

Tobacco Taxes in Vietnam

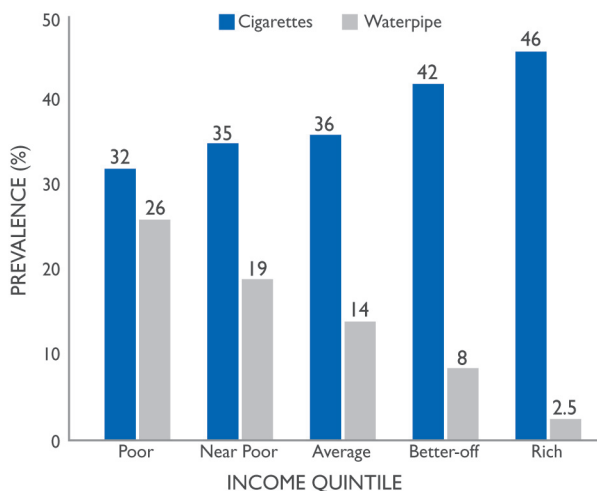
Based on *Tobacco taxation in Vietnam* by G Emmanuel Guindon, Hien Nguyen-Thi-Thu, Kinh Hoang-Van, Emily McGirr, Trung Dang-Vu, Lam Nguyen-Tuan. 2010.

The low cost of tobacco products in Vietnam contributes to high levels of smoking among males. In addition, individual income has increased and real prices for tobacco products have declined slightly, making tobacco products more affordable. The most effective way to reduce tobacco use in Vietnam is to raise tobacco prices through tax increases.

Tobacco use in Vietnam

- Almost one half of Vietnamese men (49%) smoke, and the rate is even higher (65%) for young men aged 25 to 45.
- Less than 2% of women smoke, however women and children are exposed to high levels of second-hand smoke at home; two-thirds of households have at least one smoker.
- Cigarettes and waterpipe smoking are the most commonly used forms of tobacco. Higher income smokers are more likely to smoke cigarettes than waterpipe.

Proportion of males aged 15 years and older who smoke, by living standard quintile, 2001-02



Source: *Vietnam National Health Survey (VNHS), 2001-02*. Hanoi: Ministry of Health, 2003.

Impact of tobacco use in Vietnam

High smoking rates contribute to a significant number of early deaths, high healthcare costs and lost productivity. Smoking can increase poverty by diverting household income away from essential needs.

- Nearly 40,000 Vietnamese die each year from tobacco-related diseases.
- Healthcare costs in Vietnam for just three diseases caused by tobacco use (lung cancer, ischemic heart disease and chronic obstructive pulmonary disease) are more than 1100 billion VND (about 75 million USD) each year.
- For the two-fifths of Vietnam's population with the lowest income, annual household spending for tobacco often constitutes a substantial share of annual spending on essential items such as food, clothing and education. If Vietnam's poor households with smokers redirected their tobacco spending to food, about 11% of these households could potentially rise above the food poverty line.

Higher taxes reduce smoking

The most effective way to reduce tobacco use is to raise the price of tobacco through tax increases and ensure that the increases are reflected in prices. Higher prices discourage youth and potential users from initiating cigarette smoking, encourage cessation among existing tobacco users; reduce the quantity of tobacco consumed among continuing users, and prevent quitters from starting again.

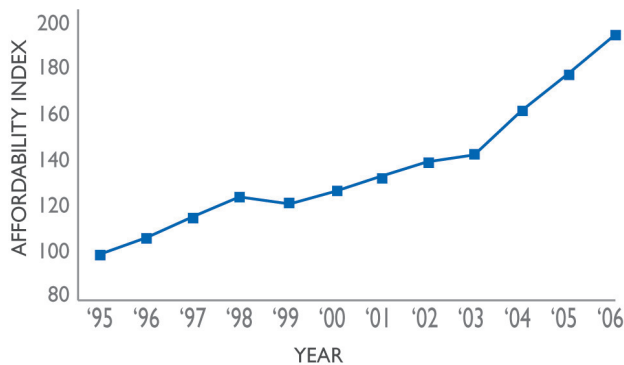
Cigarettes in Vietnam are cheap and becoming more affordable over time

Taking into account inflation and increasing consumer purchasing power, cigarettes are becoming more affordable over time.

- Inflation-adjusted prices of tobacco products have declined on average by about 5% between 1995 and 2006.
- At the same time, real income has increased steadily due to the growing economy, providing Vietnamese with more money to purchase goods, including cigarettes.

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**Affordability of tobacco products,
1995-2006**



Note: Affordability index calculated as the ratio of per capita gross domestic product (GDP) to the consumer price index (CPI) of tobacco. A rising affordability index reflects average incomes rising faster than tobacco prices.

Data source: General Statistics Office. Statistical Handbook of Vietnam — 2006. Hanoi: Statistical Publishing House, 2007.

Tobacco taxes in Vietnam are low

Vietnam has a very low tobacco tax rate, which leads to a loss of government budget income.

- Vietnam has a special consumption tax on cigarettes that functions as a tobacco excise tax and is set at 65% of the pre-tax, ex-factory price. There is also a value-added tax set at 10% of retail price.
- Tobacco taxes account for approximately 45% of the retail sale price of cigarettes. This falls well below the rate recommended by the World Bank (from 65% to 80% of retail price) that is commonly present in countries with effective tobacco control policies.
- Waterpipe tobacco is not subject to taxation in Vietnam.

Raising taxes saves lives and increases government revenue

If Vietnam introduced a specific 1750 VND (0.11 USD) tax per pack of 20 cigarettes indexed to inflation, average prices would increase by approximately 30%, leading to a decrease in the number of smokers and improvements in the health of the population. In addition, the government would receive increased tobacco tax revenue.

**Impact of increasing cigarette prices by
approximately 33% (elasticity -0.5)**

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| Reduction in number of smokers | 1 million |
| Lives saved | 338,800 |
| Increase in tobacco tax revenue (annual) | 4.3 trillion VND (268 million USD) |
| Total tax revenue (annual) | 12 trillion VND (740 million USD) |

Recommendations

- Increase the special consumption tax annually so that prices of tobacco products increase by at least the rate of growth of the Vietnam economy.
- Introduce a specific excise tax of 1750 VND (0.11 USD) per pack of 20 cigarettes, indexed to inflation or with increases set to meet or outpace expected inflation. This would raise average prices by about 30% and would reduce incentives for people to substitute cheaper tobacco products for more costly ones.
- Introduce a specific excise tax of 1000 VND (0.06 USD) per 100 grams of waterpipe tobacco indexed to inflation or with increases set to meet or exceed expected inflation.
- Strengthen anti-smuggling measures. The government's tax stamp policy, which requires tax stamps to be placed on domestically manufactured cigarettes, should be maintained and reinforced. Licensing requirements and stronger enforcement should be initiated.
- Integrate tobacco control and broader efforts to reduce poverty. Earmark part of the tobacco tax revenue for programs such as health insurance, health promotion and tobacco control.