on Consumption and Revenue*, SITT 2013

Government revenue from tobacco tax

Tobacco tax contributes around 2% of annual government revenue, and the proportion has been fairly stable over the years.

Table 1: Government revenue from tobacco tax (2005 - 2015)

Year	Tax Revenue			Total revenue (taxes and fees only)	% (tax revenue/total taxes and fee)
	Billion VND	Exchange rate	Million USD*	Billion VND**	(%)
2015	15,929	22,480	708.6	865,080	1.84
2014	15,004	21,405	701.0	741,713	2.02
2013	16,965	21,095	804.2	745,564	2.28
2012	14,909	20,818	716.2	688,936	2.16
2011	13,598	21,036	646.4	655,476	2.07
2010	11,180	19,500	573.3	524,998	2.13
2009	9,633	18,478	521.3	418,790	2.30
2008	7,529	16,929	444.7	392,463	1.92
2007	6,338	16,020	395.6	299,096	2.12
2006	6,085	16,061	378.9	263,864	2.31
2005	6,017	15,827	380.2	219,438	2.74

Source: Ministry of Finance

* The USD – VND exchange rate is calculated on 31st Dec annually in the UN Website at: <http://www.un.org/Depts/treasury>.

** http://www.mof.gov.vn/portal/page/portal/mof_vn/1351583/2126549/2117076

Disease burden and costs of tobacco use

Vietnam faces a high burden of non-communicable diseases, accounting for the 73% of mortality in Vietnam in 2012⁶, and 66.3% of DALYs in 2010.⁷ It is estimated that nearly 66,305 annual deaths in Vietnam were attributed to major tobacco-related diseases.⁸

In addition to the toll on human lives, tobacco use also causes enormous economic burden to the country. For example, the total direct and indirect costs for five smoking-related diseases in Vietnam in 2011 was estimated at 24,679.9 billion Vietnamese dong (VND), equivalent to USD\$1173.2 million or approximately 0.97% of the 2011 gross domestic product.⁹

⁶World Health Organization - Noncommunicable Diseases (NCD) Country Profiles, 2014

⁷Vietnam Ministry of Health, Joint Annual Health Review, Strengthening prevention and control of non-communicable disease, 2014

⁸Institute for Health Metrics and Evaluation. (2013). Global Burden of Disease Study 2013 (GBD 2013). University of Washington. Available at: <http://vizhub.healthdata.org/gbd-compare/#>

⁹Hoang Anh, P. T., Thu, L. T., Ross, H., Quynh Anh, N., Linh, B. N., & Minh, N. T. (2016). Direct and indirect costs of smoking in Vietnam. *Tobacco Control*, 25(1), 96–100. <http://doi.org/10.1136/tobaccocontrol-2014-051821>

Tobacco taxation

Description of current tobacco tax system in Vietnam

Currently, there are three main types of taxes imposed on tobacco products in Vietnam: special consumption tax (which is excise tax), value-added tax (VAT), and import tax. From April 1, 2009 to 31 December 2015, under the Law on Special Consumption Tax No. 27/QH12, excise tax rate is imposed at 65% of the ex-factory price on cigarettes and cigars. According to Law 70/2014/QH13 on Amended Law on Special Consumption Tax, the special consumption tax on tobacco products will be increased to 70% starting January 2016, and to 75% on January 2019. The VAT rate at 10% of the retail price has been unchanged since 1999. Since Vietnam lifted its ban on import of cigarettes in 2007, an import tax rate has been applied for cigarettes, cigars and tobacco materials (including tobacco leaves and other materials) at 140%, 125% and 30% of import price (cost, insurance, freight - CIF) respectively. The changes in tobacco tax rates over the years are presented in Table 2.

Table 2: Tobacco Tax Rates (excise tax, VAT), 1990 to present

Period of implication	Excise tax (calculated based on percentage of factory price before tax)			
	Type of Tobacco			Cigar
	Filtered produced from imported material	Filtered produced from domestic material	Non-filtered	
10/1990-8/1993	50	50	40	40
9/1993-12/1995	70	52	32	32
1/1996-12/1998	70	52	32	70
1/1999-12/2003	65	45	25	65
1/2004-12/2005	65	45	25	65
1/2006-12/2007	55			
1/2008--12/2015	65			
1/2016-12/2018	70			
Since 1/2019	75			

On average, total taxes on cigarettes in Vietnam account for almost 43% of the cigarette's retail sale price.¹⁰ This falls far short of the optimal tax level recommended by the World Bank at 65% to 80% of the retail price.

Since tobacco tax has not been significantly increased over the past 10 years, tobacco products have become more affordable in Vietnam over time. Between 2000 and 2011, inflation-adjusted prices of tobacco products declined, but at the same time the real per capita income has increased more than double due to the fast pace of economic growth. As a result, tobacco production and consumption have been rapidly increasing in the country in the past 10 years (Figure 3).

¹⁰ Tax Policy Department, Ministry of Financial Vietnam, Study on Vietnam tobacco industry system of product and profit distribution, 2015

Details on how tobacco tax is calculated in Vietnam

The tobacco excise tax rates are charged on the pre-tax, ex-factory price and were introduced in 1990. In 2016, the special excise tax was made uniform at 70% for all types of tobacco products.

Tax rate: 70%

Tax base: Factory price without VAT and excise tax (domestic)

Import price + import tax (imported)

Value-added tax was introduced in 1999. It is charged at a rate of 10% of the pre-VAT retail price of cigarettes.

Tax rate:	10%
Tax base:	Factory price + excise tax (domestic) Import price + import tax + excise tax (imported)

Tobacco companies are subject to enterprise income tax. Since 1990, this profit tax has been consistently decreasing. The rate was 40% until mid-1993; it was brought down to 28% in 2004 and eventually to 25% in 2009.

Tax rate:	25%
Tax base:	Income before tax

Since January 2007, cigarettes and cigars are subject to the following import tax rates:

Tax rate:	140% (cigarette) 125% (cigar) 30% (material: tobacco leaves and other materials)
Tax base:	Import price (CIF value: including cost, insurance, and freight)

Example of the amount of tax collected for Vinataba, a local brand:

- The factory price (cost and profit) for one pack of Vinataba is 7,576 VND.¹¹
- Excise tax rate will be: $70\% \times 7,576 = 5,303$ VND
- VAT will be: $10\% (5,000 + 5,303) = 1,030$ VND

Note: The factory price is not fixed and changes from time to time because of inflation and other market forces.

The process for tobacco tax increase

For any change of tax structure or tax rate to be implemented, a tobacco tax law is first drafted by the Ministry of Finance, and sent to related Ministries including the Ministry of Industry and Trade for review and official inputs. Then it is sent to the Ministry of Justice for assessment and rewritten as necessary, and a new draft is submitted to the Government Office for review, and inputs. After approval by the Government Office, the draft law will be submitted to the National Assembly for assessment by the Committee of Finance and Budget with inputs from other Committees before presenting at the National Assembly session for a vote of approval. In order to reach the National Assembly meeting, the draft law must be on the National Assembly's working agenda, for which the Ministry of Justice is partly responsible.

The Ministry of Finance will draft the needed guideline decrees and submit them with the draft law through all processes. Once the new tax law is approved, the Decree will be signed by the Prime Minister, to implement the law. The Ministry of Finance would then issue instructions or guideline documents signed by the Minister of Finance to detail the implementation of the law.

Other issues

Cigarette smuggling is a major concern in Vietnam. The most popular brands of smuggled cigarettes in Vietnam are Jet, Hero, Esse, White Horse, and Marlboro. The modes and routes of smuggling are varied, but the most popular route is via shared geographical borders with Lao PDR, Cambodia and China. The tax stamp policy introduced in 2000 can facilitate identification of illegally produced and smuggled tobacco products, though further improvement of the tax stamp policy should be done to serve as parts of a track and trace system in order to secure the supply chain. Additional anti-smuggling measures such as licensing requirements were also regulated in the Decree No 67/2013/ND-CP elaborating some articles and measures for implementation the law on tobacco harm prevention applicable to tobacco trading. However, the strong enforcement needs to be done to reduce the sale of smuggled cigarettes in Vietnam.

¹¹ Tax Policy Department, Ministry of Financial Vietnam, Study on Vietnam tobacco industry system of product and profit distribution, 2015

Conclusion and recommendations

The real price of cigarettes in Vietnam is relatively low and has been decreasing in recent years while at the same time, per capita income has risen significantly. Therefore, cigarettes have become more and more affordable in the country, which is reflected in the increasing volumes of production and sales of cigarettes in the past decades. (Figure 4)

While higher taxes could translate into higher prices, the current tobacco tax as a percentage of retail sales is low (43%) compared to the World Bank's recommended level of 65% to 80%.

The Vietnamese government should increase tobacco tax at a rate higher than the combination of inflation and income growth so that tobacco demand will be curbed over time, thus fulfilling the country's health objective and obligation under the WHO Framework Convention on Tobacco Control (FCTC), as well as implementing the Prime Minister's decision on implementation of the FCTC. It is estimated that if Vietnam increased tobacco tax by 20% a year, the price would increase by about 10%. This will result in a decrease in consumption of about 5%, but at the same time increase government revenue by about VND 1,900 billion (USD 100 million) each year.¹²

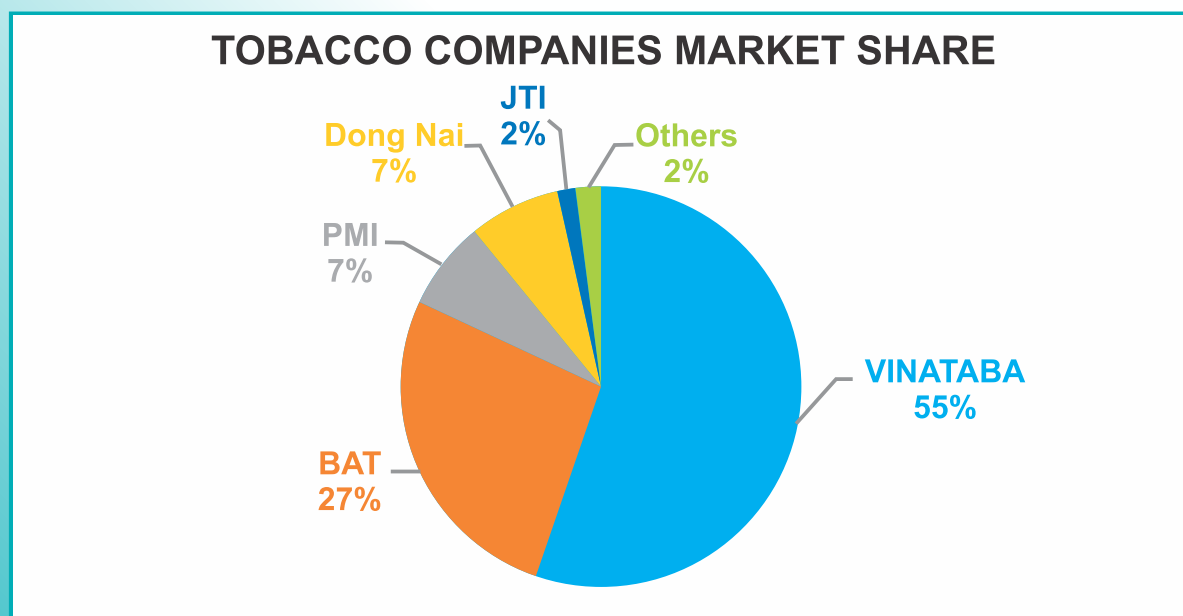
Short profile of the tobacco industry in the country

Formulated in Vietnam in 1929, first, by a small private French company, Vietnam tobacco industry has been growing fast after the reunification of country in 1975. Currently, it consists of 30 companies organized under six corporations: 1) Vietnam Tobacco General Corporation (VINATABA), 2) Khanh Viet Corp, 3) Sai Gon Industry Corp, 4) Dong Nai Food Industry Corp, 5) 27/7 Company Ltd and 6) Binh Duong cigarette export-import company. These tobacco corporations are either government or public owned. The owner could either be the central or a local government, a Ministry or belongs to the party communist.^{13,14}

The world's three biggest multinational tobacco companies are present in Vietnam and operate through joint venture with local companies to produce and distribute their products, include: British American Tobacco (BAT); Phillip Morris International (PMI); Japan Tobacco International (JTI).

Vietnam National Tobacco Corporation (VINATABA) dominates the cigarette market share of 55.3%, followed by BAT Vietnam (26.5%), Dong Nai Tobacco Co. (7.2%), PMI (7.3%), JTI (1.5%) and all other companies have a combined share of 2.1% in 2015. (Figure 3)

Figure 3: Company Shares of Cigarettes: % Volume 2015



¹² Guidon GE, Nguyen TT Hien, Hoang Van Kinh, McGirr E, Dang Vu Trung, Nguyen T Lam. (2010). *Tobacco Taxation in Vietnam*. Paris: International Union Against Tuberculosis and Lung disease.

¹³ Decision 13692/QĐ-BCT dated 14/12/2015 on Promulgating operation and organization charter of Vietnam National Tobacco Company, Ministry of Industry and Trade, Editor. 2015.

¹⁴ Tax Policy Department-Ministry of Financy, *Study on Vietnam tobacco industry system of product and profit distribution*. 2015

While there is an abundance of tobacco brands for consumers to choose from in Vietnam, the dominant five include a combination of both local and foreign brands (Table 2). These include Craven A, Vinataba, White Horse, Marlboro, and Bastos. Of these five brands, Craven A had the highest market share (10.1%) in 2015. Vinataba had 9.1% market share, White Horse had 8.4% market share and Marlboro had 7.3% market share.

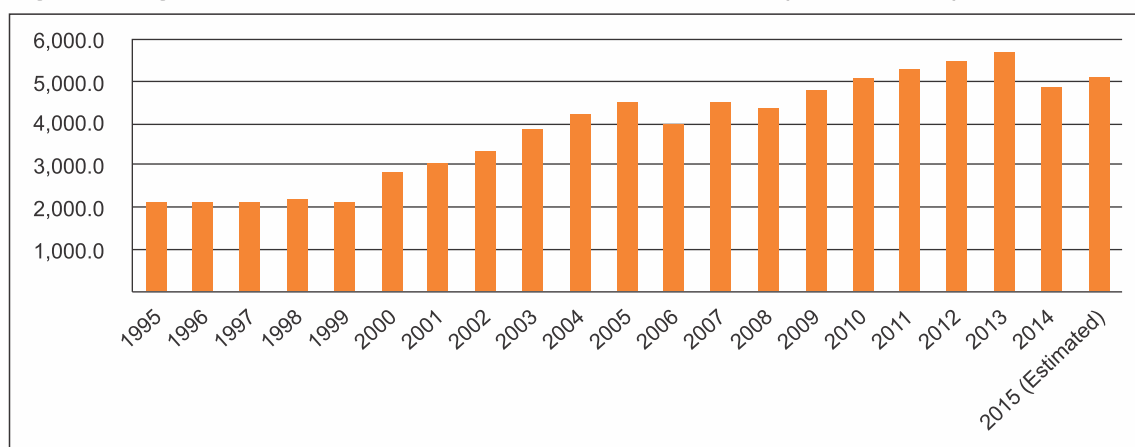
Table 2: Market share of leading cigarette brands in Vietnam

Brand	Company	2012	2013	2014	2015
Craven A	British American Tobacco Plc (BAT)	10.0	10.3	10.2	10.1
Vinataba	Vietnam National Tobacco Corp (VINATABA)	8.3	7.9	7.9	9.1
White Horse	BAT	8.5	8.6	8.5	8.4
Marlboro	Philip Morris International Inc	5.8	7.0	7.3	7.3
Bastos	Dong Nai Tobacco Co	10.0	10.3	10.4	7.2
Tourism	VINATABA	5.9	6.0	6.0	5.9
Souvenir	VINATABA	4.0	4.1	4.2	4.1
Thang Long	VINATABA	2.4	3.2	4.0	3.9
555 State Express	BAT	3.0	3.4	3.5	3.6
Tam Dao	VINATABA	2.6	2.6	2.7	2.7
Seven Diamonds	BAT	1.4	1.9	2.0	2.1
Kent	BAT	0.3	0.7	0.9	1.1
Others	Others	37.8	34	32.4	34.5
	Total	100%	100%	100%	100%

Source: Euromonitor International 2016

Tobacco production in Vietnam is controlled by the government. Cigarette production has been increasing steadily since the year 2000 primarily due to investments in tobacco farming, processing and cigarette production equipment, tighter controls on smuggling, and higher purchasing power of Vietnamese consumers thanks to the country's economic growth and the decrease in the real price of cigarettes. Between the years 2008 and 2015, total cigarette production reached 40.75 billion packs, equivalent to 5,09 billion packs/year. (Figure 4).

Figure 4: Cigarette Production in Vietnam, from 1995 to 2015 (billion packs)



Source: Data of General Statistics Office.

State-owned Vietnam Tobacco Corporation (VINATABA) and its subsidiaries manufacture most cigarettes available in the market, including the top-selling brand Vinataba. Furthermore, Saigon Cigarette Company, which is the biggest factory that belongs to VINATABA, manufactures top-selling foreign brands such as 555 State Express and Marlboro through licensing.

