CAMBODIA
Tobacco Tax
Report Card
June 2010
Prevalence of tobacco use

A 2005-2006 nationwide survey of adult tobacco use conducted by the National Institute of Statistics, Ministry of Planning found that the prevalence of current tobacco use was 49.0% among men and 20.5% among women. Figure 1 below shows the prevalence of current use of specific forms of tobacco (cigarettes, chewing tobacco, pipe tobacco) by men and women: 48.0% of men and 3.6% of women smoke cigarettes, while 17% of women and 1% of men chew tobacco. A small proportion (0.3% of men; 0.4% of women) are mixed users who both chew tobacco and smoke cigarettes.

Among current tobacco users, the median age at initiation was 18.2 years (range: 15.6–21.1 years) among men and 29.0 years (range: 19.5–39.1 years) among women. Sample weights were used to estimate that there are 1.92 million adults (95% CI: 1,799,228–2,048,996) who currently use tobacco in Cambodia. The two largest subgroups by gender and form of tobacco were around 1.22 million men (95% CI: 1,138,823–1,306,839) who smoked cigarettes and around 560,482 women (95% CI: 504,783–616,180) who chewed tobacco.¹

![Figure 1: Tobacco use by gender, Cambodia, 2005 – 2006](image)

<table>
<thead>
<tr>
<th>Type of tobacco</th>
<th>Men</th>
<th>Women</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cigarette</td>
<td>48.0 (44.5–51.5)</td>
<td>3.6 (3.0–4.3)</td>
</tr>
<tr>
<td>Chewing</td>
<td>17.0 (15.2–19.0)</td>
<td>1.0 (0.8–1.4)</td>
</tr>
<tr>
<td>Pipe</td>
<td>0.2 (0.1–0.5)</td>
<td>0.3 (0.2–0.6)</td>
</tr>
<tr>
<td>All</td>
<td>49.0 (45.4–52.6)</td>
<td>20.5 (18.5–22.7)</td>
</tr>
</tbody>
</table>

Among men who primarily smoke cigarettes, after the age of 25 years, the prevalence of smoking doubled to more than 60% (Figure 2). Among women who primarily chew tobacco, the prevalence of this habit more than doubled with each passing decade. At the time of the survey, 43.4% of women older than 48 years and almost half of all rural women (48.0%) chewed tobacco (Figure 3).
Among men, cigarette smokers tended to be older, rural-dwelling, married and less educated. More than half of the men who earned < USD 2 per day at the time of the survey smoked cigarettes. Cigarette smoking was highly prevalent (> 50%) among men engaged in tobacco farming or preparation, other farming, or the armed forces as their primary economic activity.

Women who chewed tobacco at the time of the survey tended to be lower-income, older, rural-dwelling, widowed, divorced or separated and less educated. Among rural women, chewing tobacco was most common among midwives (67.9%), traditional healers (47.2%) and those working in tobacco farming or preparation (28.6%) as their primary economic activity.

Given these figures, the tobacco industry’s marketing approaches in recent years have been noted to target specific segments of the non-smoking population particularly youth and women\(^2\).
Average retail price of the most popular local and imported brands
(USD 1 = KHR 4,200 as of 31 May 2010)

- The most popular domestically-produced brand, ARA, costs KHR 1,050 (USD 0.25) per pack.
- 555, among the most popular foreign brands, costs KHR 5,000 (USD 1.19) per pack.

Source: Euromonitor (2010)

Government revenue from tobacco tax for the past five years

Although the amount of revenue generated from excise taxes on tobacco by the General Department of Taxation (GDT) had increased significantly from 2004 to 2008 with the highest increase seen between 2007 and 2008 (Figure 5), it is evident that revenues generated from tobacco excise taxes are still much less than those generated from excise taxes on services and alcohol, which saw a greater total increase in the same time period and with a higher percentage increase each year (Figure 6).
Furthermore, while the total amount of tobacco tax collections by the GDT has increased in the past five years (from USD 5.1 million in 2005 to around USD 13.1 million in 2009), the total government revenue from tobacco taxes only amounted to around 3% and 3.5% of the total tax collected in 2008 and 2009, respectively (Table 1).

**Table 1: Tobacco Tax Revenue collected by GDT in Cambodia (figures in USD million)**

<table>
<thead>
<tr>
<th></th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Taxes</td>
<td>141</td>
<td>195</td>
<td>270</td>
<td>369</td>
<td>374</td>
</tr>
<tr>
<td>Tobacco Taxes</td>
<td>5.1</td>
<td>6.2</td>
<td>7.8</td>
<td>11.1</td>
<td>13.1</td>
</tr>
<tr>
<td>Excise Taxes on Tobacco</td>
<td>1.7</td>
<td>1.9</td>
<td>2.1</td>
<td>4.0</td>
<td>5.0</td>
</tr>
<tr>
<td>% Tobacco Taxes to Total Taxes</td>
<td>3.6</td>
<td>3.2</td>
<td>2.9</td>
<td>3.0</td>
<td>3.5</td>
</tr>
<tr>
<td>% Excise Taxes to Tobacco Taxes</td>
<td>33.3</td>
<td>30.6</td>
<td>26.9</td>
<td>36.0</td>
<td>38.2</td>
</tr>
</tbody>
</table>

Source: General Department of Taxation, Ministry of Economy and Finance 2009

While Cambodia’s tobacco tax rates remain among the lowest in the ASEAN region, given that the GDT saw a substantial fiscal benefit from the 11.3% increase in excise taxes between 2007 and 2009, it is believed that in further strengthening tobacco control tax and price policies and measures, the government will be able to generate even more tax revenues for Cambodia.

### Health costs of tobacco

Tobacco is the leading preventable cause of death in the world, killing an estimated 5.4 million people yearly. Treating tobacco-related diseases such as various forms of cancer and other chronic diseases imposes not only a significantly high burden on public health but also deprives families from spending on basic necessities and other household expenditures. In Cambodia where about 36% of the population lives below the poverty line, lower-income households with at least one smoker spend about 9% of their total household expenditures on tobacco products, which could have been spent instead on food, education, or healthcare. In total the annual spending on tobacco by Cambodian households is estimated to reach USD 69.44 million, enough to meet the national budget deficit or to be used instead for health and other social development programs.

The direct health costs of tobacco use in Cambodia are still difficult to estimate due to inadequate data at present, but the 2009 WHO Country Health Information Profile (CHIP) for Cambodia already lists high blood pressure and heart disease, both known tobacco-related diseases, among the top causes of morbidity and mortality in the country, indicating a significant and growing burden of non-communicable diseases in Cambodia.
Tobacco Taxation

Description of current tobacco tax system

There are currently four taxes on tobacco products in Cambodia: (1) an excise tax of 10% levied on all types of cigarettes, (2) a VAT of 10% levied on domestic and imported cigarettes, (3) a public lighting tax (PLT), and (4) an import duty imposed on imported cigarettes. The public lighting tax is used to support public lighting in cities and is imposed on alcohol, soft drinks, and cigarettes; this amounts to 3% tax imposed on cigarette manufacturers. Import duties vary: 7% for cigarettes, 15% for raw material such as tobacco leaves, and 35% for cigars (Table 2). In addition, Cambodia also has three customs tariff categories, which include Customs Duty (four tariff bands), Special Tax (nine tariff bands), and VAT (one tariff band).

The total tax on tobacco products is 20% of retail price for domestic and 25% for imported products. Over the last ten years there has been no real increase in taxes on tobacco products.

Table 2: Tobacco Tax System in Cambodia

<table>
<thead>
<tr>
<th>Type of Taxes</th>
<th>Tax Base</th>
<th>Tax Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Import Duty</td>
<td>CIF (Cost + Insurance + Freight)</td>
<td>7%, 15%, 35%</td>
</tr>
<tr>
<td>Export Duty</td>
<td></td>
<td>0%</td>
</tr>
<tr>
<td>Excise Tax on Import</td>
<td>CIF + Customs Duty</td>
<td>0%</td>
</tr>
<tr>
<td>Excise Tax on Domestic</td>
<td>65% of invoice price issued to customers</td>
<td>10% &amp; 25%*</td>
</tr>
<tr>
<td>Value Added Tax on Import</td>
<td>CIF + Customs Duty + Excise Tax</td>
<td>10%</td>
</tr>
<tr>
<td>Value Added Tax on Export</td>
<td></td>
<td>0%</td>
</tr>
<tr>
<td>Public Lighting Tax</td>
<td>Invoice value including all taxes except VAT</td>
<td>3%</td>
</tr>
<tr>
<td>Tax on Profit (Legal Person)</td>
<td>Flat rate on profit realized by a legal entity</td>
<td>20%</td>
</tr>
<tr>
<td>Tax on Profit (Physical Person)</td>
<td>Progressive rate on profit realized by sole proprietorship and pass-through</td>
<td>0-20%</td>
</tr>
<tr>
<td>Turnover Tax</td>
<td>Invoice value collected only from business enterprises under estimated regime</td>
<td>2%</td>
</tr>
</tbody>
</table>

*Note: Excise Tax on imported products is 10% for cigarettes and 25% for cigars.

There are two authorities under the Ministry of Economy and Finance (MOEF) in charge of managing, controlling, and collecting excise taxes in Cambodia. These are the General Department of Taxation (GDT) and the General Department of Customs and Excise (GDCE). The GDT is in charge of collecting all domestic taxes, including VAT, profit tax, salary tax, rental tax, stamp tax, public lighting tax, and other taxes. The GDCE is in charge of collecting excise taxes on imported products and collecting other import taxes including import duties and import VAT.

How tobacco tax is calculated

To calculate tobacco tax in Cambodia, a 10% excise tax rate is sanctioned on both local and imported products. There are however, some exemptions, including tobacco that is exported, cigarettes that are imported by international travelers for personal use that do not exceed 1 pack, and duty-free shops in airports.

The Excise Tax is calculated as follows:

For Domestic Products:

\[ \text{Tax} = 65\% \times \text{Invoice price} \times \text{Tax Rate} \]

Example 1: For Domestic Products

Assuming the invoice or selling price of ARA cigarettes is 150,000 KHR per 100 packs, then the excise tax for 100 packs = \((150,000 \times 65\%) \times 10\% = 9,750 \text{ KHR or 97.5 KHR/pack}\).

For Imported Products:

\[ \text{Tax} = (\text{CV or CIF} + \text{Import Duty}) \times \text{Tax Rate} \]

*Import Duty = CV x Duty Rate

*CIF (Cost + Insurance + Freight) or Customs Value (CV)

Example 2: For Imported Products

Assuming that CIF price for 555 cigarettes is 500,000 KHR per 100 packs, then the excise tax for 100 packs = \([500,000 + (500,000 \times 7\%)] \times 10\% = 53,500 \text{ KHR or 535 KHR/pack}\).
Process for tobacco tax to be imposed and increased

The government imposes tobacco tax measures in Cambodia by first requiring all importers and local manufacturers to register with the General Department of Taxation. Currently, tax stamps (Banderoles) are used in imposing tax increases, being affixed to a cigarette pack at the time of manufacture. Stamp prices are settled by the MOEF and cost around KHR 4.20 per sheet. The Royal Government of Cambodia (RGC) uses the tax stamps to control all import and domestic tobacco production. Under the guidance of the RGC, the MOEF holds the authority to print these tax stamps, while the GDCE and GDT manage and control their sale.

Other issues

Until the first quarter of 2007, tobacco excise tax had been collected by applying the ex-factory sales price multiplied by the tax rate. However, there are issues with using the ex-factory sales price method. First, it is more complex compared to the invoice value method. Second, it uses different cost components in calculating the ex-factory price (costs + margin). Finally, the cost components are not consistent with those of the factories. As of May 2007, the GDT has sanctioned a fixed rate of 65% of invoice price to customers for all excise on local products. This reform has contributed to a significant increase in excise tax revenues from local products by 45% (tobacco). Moreover, there are also issues related to applying different calculation bases as in the 65% of invoice price issued to customers (GDT) and CIF (GDCE).

Short profile of the tobacco industry in the country

There are more than 200 local and imported cigarette brands available in the Cambodian market today and 14 local tobacco manufacturers registered with the General Department of Taxation. Major players include British-American Tobacco (BAT) Cambodia, maker of the popular ARA brand (with a market share of 40.3%), Viniton (28.6%), and Altadis (18.8%). In addition to manufactured cigarettes, hand-rolled cigarettes are also becoming increasingly popular in the country, where one out of three cigarettes consumed is a hand-rolled one. Most of these hand-rolled cigarettes are machine-produced by small-scale producers (British American Tobacco, 2006). Based on the Labour Force Survey in 2000, about 4,739 people are engaged in tobacco manufacturing, including cigarette factories of major brands.

Conclusion and Recommendations

The Cambodian government, as a Party to the WHO Framework Convention on Tobacco Control (FCTC), should keep in mind that tobacco tax and price measures should not be aimed only at generating much-needed government revenue, but also at decreasing the demand for tobacco, ultimately resulting in a healthier and more productive Cambodian society. We therefore recommend that the government:

- Increase the excise tax rate from 10% to 20% to 30%
- Increase the tax base from 65% to 75% to 85%
- Increase the value of tax stamps and their quality
- Require that all cigarette importers, manufacturers, wholesalers, distributors, and hand-rolled cigarette makers be officially licensed
- Confiscate and destroy all cigarettes without the required tax stamps
- Strengthen tax compliance by increasing taxpayer services and enforcement measures.

References

2. Cambodia Movement for Health and National Center for Health Promotion, Tobacco Industry Surveillance Project, 2009-2010.
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.

“Working together for effective evidence-based tobacco control measures in Southeast Asia”

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