

# VIETNAM

## Tobacco Tax

### Report Card

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## Prevalence of tobacco use

The latest data available on smoking prevalence in the country is the Vietnam Household Living Standards Survey in 2006 which estimated that smoking prevalence was 49.2% among adult men aged 15 and above (but more than 60% among men aged 25-54 years) and less than 2% among adult women. Overall, between 25-30% of the Vietnamese adult population use tobacco products, or about 20 million out of the total population of 85 million (2009).

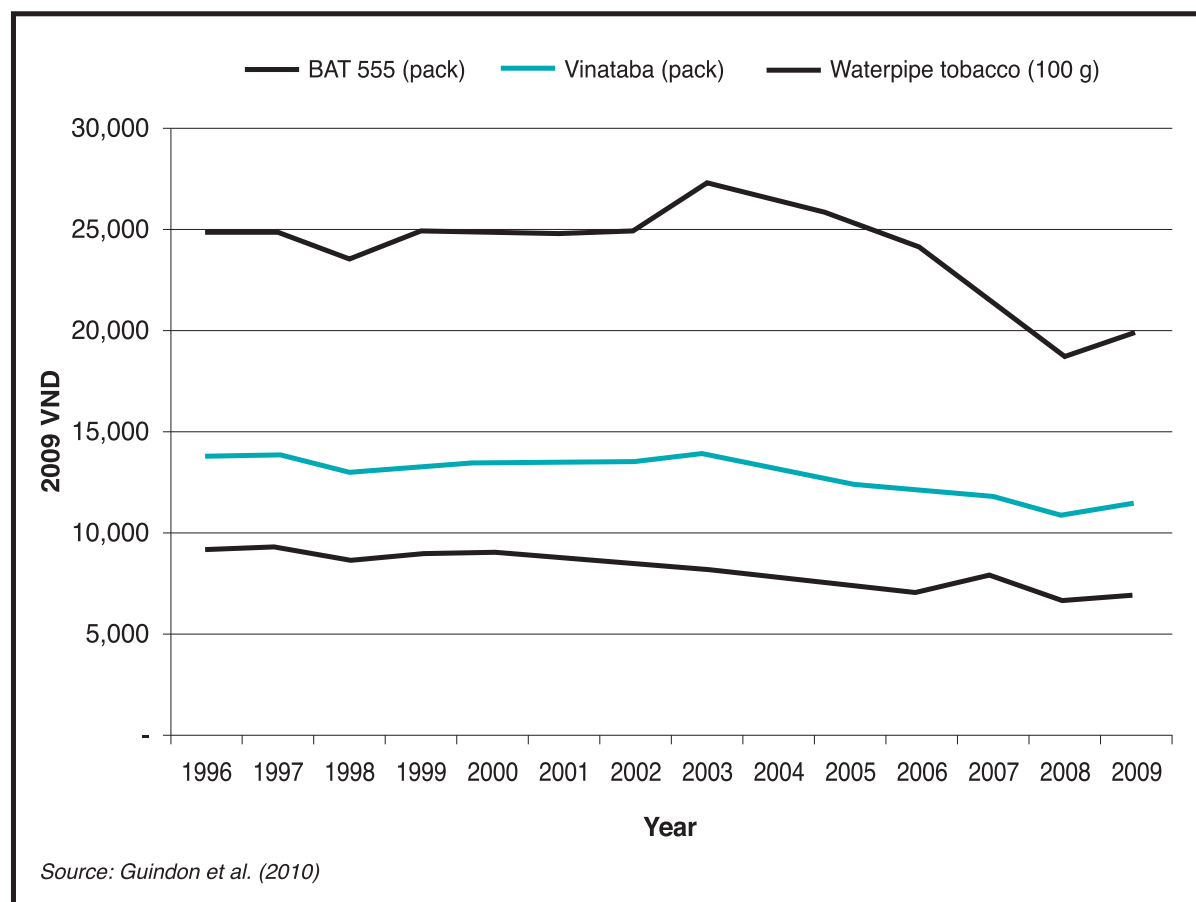
The smoking rate is also higher among the poor compared to more well-off groups, and higher among rural residents compared to those living in urban areas.

### Average retail price (1 USD = 19,000 VND, as of 1 May 2010)

A pack of Vinataba, the most popular\* local brand, costs VND 12,000 (USD 0.63), while a pack of the most popular domestically produced foreign brand, White Horse, costs VND 14,000 (USD 0.74).

Tobacco product price trends in Vietnam from 1996 to 2009 are illustrated in Figure 1, which clearly shows that real prices (price after adjusted for inflation) for all products, including seemingly more expensive foreign brands like 555, have declined over the past decade, most significantly in the past 4-5 years<sup>1</sup>

**Figure 1: Real prices of popular tobacco products, 1996 – 2009 (in VND)**



\*Most popular brand: defined as the brand that has the largest market share, based on data from 2006 Euromonitor report.

## 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 for the past five years**

Year	Government revenue from tobacco tax		% Government revenue from tobacco tax
	Billion VND	Million USD	
2009	9,633	521.1	2.18
2008	7,529	444.7	1.81
2007	6,338	395.6	1.88
2006	6,085	378.8	2.10
2005	6,017	380.2	2.52

Source: Ministry of Finance. The conversion from VND to USD is done using the exchange rate of December 31 for the respective year from UN website at: <http://www.un.org/Depts/treasury>.

## Disease burden and costs of tobacco use

Vietnam faces a high burden of non-communicable diseases, accounting for the largest share of annual mortality, 62.4% of hospital reported cases, and morbidity, 61.6% of hospital reported cases (Ministry of Health Vietnam - Health Statistic Year Book, 2007)<sup>2</sup>. The Vietnam tobacco policy simulation model (Levy et al, 2006) estimated that nearly 40,000 deaths in Vietnam in 2008 were attributed to tobacco use, a figure set to rise above 50,000 deaths annually by 2023, excluding cases from passive smoking.<sup>3</sup>

In addition to the toll on human lives tobacco use also causes a heavy economic burden to the country. For example, the total health costs for three diseases caused by smoking in Vietnam in 2005 reached at least VND 1,162 billion (USD 77.5 million) (Ross et al, 2007).<sup>4</sup>

# 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. Since 2008, the excise tax rate for cigarettes and cigars is set at 65% of the pre-tax, ex-factory price. The VAT rate at 10% of the retail price has been unchanged from 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.

On average, total taxes on cigarettes in Vietnam account for almost 45% of the retail sale price. This falls far short of the optimal tax level recommended by the World Bank at 65% to 80% of the retail price.

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

Period of implication	Excise tax (calculated based on percentage of factory price before tax)				Value added tax
	Cigarette			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	10
1/2004-12/2005	65	45	25	65	10
1/2006-12/2007	55				10
1/2008-present	65				10

Source: Relevant laws on special consumption tax and VAT from Vietnam legal documents portal at Ministry of Justice website ([www.moj.gov.vn](http://www.moj.gov.vn)).

Since tobacco tax has not been significantly increased over the past 10 years, tobacco products have become more affordable in Vietnam over time. Between 1998 and 2009, inflation-adjusted prices of tobacco products declined by approximately 20%, but at the same time the real per capita income has increased more than double thanks 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).

## 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 2008, the special excise tax was made uniform at 65% for all types of cigarettes. To calculate :

- Tax rate : 65% (applied to cigars and all types of cigarettes)
- Tax base : Factory price without VAT and excise tax (domestic)  
Import price + import tax (imported)

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

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. To calculate :

Tax rate :	25%
Tax base :	Income before tax

Since January 2007, cigarettes and cigars are subject to a high import tax with the following 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 5,000 VND.
- Excise tax rate will be:  $65\% \times 5,000 = 3,250$  VND
- VAT will be:  $10\% (5,000 + 3250) = 825$  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 an increase in tobacco tax to be implemented, a tobacco tax law is first drafted by the Ministry of Finance, and then sent to related ministries such as the Ministry of Industry and Trade as well as the Ministry of Justice for review and official inputs. The draft law is then rewritten as necessary, and a new draft is submitted to the National Assembly 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.

Once the new tax law is approved, the Ministry of Finance is responsible for drafting a guideline decree, to 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 are 555, Jet, Hero, White Horse, Marlboro, and Dunhill. The modes and routes of smuggling are varied, but the most popular route is via shared geographical borders with Lao PDR and Cambodia. Sale of smuggled cigarettes is widespread in the market. The tax stamp policy introduced in 2000 should be maintained and reinforced, as tax stamps can facilitate identification of illegally produced and smuggled products. Additional anti-smuggling measures such as licensing requirements for retailers and better enforcement of the ban on selling smuggled products should be adopted as well.

## Conclusion and recommendations

The real price of cigarettes in Vietnam is 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 Vietnam in the past 10 years (increase at almost 7% per year).

While higher taxes could translate into higher prices, the current tobacco tax as a percentage of retail sales is low (45%) 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 (Guindon et al, 2010), providing a significant funding source for tobacco control and health promotion, as well as other social services.

### Short profile of the tobacco industry in the country

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 (Figure 2). These include Vinataba, White Horse, Craven A, Tourism, and 555 State Express. Of these five brands, Vinataba brand had the highest market share in 2005 taking hold of 6.8% of the industry's market share. White Horse had a 5.9% market share and 555 State Express had a 4.8% market share.

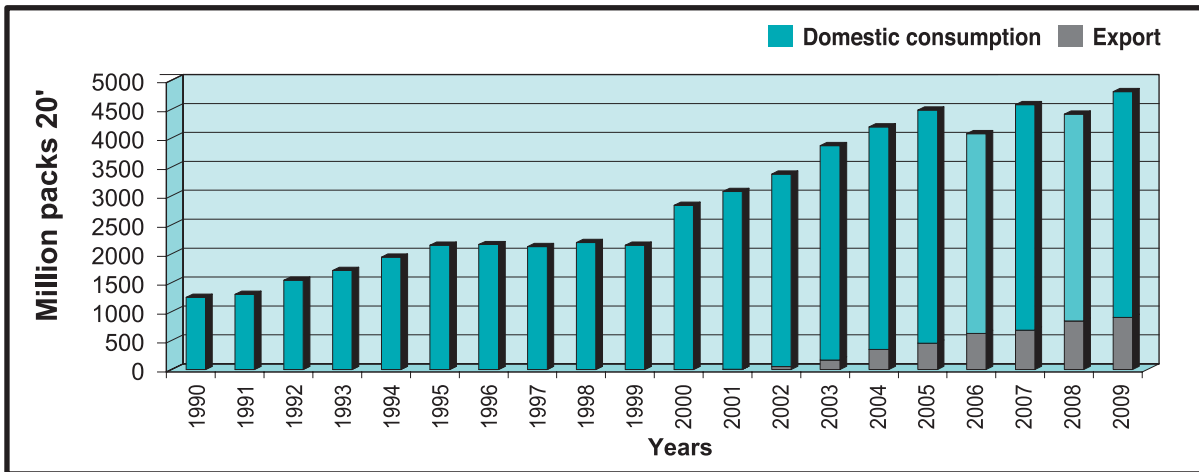
**Figure 2: Market share of leading cigarette brands in Vietnam**

2005 Rank	Brand	Local company	International group	2002	2003	2004	2005
1	Vinataba	Vinataba		6.3	6.7	6.7	6.8
2	White Horse*	Khanh Vier Corp	BAT	4.1	5.1	5.4	5.9
3	Craven A*	Ben Thanh Tobacco Co	BAT	4.4	4.7	5.0	5.8
4	Tourism	Vinataba		5.9	5.6	5.6	5.6
5	555 State Express*	Vinataba	BAT	2.7	3.1	3.8	4.8
6	Souvenir	Vinataba		2.9	2.9	2.9	2.9
7	Virginia Gold*	Hai Phong Tobacco Co	BAT	2.0	2.1	2.3	2.5
8	Tam Dao	Vinataba		2.4	2.3	2.3	2.4
9	Thang Long	Vinataba		1.4	1.3	1.3	1.3
10	Aroma	Vinataba		1.0	1.1	1.1	1.1
11	Marboro*	Vinataba	Philip Morris	0.5	0.6	0.8	1.1
12	Hoan Kiem	Vinataba		0.9	0.8	0.8	0.9
13	Everest*	Khanh Viet Corp	BAT	0.6	0.7	0.8	0.9
14	Thu Do	Vinataba		0.6	0.6	0.6	0.6
15	Bastion	Vinataba		0.2	0.2	0.2	0.2
16	Mild Seven*	Vinataba	JTI	0.1	0.2	0.2	0.2
17	Dunhill*	Vinataba	BAT	0.1	0.1	0.1	0.1
	Other brands			63.9	61.8	60.1	56.9

Source: Guindon et al (2010)

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 2000-2009, total cigarette production increased by about 69%, reaching 4,500 million packs a year (Figure 3). Cigarette exports have increased in recent years and amounted to more than 800 million packs in 2009.

**Figure 3: Cigarette Production in Vietnam, 1990-2009**



Source: General Statistics Office (1990-2008) and Vinataba Corporation (2009)

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.

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4. Ross H, Trung DV, Phu VX. (2007). The costs of smoking in Vietnam : the case of inpatient care. *Tobacco Control 16, 405-409*.

The Southeast Asia Initiative on Tobacco Tax (SITT) is SEATCA's project to institute effective tax increases and to allow for sustainable funding mechanisms for tobacco control in Indonesia, Cambodia, Lao PDR, Philippines and Vietnam, in line with Article 6 of the WHO Framework Convention on Tobacco Control.

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Working together for  
effective evidence-based  
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## **Southeast Asia Tobacco Control Alliance**

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