

This policy brief is based on a research study entitled ***Empirical Analysis of Cigarette Tax Avoidance and Evasion in Vietnam*** conducted by the Institute of Public Policy and Management (IPPM) at the National Economics University

Empirical Analysis of Cigarette Tax Avoidance and Evasion in Vietnam

Key Messages

- Increases in tobacco taxes in Vietnam since 2014 have had no effect on illicit trade. The gap between the reported consumption and tax-paid sales has declined, meaning that illicit trade has likely declined.
- There is no evidence to support the argument that increases in tobacco taxes result in increases in illicit trade.

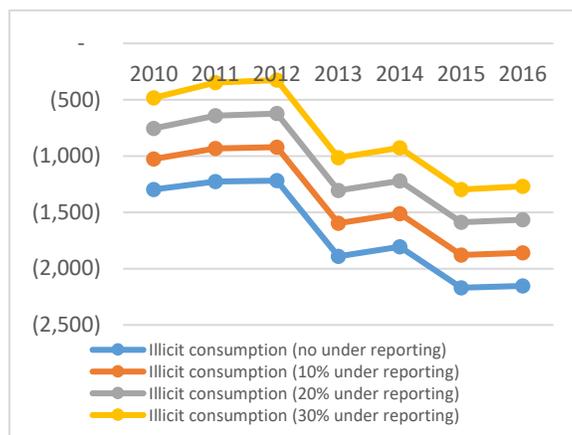
In 2016, taxes on cigarettes in Vietnam accounted for only 36,5% of retail prices, much lower than many other countries and below the WHO's recent recommendation of 70%. Furthermore, cigarette prices declined by 6.3% in real terms between 2010 and 2015. In addition to this, the current tax structure with ad valorem tax on a small tax base has not been effective in reducing the affordability of cigarettes. At the same time, however, tax increases have also faced strong objections from domestic cigarette manufacturers. The Vietnamese tobacco industry argues that the illicit trade in cigarettes in Vietnam has been complex and continues to intensify. Manufacturers attribute the intensification to higher prices of domestic products caused by higher excise taxes.

With such opposing arguments, the question is: how have higher cigarette taxes affected illicit cigarette trade in Vietnam?

To estimate the magnitude of the illicit cigarette trade, the study authors employed a tax gap analysis that compared cigarette tax-paid sales with consumption estimated from a survey. This method estimates the consumption of illicit cigarettes by calculating the discrepancy between domestic tax-paid sales of cigarettes and a survey-based estimate of consumption.

Assuming no under-reporting in surveys, cigarette consumption increased from 2,712 million packs in 2010 to 2,927 million packs in 2011 and remained mostly unchanged from 2011 to 2016. Domestic tax-paid cigarette sales generally rose throughout the period from 3,986 million packs in 2010 to 5,067 million packs in 2016.

Figure 1. Consumption of illicit tobacco trend – different assumed scenarios, 2010-2016



The negative values for the discrepancy between cigarette consumption and domestic tax-paid sales indicate a net outflow of illicit cigarettes during 2010-2016. The magnitude of the illicit cigarette net outflow fluctuated with an increasing trend (Figure 1). However, as surveys tend to underreport cigarette consumption, Figure 1 also presents the possible trend with up to 30% underreporting.

In conclusion, the gap method indicated net smuggling out of Vietnam between 2010 and 2016. Furthermore, it showed a declining trend in recent years. Low prices of domestic cigarettes have created favorable conditions for cigarette smoking, which in turn granted easy access to cigarettes for the Vietnamese people. The absence of a relationship between tax changes and smuggling suggested that potential increases in the excise tax should not be discouraged by the threat of increasing illicit trade.

As such, the government should significantly increase taxes on cigarettes to raise domestic cigarette prices and take strong anti-corruption measures to create a more transparent social environment, therefore effectively reducing the magnitude of smuggled cigarettes in Vietnam.

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