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Vietnam Tobacco Tax 2025 Reform

ATI-WHO Workshop on Health Taxes

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Vietnam excise tax law revisions over time

- 1990 - 2025: ad valorem (factory/CIF tax base) – multi-tier

The 2005 Tax Reform – Moving from Multi-Tiers to UNIFORM

- 2006: 55% on all types of cigarettes
- 2008: ad valorem rate increased to 65%

The 2014 Tax Reform – Introduced ROADMAP over 5 years

- 2016: ad valorem rate increased to 70%
- 2019: ad valorem rate increased to 75%

The 2025 Tax Reform – TAX STRUCTURE

- Moving to a mixed system with additional specific component

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Tax options by MOF's draft proposal

	MOF Proposal 1	MOF Proposal 2	*WHO & MOH*
Specific tax on cigarettes *(+ 75% ad valorem on ex-factory price)*			
2026	**2.000 VND/pack**	5.000 VND/pack	*5.000 VND/pack*
2027	**4.000 VND/pack**	6.000 VND/pack	*7.500 VND/pack*
2028	**6.000 VND/pack**	7.000 VND/pack	*10.000 VND/pack*
2029	**8.000 VND/pack**	8.000 VND/pack	*12.500 VND/pack*
2030	**10.000 VND/pack**	10.000 VND/pack	*15.000 VND/pack*

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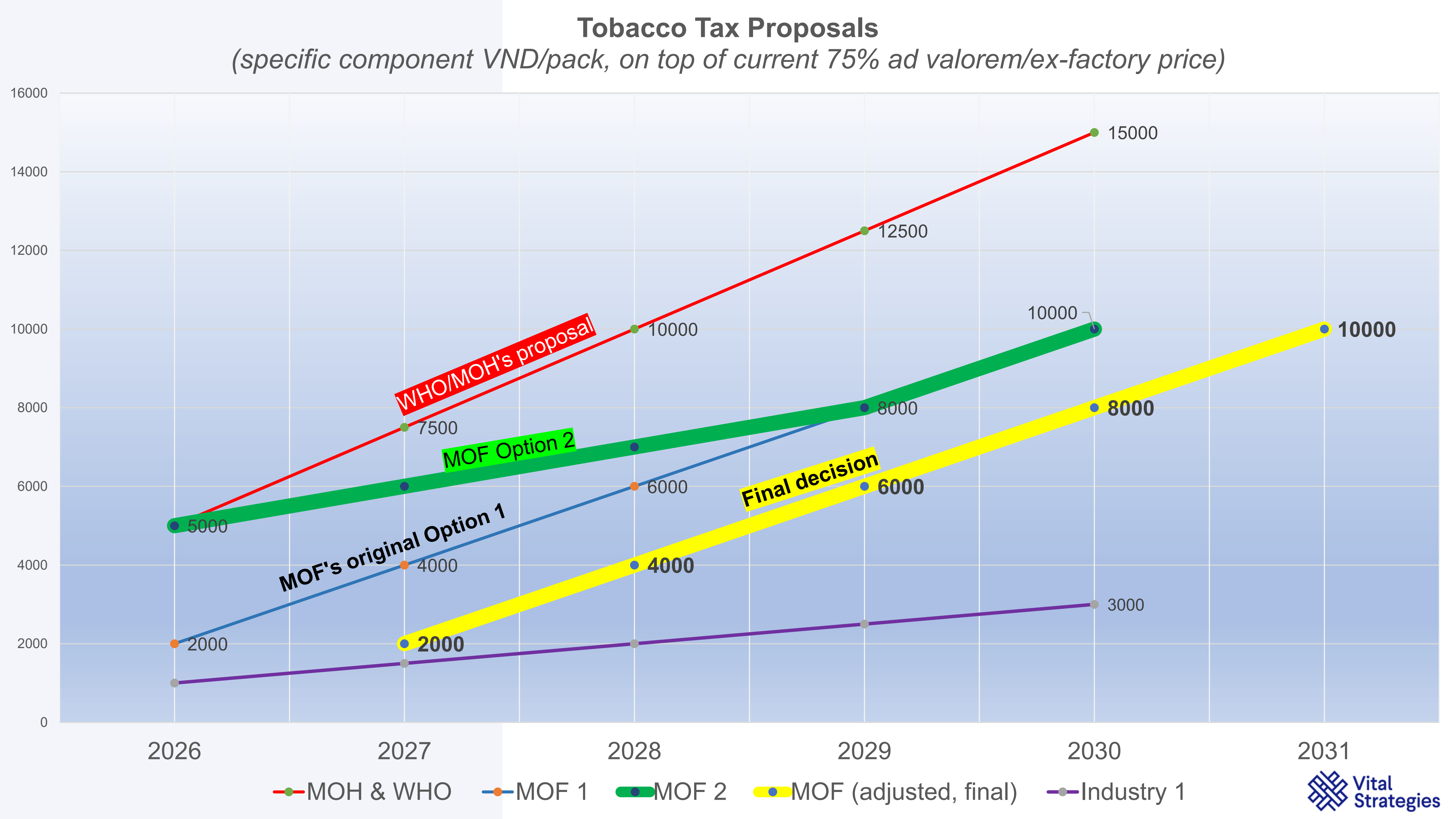

Tobacco Tax Proposals
(specific component VND/pack, on top of current 75% ad valorem/ex-factory price)
16000
14000
12000
10000
8000
6000
4000
2000
0
2026
2027
2028
2029
2030
2031
WHO/MOH's proposal
MOF Option 2
MOF's original Option 1
Final decision
15000
12500
10000
7500
5000
10000
8000
6000
4000
2000
10000
8000
6000
4000
2000
3000
MOH & WHO
MOF 1
MOF 2
MOF (adjusted, final)
Industry 1
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Impacts assessment of the new tax law

TAX DESIGN

- **Tax structure:** transition from ad-valorem to mixed system (Uniform tax)
- **Meaningful specific tax:** 2000 VND increases retail price by **15-16%** in the first year
- **Annual increases:** prevent erosion from inflation and keep reducing affordability

PROJECTED 2027-2031 ROADMAP

- **Tax share** up 36% to 59% by 2031
- **Affordability declines:** real price growth of 8-16% per year -- exceeding income growth 6%
- **Male smoking prevalence reduction:** from 41.1% to 37.4% by 2031
- **2+ millions fewer smokers by 2031** (vs. no-tax hike)
- **Revenue doubles from $700M to $1.4-1.5B per year**

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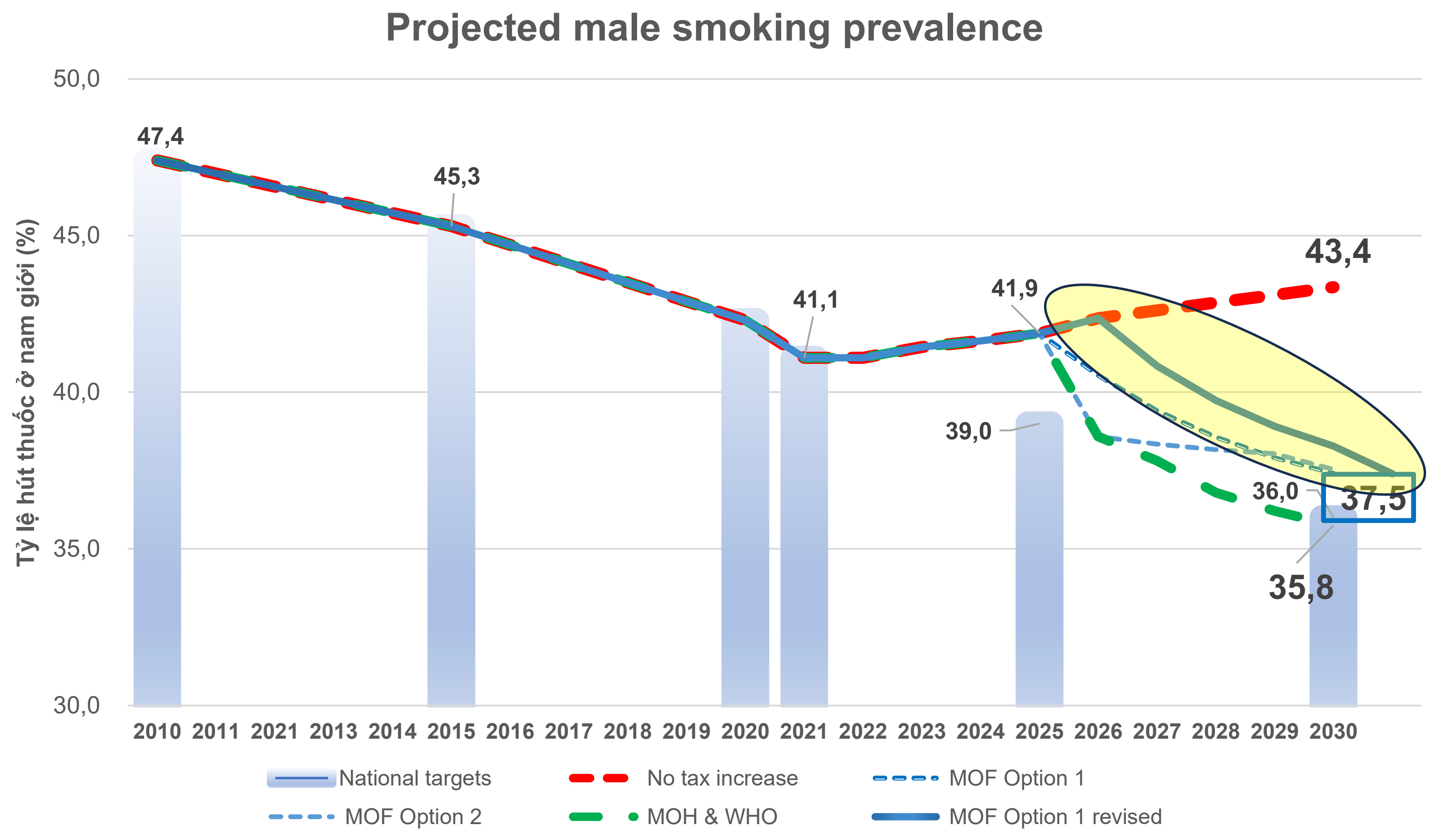
Strong tax reform can revert the renewed increasing consumption trend



- Tax increase roadmap reverts the consumption increasing trend
- MOF's tax option can reduce male smoking prevalence to 37.5%, close to the national target of 36%.

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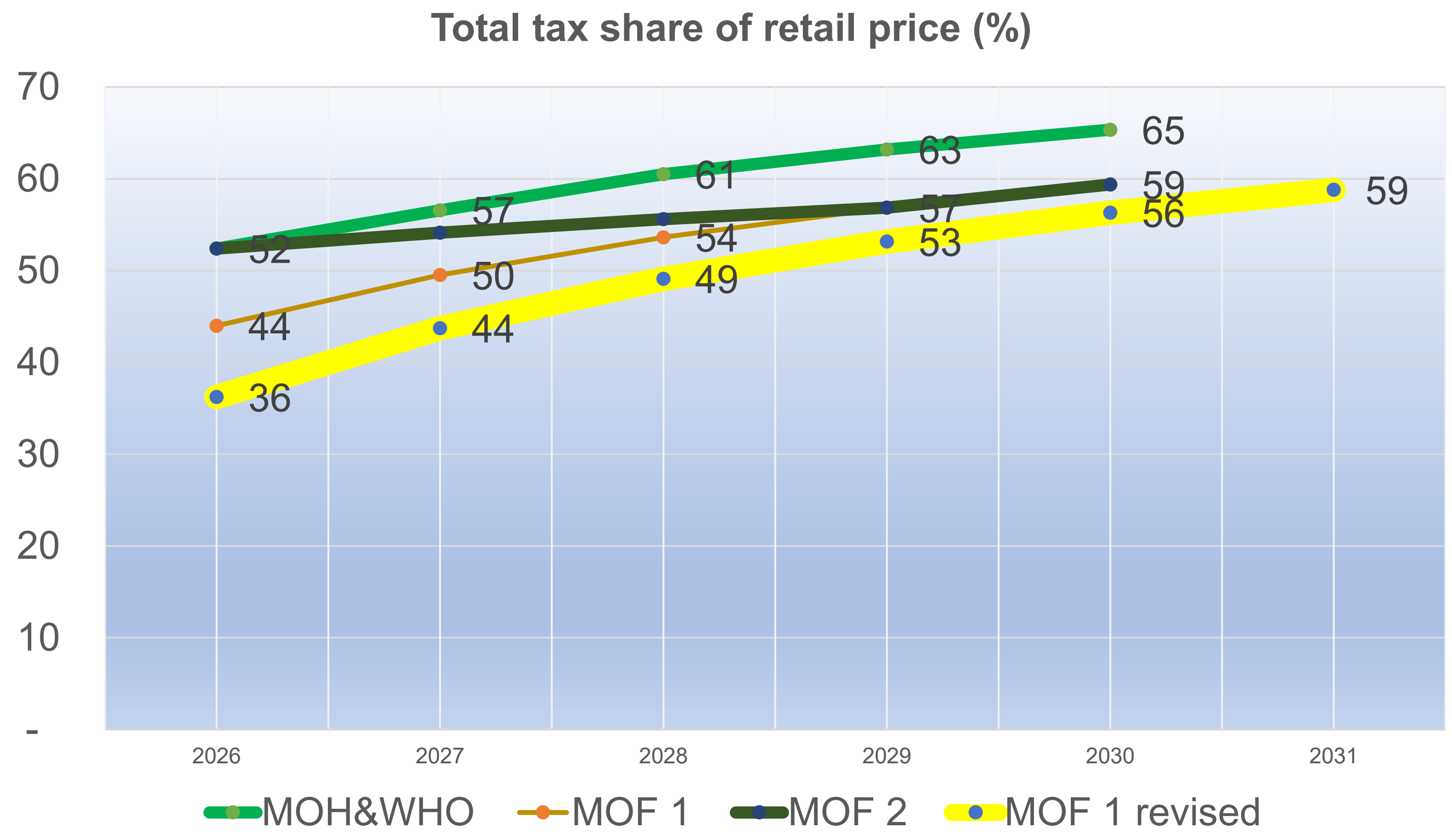
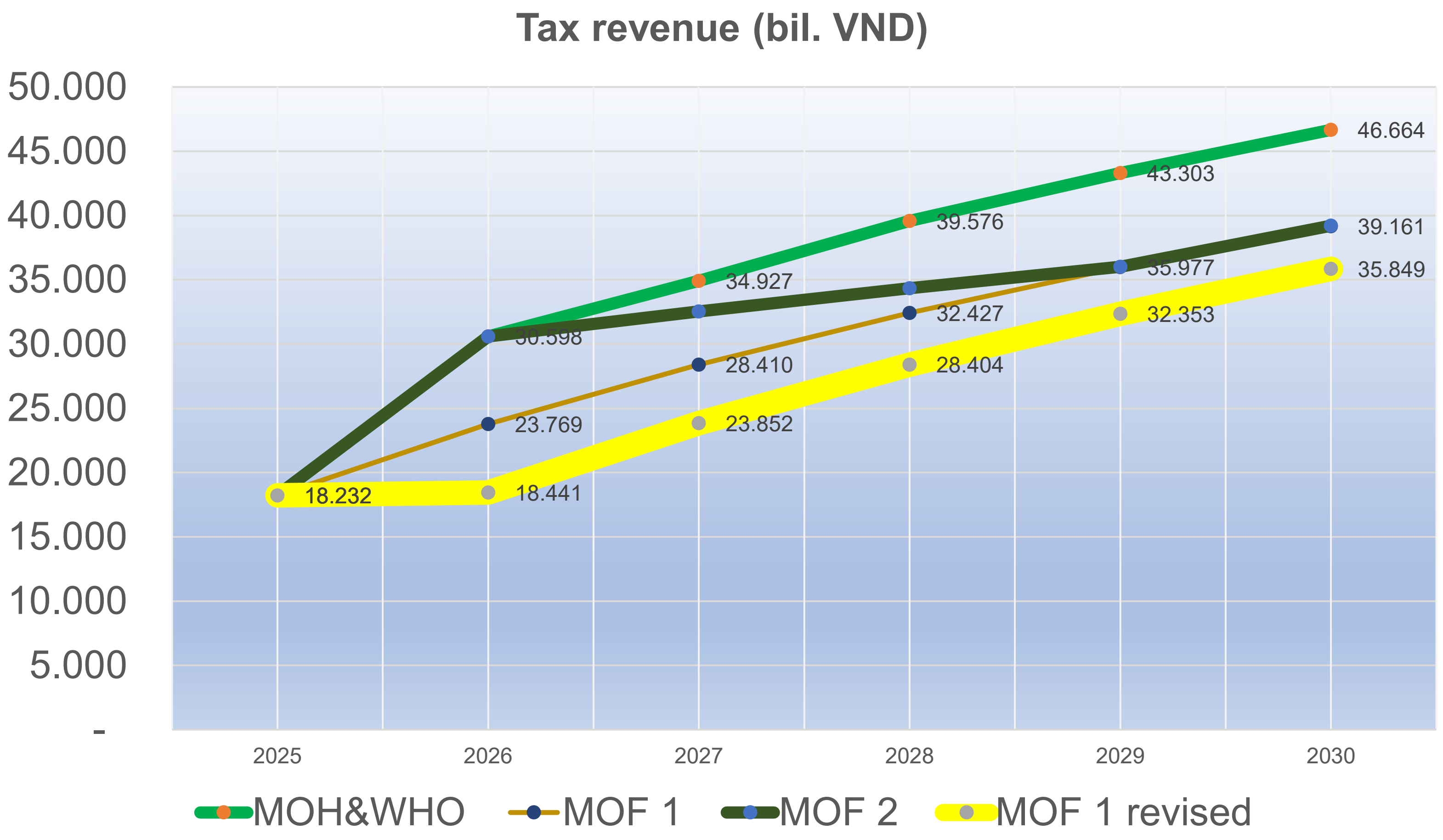
Projected impact on tax share



Average tax share will increase from 36% (current) to 56% by 2031

- **Premium brand: 53%**
- **Mid-priced: 58%**
- **Cheap brand: 66%**

Projected impact on revenue



With the approved (MOF 1 revised) tax roadmap:

Annual revenue from tobacco tax in increase from $700+ millions to $1.5 billion

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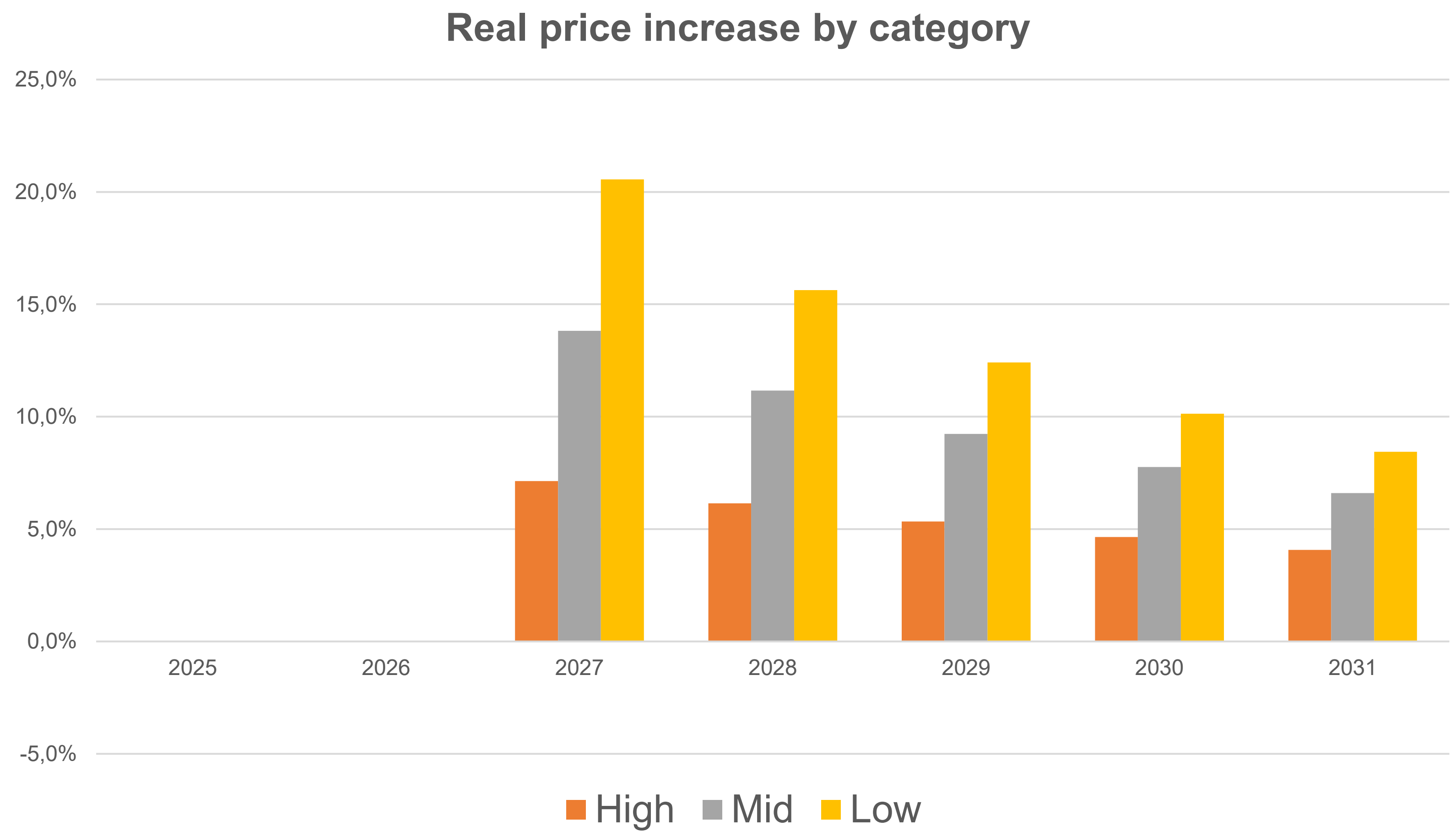
Projected impact on price



- On average: price increase faster than inflation/income growth
- The specific tax: price of the cheaper brands increases the most (in %)

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Key challenges and lessons learnt

FOUNDATION: BUILDING THE CASE FOR HIGH SPECIFIC TAX WITH ANNUAL INCREASES

- MOH ask on prevalence reduction target and tax policies
- Policy notes on tax structure showed why ad valorem tax only did not work
- Policy notes on affordability showed annual increase roadmap needed to keep pace with inflation and growth
- Tax modelling (MOF): showing impacts on PREVELANCE and REVENUE (and firm' performance)

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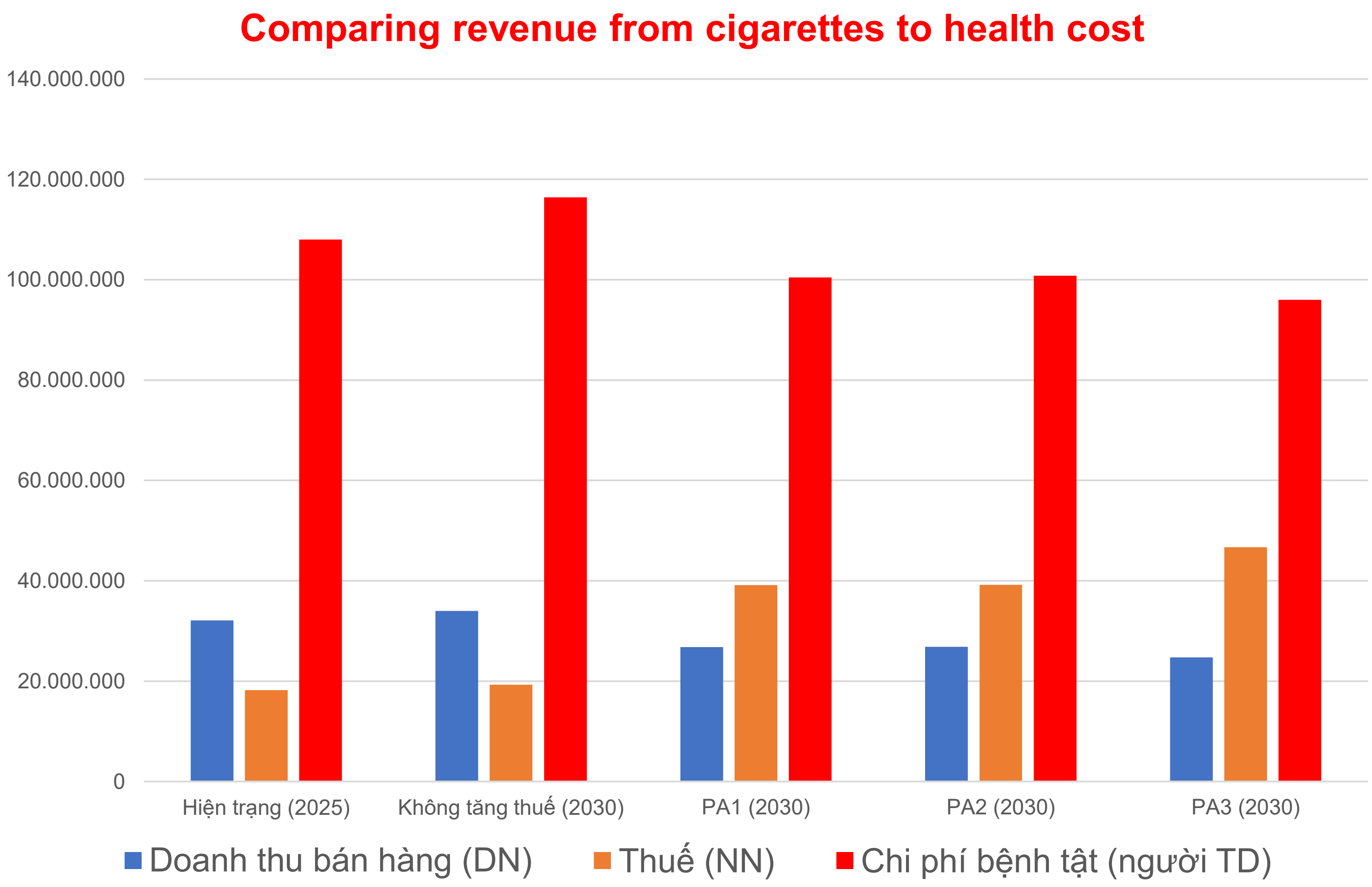
Key challenges and lessons learnt

ADDRESSING INDUSTRY CHALLENGES

- ***TII monitoring & analysis → advising evidence generating & communications***
- **Addressing Claims of Negative Economic and Employment Impacts**
  - Research on Health Cost: **1.14% GDP**
  - Research on Employment: Industry overstates job losses; I-O modelling shows net **positive employment effect**
  - Research on Tax and SDGs**:** tax reduces consumption for health SDGs, funds SDG programs via revenue
- **Addressing Claims on Illicit trade**
  - Consumption surveys: illicit market share stable/declining despite tax hikes - driven by taste, not price
  - Price surveys**:** Illicit prices higher - and rise alongside legal price increases
  - Tax administration**:** better enforcement - not delayed tax increases - is the solution

Example



Graph showing health cost from tobacco use outweighs revenue from sale and tax

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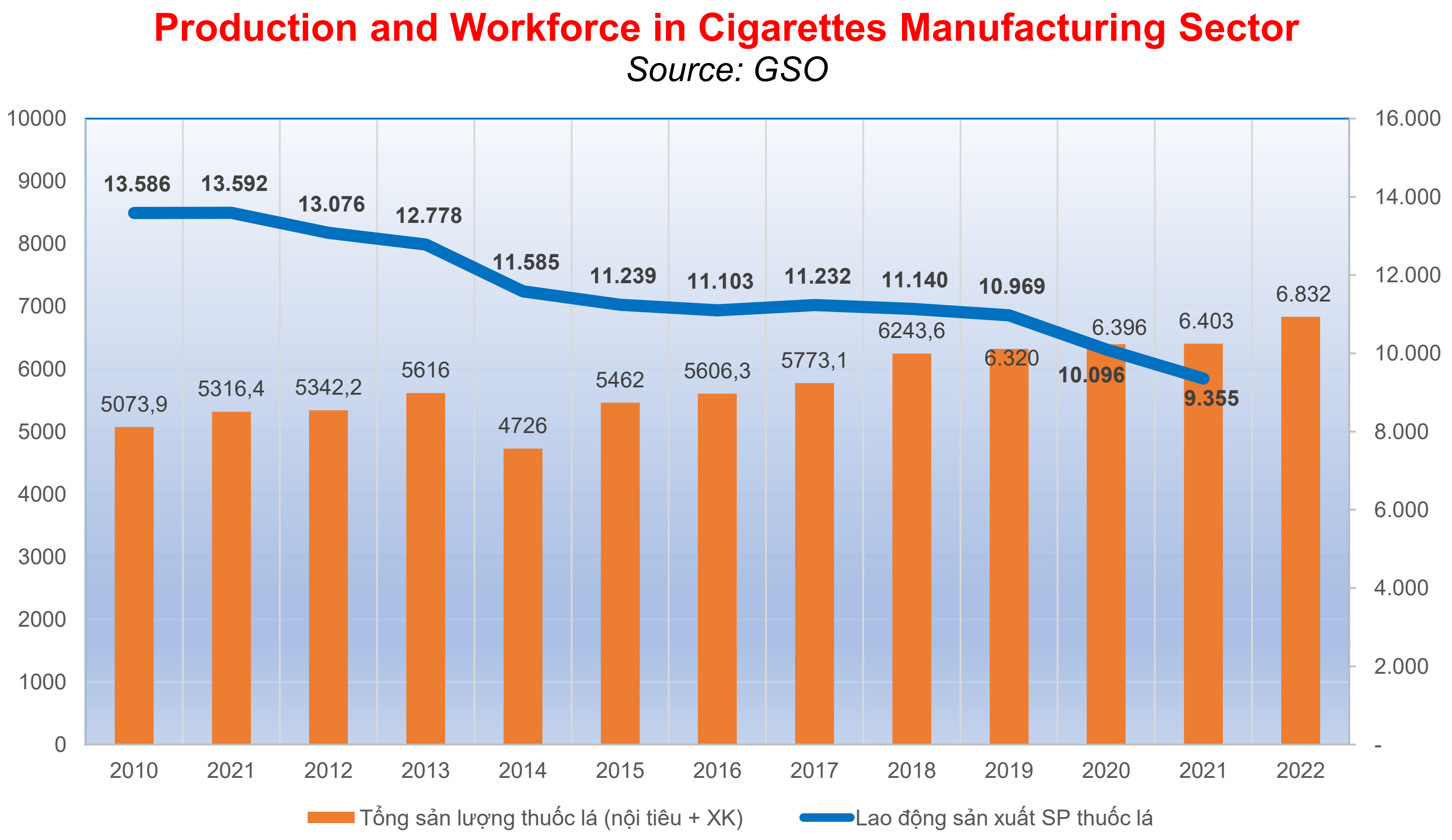
Example



Graph showing while cigarettes manufacture output increase, the number of labors in the sector decreases

Managing messages to government for the excise tax law process

(SUPPORTING MOF POSITION)

Industries' claim #1: the proposed specific tax are SHOCKING

- Response: **MOH proposal (prioritized for health) asked for even higher increases**

Industries' claim #2: lower specific tax in the first year allows time to adapt

- Response: **Higher tax, earlier implementation - faster consumption drop, more lives saved sooner**

ADDRESSING CONCERNS RAISED BY MACROECONOMIC SLOW-DOWN AND GLOBAL TRADE TENSIONS

- Response: **Health taxes as pro-growth fiscal policy**

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Conclusion

- The tax law reform with the addition of significant specific tax, adjusted annually would give positive (WIN-WIN-WIN) impacts on public health, government revenue and the economy
- The involvement of MOH (and public health organizations) in the communication with MOF on tax policies is critical
- Good evidence can be generated to address both industry's claims and government concerns
- Macroeconomic sentiments monitoring needed to adjust messaging.

Thank you for listening!

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