INTERNATIONAL PRO-HEALTH EXCISE TAX LITERATURE REVIEW TO SUPPORT THE MINISTRY OF FINANCE OF VIETNAM

Local Health System Sustainability Project

Task Order 1, USAID Integrated Health Systems IDIQ

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Local Health System Sustainability Project

The Local Health System Sustainability Project (LHSS) under the USAID Integrated Health Systems IDIQ helps low- and middle-income countries transition to sustainable, self-financed health systems as a means to support universal health coverage. The project works with partner countries and local stakeholders to reduce financial barriers to care and treatment, ensure equitable access to essential health services for all people, and improve the quality of health services. Led by Abt Associates, the five-year, $209 million project will build local capacity to sustain strong health system performance, supporting countries on their journey to self-reliance and prosperity.

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ACRONYMS

ABV	Alcohol by Volume
ASEAN	Association of Southeast Asian Nations
CSO	Civil Society Organization
FCTC	Framework Convention on Tobacco Control
GDP	Gross Domestic Product
GOT	Government of Tonga
IMF	International Monetary Fund
LHSS	Local Health System Sustainability Project
LMIC	Low-or-Middle-Income Country
MOF	Ministry of Finance
NCD	Noncommunicable Diseases
RMTR	Revenue Maximizing Tax Rate
SDIL	Soft Drink Industry Levy
SSB	Sugar-Sweetened Beverage
TNC	Transnational Corporation
UK	United Kingdom
USAID	United States Agency for International Development
VAT	Value-Added Tax
WHO	World Health Organization

EXECUTIVE SUMMARY

The Ministry of Finance (MOF) in Vietnam is updating its Public Finance Strategy for 2021 through 2030 to increase government revenue and meet the growing need for social sector funding at a time when external financing is declining. One way that the country generates domestic revenues is in the form of excise taxes, defined by the National Assembly as applying to specific goods and services that are (i) not encouraged due to their harmful effects on health, (ii) usually consumed by high-income consumers in the society, or (iii) deemed unnecessary services. The group of taxes applied to goods not encouraged due to their harmful effects on health are referred to in this report as pro-health taxes.

The MOF most recently proposed several amendments to the excise tax law in 2017 but may advocate for the law to be placed on the agenda of the National Assembly in 2023 for further amendments. The ministry has assigned the Institute of Finance Strategy to review excise taxes in Vietnam and to propose recommendations for revising the excise tax law. The institute asked the USAID-funded Local Health System Sustainability Project Vietnam activity to conduct the review on a subset of pro-health excise taxes, namely the existing taxes on tobacco and alcohol and a proposed new tax on sugar-sweetened beverages (SSBs). This report forms part of that review. It summarizes the results of a review of international experience and best practices drawn mainly from low- and middle-income countries. It includes case studies on six middle-income countries (Bangladesh, Colombia, Mexico, South Africa, Tonga, and Ukraine) and also incorporates experience from high-income countries (Kingdom of Saudi Arabia and the United Kingdom) on SSB taxation, which is not yet widely used elsewhere.

The use of excise taxes to increase domestic revenue mobilization has garnered increasing attention in the wake of the COVID-19 pandemic. Excise taxes are particularly well suited for revenue mobilization because they are easy to collect. Furthermore, because they tend to be imposed on goods with few close substitutes and inelastic demand these taxes tend to cause few, if any, economic distortions. In addition, excise taxes can correct for market and individual failures to fully account for the costs of consuming certain goods like fuel, plastics, alcohol, or tobacco. If well designed, they can reduce regressivity – the poorest households suffer disproportionately from the ill effects of smoking and SSB consumption and are most sensitive to price increases, so they are likely to benefit the most from a tax-induced price increase that reduces the consumption of these goods. Despite these advantages, it is generally agreed that excise taxes, including pro-health excise taxes, are underutilized and offer considerable potential for revenue mobilization.

This report sets out best practices around pro-health excise tax implementation in three areas: the development of the excise tax legislation; the structure of the taxes; and the processes put in place to evaluate and adjust them. Several practices contribute to success in passing tax legislation. These include coupling legislation that increases tax rates (e.g., on tobacco or alcohol) or introduces new taxes (e.g., on SSBs) to issues already on the legislative agenda, such as fiscal reform or increasing access to social services. Similarly, the policy framing around taxes should align with the prevailing political sentiment. Understanding political sentiment is complex and pro-health tax advocates should not underestimate the value of engaging professionals to undertake this analysis, especially given that opponents of proposed taxes, such as the industries on whose products they are levied, will make such investments. For example, decisions such as whether the process would be best driven by ministries of health or ministries of finance require a sound understanding of the political situation. Proponents of pro-health taxes must also be

willing and prepared to negotiate and grant concessions to win support for excise tax legislation. Finally, coalition building, and developing sound communication strategies are critical to generate broad consensus and support from political and public thought leaders, and to counter tax opposition.

Industry opponents of pro-health taxes are generally more experienced and better-resourced than pro-health tax proponents. The tobacco, alcohol, and SSB industries, particularly trans-national corporations (TNCs), rely on low- and middle-income country markets to maintain their growth. TNCs have developed a range of tactics to thwart new legislation on taxes, including working through front groups to enhance their credibility, distorting, or discrediting evidence regarding the health impact of their products, presenting alternative policies to divert attention from tax legislation, mounting media campaigns, and high-level political lobbying. Having experienced significant tax legislation introduction in high-income countries, the tobacco industry has a well-described set of anti-tax arguments that pro-tax advocates must be prepared to counter with data. These arguments include assertions that if taxes are raised, smuggling and illicit trade will increase, that taxes are regressive and hurt the poorest the most, that existing tax revenue will fall, and that industry revenue will fall so much that it will impact employment. All these arguments have international evidence and experience to refute them, and many have local, country-specific data that advocates can use to show that they are wrong.

There are also clear lessons from international experience about tax structure. Generally, a government should design and implement the most straightforward and efficient system that meets its fiscal needs, given national circumstances. Several best practices around product scope, rate type, and rate level have been shown to support such a design. Where feasible, pro-health taxes should target the element with adverse health consequences, such as the sugar or alcohol content of a beverage rather than liquid volume. However, there are additional considerations to keep in mind. For example, if discouraging younger people from drinking or smoking is a priority, then imposing higher tax rates on products designed specifically to appeal to them, such as alcohol-containing fruit beverages or fruit-flavored tobacco products, could be considered. Young people have less disposable income and are therefore more sensitive to price. Best practice also suggests that pro-health tax rates should be either specific [1] or a mixture of specific and ad valorem.[2] Specific tax rates are preferred because they are more challenging for manufacturers to manipulate and generate more stable revenue streams than ad valorem taxes. Mixed systems, where one rate of each type, are implemented on the same product, are increasingly used to retain the inflation tracking properties of ad valorem rates alongside the specific rate's benefits. The need to keep taxes focused and avoid overly complicated tax tiers that vary across different varieties of a good are also critical to consider. Uniform or minimally tiered and comprehensive rates are easiest to administer and control; complex tiered, discriminatory tax systems on the other hand, are highly desired by industry because they provide opportunities for manipulation to minimize the tax burden.

Modeling the potential revenue from increasing pro-health tax rates has gathered a lot of attention and effort over recent decades. The results demonstrate that there is significant scope to increase current rates and revenues. While revenue-maximizing and externality-correcting rates are attractive and worth considering and estimating, in practice it is the typically lower, politically acceptable rate that is often implemented.

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[1] **Specific tax - a fixed monetary value based on a physical characteristic of a product e.g., US$ 1.00 per pack of cigarettes**

[2] **Ad valorem tax – based on the price of a product e.g., 10 percent of the price of a pack of cigarettes**

Once a tax is legislated, designed, and implemented then evaluation is critical if the tax is to continue meeting its objectives of generating revenue or decreasing consumption in the face of economic pressures from growth or inflation. Ensuring that tax rates keep up with income growth (which makes goods more affordable, thus leaving potential tax revenue uncollected) and inflation (which lowers the real value of revenue from specific taxes) must be included in the legislation. Ways to ensure tax rates remain relevant include pegging specific-type rates to inflation or by building in periodic reviews or evaluations of rates, consumption, and revenue to allow for evidence-based adjustments. Supporting periodic rate reviews with timely and valid evidence that triangulates data on prices, consumption, and revenue can support rate rises. These rate changes can increase or maintain the value of tax revenue particularly when industry will be prepared to lobby against such rate reviews citing, often spurious, economic arguments.

The main messages relevant for informing decisions related to Vietnam's existing and proposed pro-health taxes are summarized as follows:

Lessons for modifying and increasing Vietnam's existing alcohol and tobacco taxes

<table>
<tr>
<td>TAX LEGISLATION DESIGN</td>
<td>

Alcohol and tobacco companies are looking to expand their markets in low- and middle-income countries, so tax reformers must be prepared to:

Counter transnational corporation (TNC) strategies to defeat or manipulate excise tax legislation, particularly their high-level political lobbying and use of the media
Counter economic and trade/free-market arguments put forward by TNCs

It is important to be clear whether the main objective of the tax legislation for Vietnam at this time is to raise revenue or reduce consumption (current Vietnamese excise tobacco tax legislation prioritizes consumption). While the two are not mutually exclusive, clarifying the main objective can ensure the correct framing of the proposed legislation so that it gets onto the political agenda and that there is effective advocacy mobilization to support its passage.
Local and international data and lessons should be incorporated into legislation strategy and design. Local data include economic and health as well as political information. Any previous successes or failures at passing tax legislation in Vietnam should also be analyzed.
Public support for higher taxes could be built via advocacy through trusted local civil society organizations and leaders close to the community.

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<tr>
<td>TAX STRUCTURE DESIGN</td>
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Specific or mixed tax rate systems are best practice. Vietnam might consider switching from ad valorem taxes to a mixed system. A mixed system would add a specific tax element, which is desirable because specific taxes are harder for manufacturers to manipulate and generate more stable revenue streams than ad valorem taxes.

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	● Vietnam's tobacco and alcohol tax rates are at the levels recommended as best practice for reducing consumption. ● Given the high rate of smoking in Vietnam there is scope to further increase tobacco tax rates and consequently revenue. ● Again, it is critical to be clear on the main objective. If behavior change – reducing consumption – is a goal in addition to raising revenue, a "shock" approach to increasing rates is desirable (a sudden 20+ percent increase as opposed to gradual single-digit percentage point increases over time). That said, the subsequent consumer responses to large increases are harder to predict accurately and revenue may be less stable and even decrease. ● Tax scope may need adjusting to account for new technologies like vaping (possibly requiring additional legislation).
 **TAX EVALUATION AND IMPACT**	● Routine evaluation of taxes is essential to monitor revenue and consumption impact. Evaluation data can (i) provide evidence to counteract manufacturer arguments, (ii) be used to garner public support, if necessary, (iii) help to determine when tax increases are required, and (iv) allow tax design to be adjusted to meet additional objectives such as discouraging underage consumption or lowering disease burden regressivity. Vietnam has the technical capacity for evaluation. ● Evaluation activities will require collaboration between government institutions for revenue, finance, and health in addition to academia.

Lessons for implementing Vietnam's proposed sugar-sweetened beverage tax

 **TAX LEGISLATION DESIGN**	● Although few countries have implemented sugar-sweetened beverage (SSB) taxes, TNCs have already begun strengthening their strategies to prevent or subvert SSB tax introduction, with some success. ● Unlike alcohol and tobacco taxes, SSB taxation does not have a history. Therefore, the support of the public and legislative decision-makers cannot be assumed, and advocacy is required to build support. ● International experience suggests the following are critical: ○ Contextual framing of the legislation and its objectives so that they are connected to the economic and political priorities of the day. SSB taxes are usually presented as a measure to improve health, but it may be easier to pass tax legislation if they are presented as revenue raising measures. ○ Building a broad coalition across ministries (finance, revenue, health), academia, legislators, communities, and civil society.

TAX STRUCTURE DESIGN	• Specific taxes that can target sugar content (not liquid volumes) across all SSBs are strongly recommended. Specific taxes may be challenging because the revenue system until now has administered ad valorem excise taxes. • It will be important to understand the range of products proposed for taxation to understand the probability and consequences of substitution. For example, if an ad valorem tax is used, the absolute increase in price will be lower for cheaper SSBs than for more expensive ones containing the same amount of sugar. Consumers are therefore likely to switch from more expensive to cheaper SSBs leading to no decrease in sugar consumption and lower revenue. • SSB taxes can be designed to incentivize reformulation of drinks to contain less sugar and yet still raise substantial new revenue.
TAX EVALUATION AND IMPACT	• Global and low-and middle-income country experience implementing and evaluating SSB taxes is limited. Building evaluation and review processes into implementation is critical for tracking effectiveness and equity. • SSB tax evaluation support (financial and technical) is essential, given the new nature of this research for Vietnam. It may be available from philanthropies working on SSB advocacy such as Bloomberg Philanthropies, and from international institutions with experience.

1. INTRODUCTION

The Ministry of Finance (MOF) in Vietnam is updating its Public Finance Strategy for 2021 through 2030 to increase its government revenue and meet its growing social sector needs. These needs include the health sector due to factors such as the disease burden of an aging population, the increasing incidence of non-communicable diseases (NCDs), and the increasing benefit package costs and hospital reimbursement rates under the Social Health Insurance scheme. Raising domestic revenue is also necessary to address reduced donor funding as Vietnam's income status increases and the high levels of debt and budget deficits accumulated over recent years (Teo et al. 2019).

One way that the country generates domestic revenues is in the form of excise taxes. Excise taxes are levied on selected goods and services in order to raise revenue in a way that corrects market failures and/or makes the tax system more progressive. Vietnam's National Assembly defines these taxes as applying to specific goods and services that are (i) not encouraged due to their harmful effects on health, (ii) usually consumed by high-income consumers in the society, or (iii) are unnecessary services. Excise taxes on goods harmful to health, for example, alcohol, tobacco, and sugar-sweetened beverages (SSBs), are called pro-health taxes. Vietnam currently imposes excise taxes on alcohol and tobacco, with tax rates for these two goods ranging from 35 percent to 75 percent.[3] These taxes are in addition to the general sales tax imposed on alcohol and tobacco goods produced domestically and the import duties charged on imported alcohol and tobacco goods. A tax on SSBs has been discussed but is not yet policy.

The MOF has asked the Institute of Finance Strategy to review excise taxes in Vietnam and propose recommendations for revising the excise tax law in preparation for its addition to the National Assembly agenda for 2023. The Institute suggested that the Local Health System Sustainability Project (LHSS) Vietnam activity conduct the review on a subset of pro-health excise taxes to inform the broader review of excise taxes. LHSS Vietnam will conduct two studies on the impact and experience of pro-health taxes on general government revenues. One study will summarize Vietnam's experience and develop scenarios to analyze the revenue impact of:

(i) Increasing the excise tax rates and tax base for existing pro-health excise taxes on tobacco and alcohol, and

(ii) Introducing a new pro-health excise tax on SSBs.

The second study, presented here, will summarize international experience from countries at a similar development level to Vietnam, that is, low- and middle-income countries (LMICs). Some high-income country examples are referenced to illustrate potential options with relevance for Vietnam. LHSS Vietnam will combine the results of the two studies to provide recommendations to the MOF on the best strategy for using pro-health excise taxes to raise revenues for Vietnam.

The best practices and country case studies are presented using the following framework:

[3] Law on special excise duty, Vietnam National Assembly 2016. https://thuvienphapluat.vn/van-ban/Thue-Phi-Le-Phi/Van-ban-hop-nhat-02-VBHN-VPQH-hop-nhat-Luat-thue-tieu-thu-dac-biet-2016-312442.aspx. Accessed 29 April 2021

1) Taxation legislation design, which includes factors that determine the successful passing of an excise tax policy or reform of an existing policy, such as stakeholders, political context, and opportunity, as well as challenges.
2) Tax design and structure, which cover the design of the tax rates. Very little information could be identified on the actual design process itself. The case studies therefore describe the resulting tax structures, while the best practices cover the critical design elements.
3) Tax evaluation and impact, which includes any issues resulting from the implementation as well as the revenue generation and consumption outcomes and any subsequent tax design revisions.

2. BACKGROUND

EXCISE TAX CHARACTERISTICS

Excise taxes are applied to particular goods and can be simple or complex. Unlike sales and value-added taxes, which are levied at the same rate for all goods and services, excises are applied to a particular good or group of goods and can be set to different rates for different goods. Furthermore, they can range in design from simple to complex. An example of a simple excise tax would be Mexico's SSB tax, set in 2013, of 1 peso per liter of non-alcoholic beverage with added sugar, or the UK's tax of GBP 0.5795 per liter of unleaded gasoline. A complex tiered system example would be Bangladesh's tobacco tax rates, which vary according to the tobacco good's classification of low, medium, high, or premium, or Vietnam's excise tax on cars, which ranges from 10 percent to 150 percent depending on the engine capacity. Several of these examples are discussed in the country case study section of this report. It is worth noting upfront that, generally, simple tax structures are preferable for efficiency and effectiveness.

Excise taxes can be specific or ad valorem. A specific excise tax is set as a fixed monetary value per physical characteristic of a product or per unit of sale, for example, ZAR 0.021 per gram of sugar per 100ml of SSB in South Africa (see South Africa case study) or UAH 11.56 per packet of 20 cigarettes in Ukraine (see Ukraine case study). An ad valorem tax is based on the price of the product being sold. For example, Vietnam's tax of 30 percent on the selling price of yachts.

Excise taxes can be collected from manufacturers, retailers, or importers. Manufacturers' excises are collected from the producer or distributor of a good, and these may be specific or ad valorem. It is administratively easier to tax manufacturers and distributors since there are typically only a few of these in a country relative to the vast number of potential retail sellers. Note, however, that ad valorem tax revenue is maximized by collecting when the unit price is highest – at the retailer – while specific taxes result in the same revenue wherever they are collected. When the final seller or retailer collects excises, these are typically ad valorem taxes. For efficiency, taxation close to the point of final sale is preferred for ad valorem taxes because it minimizes any unexpected distributional effects along the value chain between producers and consumers. For example, tobacco manufacturers in Ukraine chose to absorb early tobacco tax increases to prevent retail prices from increasing (see Ukraine case study). From a pro-health tax perspective, this absorption is undesirable since it is the price increase that curbs consumption.

Pro-health taxes are a subset of excise taxes levied on goods whose consumption harms health via externalities or internalities that are not captured in the price that an individual consumer pays for the good (Grummon et al. 2019) (Terra 1996).

- **Externalities – costs that are not considered in an individual's decision to consume a good because others bear them. These include "societal" externalities, such as the increase in community health premiums that others, aside from the individual tobacco consumer, must pay to cover the additional costs of care for lung cancer and chronic obstructive pulmonary disease among smokers and those affected by secondhand smoke consumption.**
- **Internalities – costs that are borne by the consumer but are nevertheless not considered in their consumption decisions. An example of an "individual" internality could be the costs that a smoker will incur in the future due to their cigarette consumption, for instance, if they are unable to work or must pay out of pocket for medical care, but that they do not factor into their present decision to consume and pay for tobacco.**

Previously referred to as "sin" taxes, these taxes have now been reframed to be less "punitive" and "moral policing" and are now referred to as pro-health taxes to convey their potential to reduce the consumption of commodities like alcohol, tobacco, and SSBs and thus improve health or limit the incidence of future NCDs.

MAKING A CASE FOR PRO-HEALTH TAXES

There are several reasons why pro-health taxes are appropriate for raising revenue during good and bad economic climates, especially in LMICs.

The revenue potential is high. Of most importance to this study, numerous reviews (Andreyeva et al., 2011; Bird, 2015; Davis et al., 2019; Roache & Gostin, 2017; Summan et al., 2020), including the recent Bloomberg initiative that included reviews on pro-health taxes (The Task Force on Fiscal Policy for Health, 2019) have estimated that there remains substantial scope for revenue generation in LMICs using these taxes.

Simple to collect. An appropriately designed excise tax can be cost effective and straightforward to collect because specific taxes at their most basic can be determined once for a product and only need to be collected from a limited number of points. For example, revenue authorities can collect taxes at manufacturers' facility gates and from importers at the borders when goods are cleared, and other duties are paid.

Cause few economic distortions. Unlike many taxes, appropriately designed excise taxes do not typically distort markets for the goods concerned in undesirable ways because they are imposed on goods that do not have close substitutes whose markets are then negatively affected.

There is an existing base and system in most countries for alcohol/tobacco. Increasing taxes for alcohol and tobacco is mainly political. Aside from transnational corporations (TNCs) and trade issues, these taxes may not require significant advocacy, relative to introducing an SSB tax, since the public is generally used to paying these taxes, and the pro-health argument is straightforward. Systems to collect these taxes are already in place in nearly every country. However, if a policy reform is required because significant design changes are proposed, there may be a need for advocacy. This report presents several arguments for changes in design to increase effectiveness.

Position some countries on an optimal path to developing tax revenue capacity. It has been proposed that for countries with basic tax systems, implementing an excise tax is an "easy" and potentially self-financing way to develop tax revenue capacity (Savedoff and Lopert 2020).

Lessen regressivity of disease burdens. It has been shown that the disease burdens and the associated costs of tobacco, excessive sugar, and alcohol consumption tend to be

disproportionately borne by lower-income households. These households are also less well equipped with the finances, knowledge, and access to health services required to address these burdens. Because pro-health excise taxes cause a higher reduction in consumption in these groups than in higher-income groups (Colchero MA et al., 2017), these taxes effectively redistribute the associated burden of disease more equitably (see Mexico case study).

3. International Experience of Using Pro-Health Excise Taxes to Raise Revenue

International evidence show that pro-health excise taxes are under-utilized as a means of generating revenue. Taxes that are now referred to as "pro-health" taxes have been used to raise revenue for monarchies, and colonial and sovereign governments for centuries – in 220 BC, the Han dynasty of China taxed tea, fish, reeds, and alcohol (Terra 1996). Taxable goods were chosen to ensure a dependable and significant source of revenue, and tax structures were designed to be easy to administer and enforce. Historically, excise taxes' significance tends to diminish as a country's tax base broadens to include the relatively more significant potential revenues from corporate and income taxes. However, in the last half-century, alcohol and tobacco have increasingly been the focus of public health professionals who have proposed raising pro-health tax rates substantially and preferably rapidly – to the point that they reduce consumption – to benefit the health status of individuals and society. Even more recently, sugar, salt, and fat excise taxes have been included in this public health focus.

While nearly every country in the world levies alcohol (160 countries) and tobacco (188 countries) taxes, only 39 countries levy an SSB tax. In high-income countries, it has been suggested that due to the primary focus being health, with revenue being a secondary concern, finance ministries tend to pay little attention to excises. However, for LMICs, excises could be an ideal source of domestic revenue mobilization (Savedoff and Lopert 2020).

Table 1 shows that pro-health tax revenues were equivalent to 1 percent of gross domestic product (GDP) for Mexico, South Africa, and the Philippines in 2016 (Savedoff and Lopert 2020). These amounts may seem small in absolute terms, but the authors of this paper also point out that (i) there is room for these rates to increase and even be doubled in these countries and (ii) the proportions are small relative to GDP because these countries have substantial tax bases from which they earn much higher levels of revenue from income and consumption taxes relative to excise taxes and (iii) can be equivalent to a large proportion govt spending on health.

Table 1 Pro-health Tax Revenues from Mexico, South Africa, and Philippines (2016 US$ millions)

	Mexico	South Africa	Philippines
Tobacco	2,030	934	1,884
Alcohol	1,462	1,772	n.d.
SSB	1,244	163	793
Total pro-health tax revenue	5,373	2,870	2,677
Total pro-health tax revenues as a percentage of:			
Public health spending	19%	22%	63%
Total government revenue	2%	3%	5%
GDP	1%	1%	1%

Source: (Savedoff and Lopert 2020)

Table 2 shows simulations by the William Davidson Institute for Haiti, Myanmar, Papua New Guinea, and Tanzania as part of a 16 low-income country analysis for the Task Force on Fiscal Policy for Health (Davis, Savedoff, and Leroueil 2019). These simulations are conservative – they assume that the price increases resulting from the tax (assuming that the tax is passed on to the consumer in the retail price), do not exceed 50 percent and that the country tax system is only capable of collecting one-third of the revenues due to weak enforcement capacity. Nonetheless, the potential revenues are substantial and demonstrate the potential scope for raising current excise rates (tobacco and alcohol) and raising/introducing SSB excises.

Table 2: Estimated Pro-health Tax Revenues from Haiti, Myanmar, Papua New Guinea, and Tanzania (2016 US$ millions)

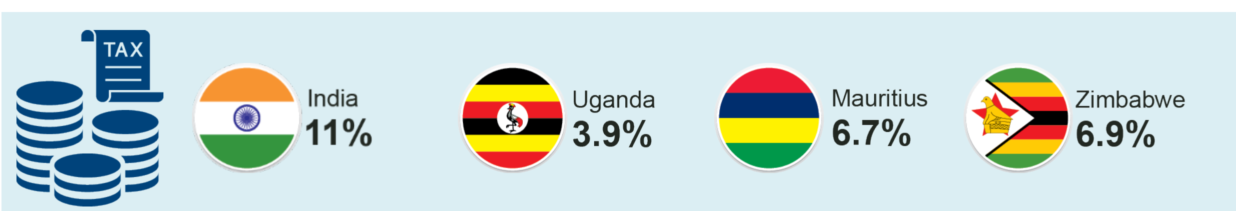
	Haiti	Myanmar	Papua New Guinea	Tanzania
Tobacco	14	109	259	50
Alcohol	595	1,431	137	369
SSB	616	1,828	806	1,103
Total pro-health tax revenue	1,135	3,368	806	1,103
Total pro-health tax revenues as a percentage of:				
Total health expenditure	113%	58%	55%	24%
Total government revenue	-*	45%	15%	12%
GDP	7.7%	2.9%	2.2%	1.4%

Source: (Davis, Savedoff, and Leroueil 2019)
*Value blank because economic indicator was not available

3.1. Alcohol Taxes

Alcohol taxes have historically accounted for a significant proportion of government revenues relative to tobacco taxes in many countries. According to the World Health Organization's (WHO's) Global Information System on Alcohol and Health, alcohol taxes in Zimbabwe, Mauritius, Uganda, and India, see figure 1, have accounted for significant proportions of annual total government revenue in the past decade.

Figure 1: The importance of alcohol tax revenue for selected countries (alcohol tax revenue as % of total government tax revenue)



Alcohol taxes, like tobacco, have a long history but tend to be structured using different criteria in recent times as social planners set rates to reduce externalities and raise revenues. Different criteria are used because, while tobacco use is harmful in all forms at any level of consumption, alcohol is generally not. The negative externalities of alcohol consumption are caused by the "problem" drinkers, who typically account for a small proportion of all drinkers. These drinkers have different consumption patterns across different countries, but typically they consume large amounts of stronger, cheaper products and tend to substitute between products in response to price increases rather than quit drinking (Griffith, O'Connell, and Smith 2019). Spirits are usually

the target for reducing externalities. However, more recently, alcoholic fruit beverages, sometimes thought of as "gateway" alcohol drinks in higher-income countries, have also been targeted to reduce early/underage drinking.

Alcohol taxation in Vietnam

Vietnam implements an ad valorem excise tax on alcohol. Alcoholic beverage commodities (alcohol) are divided into two tiers based on the alcohol by volume (ABV). Spirits with ABV 20 percent or higher are taxed at a higher rate (65 percent tax rate) than those with less than ABV 20 percent (at 35 percent tax rate). Beer is taxed at a 65 percent tax rate (International Tax and Investment Center n.d.) (HealthBridge 2015). There had previously been more tiers, but this structure was simplified in 2014. The tax rate is based on the ex-factory price (gate price) of the alcohol. Manufacturers had manipulated this structure by artificially lowering the accounting gate price to avoid paying the full tax, but the government introduced a decree requiring there to be no more than a 7 percent difference between the factory and wholesale price to limit this behavior. Import duties and consumer sales taxes are also incurred on all alcohol.

3.2. TOBACCO TAXES

Tobacco tax revenues are almost universal, with a long history of being significant and stable, but they tend to account for a small amount of revenue relative to alcohol – 0 percent to 0.2 percent of GDP in sub-Saharan Africa and 0.2 percent to less than 1 percent of GDP in the OECD (Organization for Economic Cooperation and Development) countries and large developing markets like Vietnam and the Philippines. In countries where tobacco manufacturing is a state monopoly, it can represent a high proportion of government revenue, for example, China 7.6 percent, Indonesia 8.4 percent, and the Philippines 3.1 percent. It has been observed that since 2003, cigarettes have become more affordable in many LMICs for several reasons but largely due to per capita income growth and the targeting of these countries by the four TNCs that manufacture most of the world's cigarettes.[4] Therefore, there is significant scope to increase taxes and revenue with good tax design policy and effective tax policy administration, both of which tend to be suboptimal in LMICs (Jha et al. 2015).

Figure 2 shows the proportion of countries that meet Article 6 of the WHO Framework Convention on Tobacco Control (FCTC) recommendation that countries should aim to have tax account for 75 percent of the retail price of tobacco. See Annex A for the proportion of retail price consisting of taxes by country. According to the WHO Report on the Global Tobacco Epidemic, less than 50 percent of all middle-income countries have such a tax rate and less than 30 percent of all low-income countries, see Figure 3 (World Health Organization 2021). However, 80 percent of high-income countries have met that goal. Furthermore, on average, high-income country governments earn nearly US$5 in excise revenue on every pack of 20 cigarettes, while low-income countries earn less than US$1.

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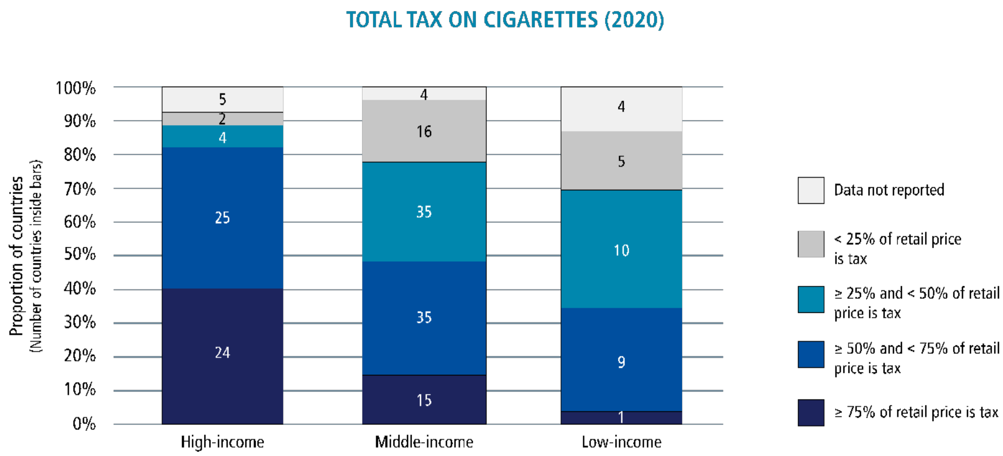
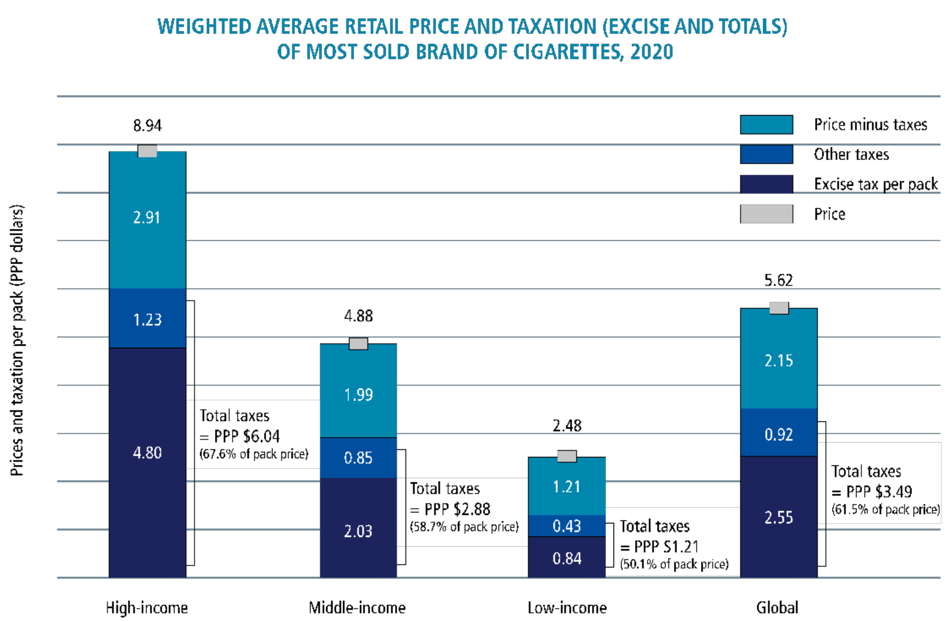
4 **British American Tobacco, Philip Morris Industries, Japan Tobacco Industries, and Imperial Tobacco. China National Tobacco Manufacturing is the world's largest tobacco manufacturer, but its products are mostly consumed within China. Together these companies accounted for 80 percent of the Global Market Share in 2016.(21)**

Figure 2: In half of LMICs, excise tax accounts for less than 50 percent of the retail price compared to 80 percent of high-income countries



Source: (World Health Organization 2021)

Figure 3: High-income countries raise US$4.80 in revenue per pack, while LMICs raise less than US$1.00



Note: Averages are weighted by WHO estimates of number of current cigarette smokers ages 15+ in each country in 2019. Prices are expressed in Purchasing Power Parity (PPP) adjusted dollars or international dollars to account for differences in the purchasing power across countries. Based on 54 high-income, 99 middle-income and 23 low-income countries with data on prices of most sold brand, excise and other taxes, and PPP conversion factors.

Source: (World Health Organization 2021)

Tobacco taxation in Vietnam

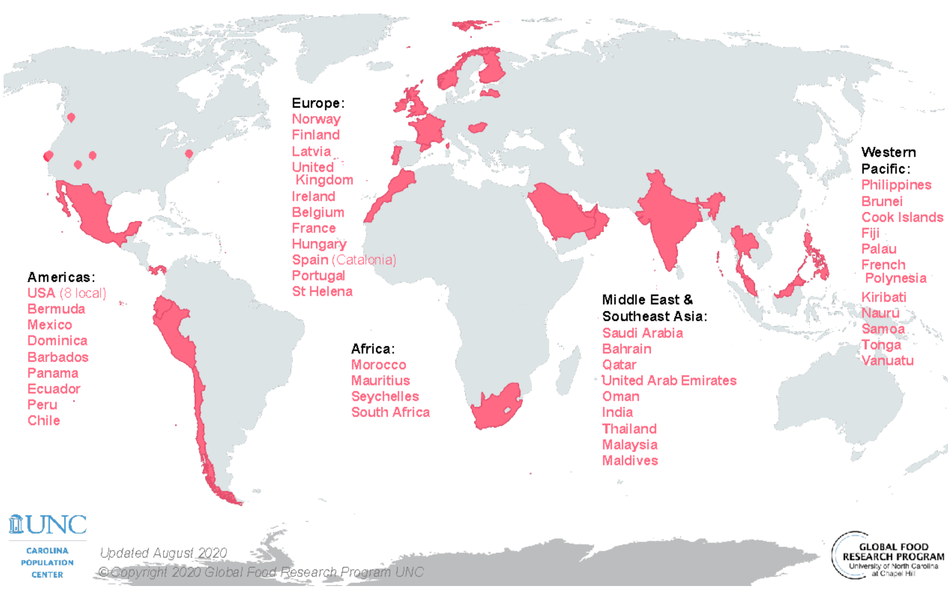
Vietnam implements a simple, ad valorem tax on tobacco products. The simple rate of 55 percent replaced the previous tiered system in 2006, after the country ratified the FCTC in 2004. The rate increased to 65 percent of the wholesale price in 2009 (International Tax and Investment Center n.d.), (HealthBridge 2015). The decrees simplifying and then raising the tobacco tax were part of the Action Plan for Implementing the FCTC, which had the objective of continuing to increase taxation and prices of tobacco products to reduce consumption. Smoking prevalence among Vietnamese men in 2015 was 45.3 percent **(van Minh et al., 2017)**. In 2020, Vietnam reported earning US$ 586 million[5] from tobacco excise taxes (World Health Organization 2021).

3.3. SUGAR-SWEETENED BEVERAGE TAXES

Relative to alcohol and tobacco, SSB taxes are newer, and there is less experience with their implementation. Mexico was the first country to implement and evaluate an SSB tax policy at scale starting with a tax of 1 peso/liter of SSB (representing a 10 percent price increase) in January 2014. In 2016, that tax raised over US$1 billion in revenue despite consumption of SSB having decreased by 5.5 percent in 2014 and by 9.7 percent in 2015 (M. A. Colchero et al. 2017). South Africa, Thailand, Philippines, Saudi Arabia, several Pacific Islands, Barbados, and others have also implemented SSB taxes.

Figure 4 shows the countries with SSB taxes in 2020. Similar maps showing SSB tax rates for the Africa, Middle East, Asia, Europe, South America, and the United States are included in [Annex B: Regional Rates of SSB Taxation](#) (Popkin and Ng 2021).

Figure 4: Shows a Map of Countries Implementing SSB Tax as of August 2020



[5] World Tobacco Report supplementary material: [8.1 Tobacco tax revenues (who.int)](#)

Sugar-sweetened beverage taxation in Vietnam

Vietnam is considering the design and implementation of an SSB tax. In 2017, the MOF initially proposed a tax that would increase the price of SSBs by 10 percent[6] giving the rationale that the high sugar content was one of the reasons for obesity in Vietnam. However, the initial proposal received strong opposition from the soft drinks industry (Luong and Vu 2020).

4. Best Practices for Pro-Health Excise Tax Policy, Structure, and Implementation

This section presents a summary of best practices but does not attempt to describe the policy development process in detail. Annex C provides a list of the numerous resources available to guide the development of pro-health excise tax policy and rate structure. This section draws on several overviews of excise tax best practices[7] to provide some guidance to Vietnam's MOF for several reasons. First, if the purpose of increasing pro-health taxes is to reduce consumption and increase revenue, as opposed to being only for revenue purposes, then tax rates may need to increase substantially and rapidly to be effective, and the affected industries will strongly oppose such a policy change regardless of the policy rationale. As noted above, taxes on alcohol and tobacco are already substantial in Vietnam. Second, the introduction of an SSB tax has already been raised in Vietnam, and opposition from industry is likely to be better prepared now than it was in 2017. Therefore, it is worth learning from both excise law academics and technical advisors from institutions like the International Monetary Fund (IMF), the World Bank, and the Association of Southeast Asian Nations (ASEAN) that draw on their international research and experience, as well as from the specific experience of other countries. Finally, as will be explained in the research framework section, there is a limit to what can be learned from other countries, because there is a limit to the information, evaluation research, and data that are available, especially for SSBs in LMICs.

4.1. Determinants of Successful Pro-Health Excise Taxation Legislation Development

Policy research has been conducted to identify the determinants of success in pro-health excise tax legislation with respect to alcohol, tobacco, and SSBs. However, because SSB taxes are more likely to be new legislation, there is more recent research in this area.

Hagenaars et al. have most recently summarized the determinants of success for SSB tax policy as follows (Hagenaars et al. 2021):

[6] Proposal on Amendment and Adding some Articles in Value-Added Tax, Excise Tax, Corporate Income Tax, Personal Income Tax and Natural Resources Tax; The Ministry of Finance: Hanoi, Vietnam, 2017. (Original in Vietnamese, English translation required for complete reference)

[7] Sources for this section include Sijbren Cnossen's Excise Tax for Resource Mobilization, (14) Ben J Terra's chapter on Excises from the IMF Manual on Tax Law Design and Drafting (5), and the IMF Notes on Fiscal Policy: How to Design and Enforce Tobacco Excises? by Patrick Petit et al.(15)

- **Successful policies tend to be coupled to problems that were already on the agenda. For example, Mexico was pursuing a major, post-election fiscal reform when the SSB tax was introduced and was doing so again when the SSB tax was raised, so the SSB tax was "couched" within a larger fiscal policy despite being implemented for health reasons.**
- **Policy framing should align with prevailing political sentiment. Several reviews of SSB taxation highlight the importance of policy analysis in preparing to push through a taxation policy (Yann le Bodo and de Wals 2018; Y. le Bodo et al. 2019; Bump and Reich 2013) and Bloomberg Philanthropies have played an important role in supporting policy entrepreneurs in US states and Mexico to hire professionals to conduct thorough policy and strategy analysis rather than leave this to advocates (James, Lajous, and Reich 2020). Commitments to earmarking the revenue from pro-health taxes for specific purposes, such as funding health system improvement or obesity prevention, can increase public and political support for taxes even if the primary motivation is revenue raising (Wright, Smith, and Hellowell 2017). However, the political requirement for earmarking may not be health related – successful passage of the SSB tax in the city of Philadelphia, in the United States, was deemed to be acceptable to the public because the funding was earmarked for pre-kindergarten education. Stakeholders stated that "no-one in Philly cares about getting healthier" and believed that, like a previous failed attempt, tying the SSB tax proposal to health would have killed it (Hagenaars et al., 2020).**
- **Politically astute decisions and flexibility are required during policy formulation. Concessions may be required to counter equity arguments/accusations of regressivity and the like. For example, in Philadelphia, the final tax scope included artificially sweetened as well as sugar-sweetened beverages because they were more likely to be consumed by higher-income households, and it was perceived as more equitable to include them given the overarching framing of revenue generation for social services, specifically education.**
- **Building an advocacy coalition needs to occur upfront in the policy process. Understanding the stakeholder context is critical to ensure support, especially when opposition has previously successfully defeated efforts to introduce or raise SSBs, and in the case of excise tax affected TNCs that lobby at the highest political levels from the start. In South Africa and Mexico (see case studies), industry mounted a strong opposition to SSB taxes, and although those tax policies were passed, high-level lobbying by industry with parliamentary committees resulted in them being "watered-down" – in Mexico the proposed SSB rate that would have increased prices by 20 percent was lowered to one that increased prices by 10 percent, and the mandatory tax rate review that would have made the specific tax rise in line with inflation was made voluntary and consequently more easily avoided.**
- **The advocacy coalition had to be locally grounded and able to influence media. One area in which TNCs have been shown to fail is that they attempt to influence the public through media messages. But they are unfamiliar with community context and leadership, who are not convinced by non-local efforts to influence them and are more likely to respond to arguments about the local need of their communities, either in terms of better health or revenue needs.**

4.2. Preparing for Excise Tax Opposition

Depending on the context – the tax, the system of government, the epidemiology, the culture – different stakeholders will be for and against excise taxes. However, the alcohol, tobacco, and SSB industries can be relied upon to be against pro-health taxes. These industries are even more prepared to counter pro-health policies than they have been in the past. A review by Collin et al

(Collin and Hill 2019) found that all three industries use similar tactics to derail pro-health tax policies including:

- Working via front groups and third-party organizations to obscure their involvement and enhance the credibility of industry positions
- Distorting the evidence base to divert attention from health issues and invoke fears of negative impacts
- Presenting alternative policies, especially self-regulation and other 'policy distraction' efforts like promoting exercise or sponsoring athletic activities
- Using the media to influence policy makers and the public
- Direct lobbying of policy makers and officials at the highest levels of government

Tobacco tax proponents refer to excise tax opponent strategies as SCARE tactics (World Health Organization 2021) that can all be pre-emptively addressed, see figure 5.

Figure 5: SCARE strategies used by tobacco tax opponents

S – *smuggling and illicit trade*
C – *court and legal challenges*
A – *anti-poor rhetoric or regressivity*
R – *revenue reduction*
E – *employment impact*

Smuggling and illicit trade: SSBs and alcohol are typically less likely to be targeted by illicit trade given that the high transportation costs associated with liquids in glass bottles reduce profitability. More easily transportable light-weight tobacco products tend to have high margins that inspire illicit trade risks. A tenth of all tobacco products bought are traded illegally. This trade is often quietly supported by TNCs themselves that are not averse to developing new cross-border markets. Understanding the cross-border price variations that give rise to these margins is important. Then structural strengthening is required, including strengthened border controls, introducing interoperable equipment and technology allowing commodities to be marked and tracked, and ensuring the seizure, storage, and destruction of illegal tobacco (Petit and Nagy 2016). Generally, tax increases will still reduce consumption and raise revenue: South Africa experienced growth in smuggling from 0 percent to 6 percent after increasing tobacco taxes, but revenues continued to rise (Jha et al. 2015).

Court and legal challenges: TNCs and the high-income countries that support them have benefited from broader trade agreements under the General Agreement on Tariffs and Trade and then the World Trade Organization to open markets in new countries. LMICs have signed on to the same agreements in the hope that they will get export access. In addition, regional agreements have proliferated to boost regional trade. To achieve these goals, countries agree to minimal price and tax interference. TNCs have a lot of experience using these agreements to further their causes while LMICs have less expertise, experience, and resources to fight challenges in courts at that level. For example, Saudi Arabia has resources but still faced significant challenges from European TNCs when implementing its SSB tax (Alsukait et al. 2020). Organizations like Bloomberg Philanthropies have provided support to policy entrepreneurs in

LMICs to help prepare for these challenges (see Mexico case study). In collaboration with the Bill and Melinda Gates Foundation, Bloomberg Philanthropies founded the Anti-Tobacco Trade Litigation Fund to specifically fight TNCs attempting to use international trade agreements to prevent LMICs from strengthening their tobacco control laws.

Anti-poor rhetoric or regressivity: If the tax results in decreases in consumption, then there is no regressivity because the poorest typically bear the highest burden in terms of mortality and morbidity. But if the tax does not decrease consumption, then it may be true that the poor bear an unfair burden. This is largely dependent on and can be mitigated by understanding the context and incorporating that information into tax design – the choice of beverages (scope), the type of taxation (specific vs ad valorem), and so forth (Ataguba, 2012). Tobacco taxation in Bangladesh and alcohol taxation in South Africa illustrate this point in the case studies.

Revenue reduction: Generally, well-designed, and well-implemented excise taxes will increase revenue even with reduced consumption with few exceptions. Tonga – a small country which increased its tobacco tax dramatically with the goal of reducing consumption did experience a fall in revenue without a corresponding fall in consumption because the tax was not uniform across local and imported tobacco thereby incentivizing switching from expensive imports to cheaper local tobacco products. Ukraine on the other hand reduced tobacco consumption and increased revenue with a well-designed tax structure. Even in the UK when the proposed SSB excise tax prompted an industry-wide reformulation effort, there was still an increase in overall excise revenue when the original revenue estimates were revised downwards after the reformulation effort by industry. Tonga, Ukraine, and the UK are covered in the case studies.

Employment/economic development impact: TNCs have tended to predict (or threaten) negative impacts on employment and economic development from an excise tax. Several reviews have noted that, despite these arguments being made frequently as multiple countries have implemented new and increased excise tax rates, TNCs seem to be unable to point to specific instances where markets for alcohol, tobacco, or SSBs have collapsed as a result. On the other hand, those who have evaluated such have not found any evidence of the predicted negative impacts; for example, an analysis conducted three years after the SSB and energy-dense food tax implementation in Mexico found no change in employment in the non-alcoholic or energy-dense food manufacturing industries (Colchero MA, M Molina, and CM Guerrero-López 2017) A study in Vietnam estimated that the tobacco industry would not be affected by increasing tobacco taxes and that the net impact on employment would be positive for the economy as a whole (Nguyen, Giang, and Pham 2020).

Table 3: Key message on tax legislation design for Vietnam

TAX LEGISLATION DESIGN	• Alcohol and tobacco companies are looking to expand their markets in low- and middle-income countries, so tax reformers must be prepared to: ○ Counter TNC strategies to defeat or manipulate excise tax legislation, particularly their high-level political lobbying and use of the media ○ Counter economic and trade/free-market arguments put forward by TNCs • It is important to be clear whether the main objective of the tax legislation for Vietnam at this time is to raise revenue or reduce consumption (current Vietnamese excise tobacco tax legislation prioritizes consumption). While the two are not mutually exclusive, clarifying the main objective can ensure the correct framing of the proposed legislation so that it gets onto the

	political agenda and that there is effective advocacy mobilization to support its passage. • Local and international data and lessons should be incorporated into legislation strategy and design. Local data include economic and health as well as political information. Any previous successes or failures at passing tax legislation in Vietnam should also be analyzed. • Public support for higher taxes could be built via advocacy through trusted local civil society organizations and leaders close to the community.
TAX LEGISLATION DESIGN	• Although few countries have implemented SSB taxes, TNCs have already begun strengthening their strategies to prevent or subvert SSB tax introduction, with some success. • Unlike alcohol and tobacco taxes, SSB taxation does not have a history. Therefore, the support of the public and legislative decision-makers cannot be assumed, and advocacy is required to build support. • International experience suggests the following are critical: ○ Contextual framing of the legislation and its objectives so that they are connected to the economic and political priorities of the day. SSB taxes are usually presented as a measure to improve health, but it may be easier to pass tax legislation if they are presented as revenue raising measures. ○ Building a broad coalition across ministries (finance, revenue, health), academia, legislators, communities, and civil society.

4.3. Choosing an Effective and Efficient Pro-Health Excise Tax Design

Generally, governments should implement the simplest and most efficient system that meets their public health and fiscal needs given their national circumstances.

4.3.1. Product Scope

For pro-health taxes, where it is acknowledged that decreasing consumption is a good thing, it makes sense to target the tax at the element of the good that that we wish to control. In simple terms, for example, absolute ABV is a more appropriate target of the tax than liquid volume of beer or wine, since it is the amount of alcohol that is linked to the extent of harm caused. Similarly, for SSBs, it is the amount of sugar in each volume of the drink that causes harm. This approach is being used to reduce demand and encourage producers to offer lower potency products while still raising revenue as is the case in the UK's SSB tax (see case study).

Additional considerations may also be required given a country's context. For example, spirits are taxed at higher rates because they are typically cheap to produce and can be sold at low prices. Therefore, higher tax rates (beyond their relative alcohol content) are required to keep spirits at a price that is higher than wine and beer (Wall et al. 2018). Discouraging younger populations from drinking and smoking might be achieved by putting a higher tax rate on alcohol-containing fruit beverages (sometimes referred to as alco-pops) and vaping (often referred to as an introduction to real cigarettes). Finally, children are the primary target of SSBs and associated taxes. Research has shown the younger populations' price elasticities are more elastic, meaning that they are particularly sensitive to price changes and will lower their

consumption of these goods when prices increase. Discouraging such consumption now may also have long term benefits on their health and future behaviors.

4.3.2. Specific, ad Valorem, or Mixed Excise Tax Rates

In a straightforward comparison, there is general agreement that specific taxes (based on a characteristic of the product) are preferred over ad valorem taxes (based on the price) but there are pros and cons to each.

- **Specific taxes are easier to administer than ad valorem taxes. Ad valorem excises can be more difficult to administer because they are based on the product value, which needs to be assessed at one or more points in the supply chain point (ex-factory, import, distribution, retail) and can be easily manipulated by manufacturers by underestimating product values and other legal or illegal accounting practices. However, taxes on packs of cigarettes or liters of SSB are harder to manipulate and easier to assess – they can be "eyeballed" – by revenue administrators.**
- **Specific taxes can provide stable revenue streams. Prices of goods tend to vary (up and down) more rapidly and frequently than changes in the quantity produced or imported. Goods are targeted for excise taxes precisely because their consumer demand is not sensitive to changes in their prices. Therefore, taxing quantity will give a more stable base for planning revenue streams, which is highly desirable when generating revenue is a priority. Revenue from ad valorem excises is more responsive to price changes due to inflation, deflation, and supply chain issues, making revenue less stable over time. Tax policy developers are encouraged to develop policies that include frequent and mandatory tax reviews to make rate adjustments. Automatic adjustment of specific excises to inflation can also be legislated, but experience shows this is challenging in practice, even with legislation in place. Limiting tax rate reviews is often a focus of TCNs seeking to weaken tax policies (see Mexico and Ukraine case studies), and then the value of the tax will erode over time both as a source of revenue and as way to keep prices high enough to decrease consumption (Bird 2015).**
- **Protection for domestic industry (an incorrect argument). Ad valorem excises are sometimes proposed as being a protective instrument for local industry by increasing the price differential between imports and local goods. This is inefficient in practice, since countries have recourse to separate customs duties that are a more effective approach for protecting local industry, leaving excises to address the externalities and internalities that will arise from consumption whether the goods are imported or exported.**
- **Health and externalities. The health effects of tobacco, alcohol, and sugar use are proportional to quantity consumed and not to the value of the product, so it makes more sense to favor specific excises (Petit and Nagy 2016). Ideally the tax ought to be tailored to the product characteristic causing the health damage for example, cigarette sticks or unit per volume of alcohol or sugar.**

Mixed systems that combine specific and ad valorem taxes may provide the best of both worlds if the tax system is sophisticated enough to design and implement them (see Ukraine case study for an example). The specific tax element provides stable revenue and minimizes manufacturer manipulation while the ad valorem element ensures that the real value of the tax revenue doesn't erode when inflation occurs. Where SSB taxes are being introduced there is general consensus that specific taxes are the fiscal tool of choice (WHO, 2015).

4.3.3. Excise Tax Design should be Focused

Excise taxes are usually implemented in conjunction with other taxes including import duties, sales taxes, or other consumption taxes. It is best for excises to be tailored specifically to their purpose rather than to attempt to address multiple objectives – especially when other objectives are best served by other taxes or policies. Generally, it is advisable for excise taxes to prioritize and focus their design on achieving their primary purpose effectively and efficiently – revenue generation and/or reducing consumption (Bird 2015; "Guidelines for Implementation of Article 6 of the WHO FCTC Price and Tax Measures to Reduce the Demand for Tobacco" n.d.).

Tiered vs uniform specific taxes. Applying the same rate to similar products may "discriminate" against relatively cheaper products since a tax as a proportion of final price constitutes a larger proportion of lower prices. For this reason, tiered systems have been developed to apply different rates to lower-priced products or varieties of products (e.g., *bidi* in the Bangladesh case study, sorghum beer in the South Africa case study) that tend to be consumed by low-income people or that are produced by smaller, more labor-intensive, or domestic firms rather than foreign enterprises (Bird 2015). However, as previously noted, other mechanisms exist for those types of issues such as the use of tariffs and customs import duties.

Comprehensive tax rates unless otherwise required. Following from the tiered pricing discussed above, it is common for tax policies to choose not to tax products for reasons that may or may not be reasonable but that nonetheless reduce the effectiveness of the tax because they provide the opportunity for consumers to substitute an untaxed product for a taxed one – for example, not taxing local products but taxing imports, not taxing goods for equity purposes because it will harm low-income consumers, or simply omitting to tax certain goods because the relevant stakeholders were not at the table to provide guidance.

4.4. Tax Rate Level Will Eventually Be the Politically Acceptable Rate

The optimum tax rate for a good depends on the objective of the tax. Several target rates can be considered when setting pro-health tax rates (Bird 2015) and it may be prudent to have estimates of more than one when designing a tax structure:

1. Revenue maximizing tax rate (RMTR): This rate uses data on prices, product demand, and income elasticities (the rate of change of goods consumed as price changes and the rate of change of goods consumed as income changes) as well as the cost of administering the tax to determine the revenue maximizing rate.
2. Optimal externality-correcting excise tax rate: This rate uses all of the same data as the RMTR, but in addition also requires assumptions and data about externality levels and costs, that is, addiction levels, health care costs, regional prices, smuggling levels, and so on. LMICs rarely have these data on hand prior to designing a tax but should plan to accumulate it with experience.
3. Politically acceptable rate: This is the most used rate in practice. It is a combination of the RMTR and the political realities such as the existence of trade agreements, and policies on economic growth and employment. As previously noted and discussed further in the country case studies for Mexico's and South Africa's SSB taxes, and like all political decisions, compromise and influence will affect the final design, and, therefore, sound political research is as critical to tax legislation design as economic and public health research.

The public health approach to taxation focuses on setting excise rates that lower consumption. The social planner approach is that a tax implemented to correct market failures should be proportional to the cost of the externalities that the market price fails to capture; the tax also should be equitable, and both administratively and economically efficient. An economic fiscal planner approach focuses on maximizing the revenue that can be collected from implementing such a tax (Bird 2015). Generally, all three views may be required to obtain a balanced view when deciding tax policy priorities.

It is important that there is a clear consensus on the prioritization of objectives when designing tax policies. Some objectives may be in conflict. For example, reviews of tobacco and alcohol product tax rates show that, if the purpose of a tax is to achieve health gains via behavioral change, it must be set at a sufficiently high level (Chaloupka et al., 2011; Lane & Bhardwaj, 2021; Walbeek & Paraje, 2019). For SSBs, taxes of 20 percent or more of the sale price are proposed as being most likely to be effective in this respect (WHO, 2015). For tobacco, the goal would be to have at least 70 percent of the retail price accounted for by taxes, which would require substantial tax increases in most LMICs (WHO, 2021). Evidence of pro-health impact is less clear for small, regular tax increases, which consumers or manufacturers can absorb. In contrast, if the aim of a new tax is to raise revenue, then taxes set at a rate that is high enough to incentivize behavioral changes may be less desirable, since this may reduce the predictability and stability of associated revenues. In this case, a lower rate may be more appropriate (Wright, Smith, and Hellowell 2017).

Table 4: Key message on tax structure design for Vietnam

TAX TAX STRUCTURE DESIGN	• Specific or mixed tax rate systems are best practice. Vietnam might consider switching from ad valorem taxes to a mixed system. A mixed system would add a specific tax element which is desirable because these are harder for manufacturers to manipulate and generate more stable revenue streams (relative to ad valorem). • Vietnam's tobacco and alcohol tax rates are at the levels recommended as best practice for reducing consumption. • Given the high rate of smoking in Vietnam there is scope to further increase tobacco tax rates and consequently, revenue. • Again, it is critical to be clear on the main objective. If behavior change – reducing consumption – is a goal in addition to raising revenue, an abrupt and substantive approach to increasing rates is desirable (a sudden 20+ percent increase as opposed to gradual single-digit percentage point increases over time). That said, the subsequent consumer responses to large increases are harder to predict accurately and revenue may be less stable and even decrease. • Tax scope may need adjusting to account for new technologies like vaping (possibly requiring additional legislation).
TAX TAX STRUCTURE DESIGN	• Specific taxes that can target sugar content (not liquid volumes) across all SSBs are strongly recommended. Specific taxes may be challenging because the revenue system until now has administered ad valorem excise taxes. • It will be important to understand the range of products proposed for taxation to understand the probability and consequences of substitution. For example, if an ad valorem tax is used, the absolute increase in price will

be lower for cheaper SSBs than for more expensive ones containing the same amount of sugar. Consumers are therefore likely to switch from more expensive to cheaper SSBs leading to no decrease in sugar consumption and lower revenue.

- SSB taxes can be designed to incentivize reformulation of drinks to contain less sugar and yet still raise substantial new revenue.

4.5. Implementing an Excise Tax

Excise tax implementation is typically the province of the revenue department and customs ministry or directorate rather than a finance ministry. Implementation is largely conducted in line with other excise and non-excise taxes. In addition to the best practices noted here, the general tax administration literature provides more detailed guidance on the general provision of taxes including territorial application, definitions that need to align with the global harmonized system of classifying goods, taxable events (the specific points of production or importation when taxes should be collected), issues regarding the movement of goods, reimbursement of payments, and exemptions. Therefore, revenue departments are important stakeholders when designing taxes given their experience and knowledge of the tax collection system which determines the effectiveness of the proposed tax (Terra 1996). Revenue departments are also best equipped to provide experience with the methods, revenue impact and monitoring costs of tax evasion efforts by manufacturers, retails, illicit traders, and smugglers.

4.6. Evaluating an Excise Tax

Excise taxes have historically been implemented to raise revenue and were therefore evaluated simply in terms of the revenue raised with some additional analysis comparing the revenue raised with the cost of implementing them to ensure some measure of efficiency. Typically, revenues counted by the collection agencies (revenue departments) and reflected in MOF budget documentation annually. Changes in consumption are typically tracked by ministries of trade. None of these institutions is well positioned to assess changes in household behavior *in response* to increases in pro-health taxes and, therefore, evaluation appears to be largely left to interested public health academia, particularly in LMICs. Consequently, there are few analyses that triangulate tax/price data with consumption and household survey data. Mexico's SSB tax is an exception. A committee, led by a TNC, was set up to evaluate the health impact of the SSB tax. The committee remained non-functional a year after its inauguration and there is reason to believe that this was intentional. Fortunately, in a separate endeavor, Bloomberg Philanthropies funded the National Institute of Public Health of Mexico to evaluate the impact of the tax, and the resulting work is still the basis of much of what is known about SSB taxes' impact.

Table 5: Key message on tax evaluation and impact for Vietnam

TAX EVALUATION AND IMPACT	• Routine evaluation of taxes is essential to monitor revenue and consumption impact. Evaluation data can (i) provide evidence to counteract manufacturer arguments, (ii) be used to garner public support, if necessary, (iii) help to determine when tax increases are required, and (iv) allow tax design to be adjusted to meet additional objectives such as discouraging underage consumption or lowering regressivity of disease burden. Vietnam has the technical capacity for evaluation. • Evaluation activities will require collaboration between government institutions for revenue, finance, and health in addition to academia.
TAX EVALUATION AND IMPACT	• Specific taxes that can target sugar content (not liquid volumes) across all SSBs are strongly recommended. Specific taxes may be challenging because the revenue system until now has administered ad valorem excise taxes. • It will be important to understand the range of products proposed for taxation to understand the probability and consequences of substitution. For example, if an ad valorem tax is used, the absolute increase in price will be lower for cheaper SSBs than for more expensive ones containing the same amount of sugar. Consumers are therefore likely to switch from more expensive to cheaper SSBs leading to no decrease in sugar consumption and lower revenue. • SSB taxes can be designed to incentivize reformulation of drinks to contain less sugar and yet still raise substantial new revenue.

5. Country Case Study Selection and Review Approach

Case studies of countries at a similar level of economic development to Vietnam (lower-middle income) were conducted through a desk-based review of peer-reviewed and gray literature, briefs, white papers, and government documents. Alcohol and tobacco taxes have a long history, but there is very little evaluation of alcohol tax impact in LMICs although there are some studies that model the impact. More information is available on tobacco due to the global advocacy on tobacco control and reducing its consumption following the ratification of the WHO FCTC. Because SSB taxes are "novel" with few rigorous evaluations, many of the available published studies are modelled estimates of the potential impact of SSB taxes for advocacy purposes, but very few have documented the ex-post experience. Mexico's experience with SSBs has been well documented, and that case study covers all aspects of the framework proposed below. The case studies also cover LMICs, and their experience and lessons learned may be useful and relevant to Vietnam.

The literature review started with a major review of pro-health tax design, good practice, and experience. It also included recent policy papers and analyses, especially in the context of resource needs resulting from the COVID-19 pandemic, that have been conducted specifically with the goal of outlining options for increasing fiscal space, such as the work done by the Task Force on Fiscal Policy for Health. Secondary references and then their references were reviewed until a critical mass had been reached such that the bibliography contained relevant cross references and no new material could be found.

5.1. Analytical Framework

The country case studies are reviewed and presented using a framework described as follows:

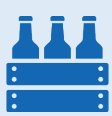
Tax legislation design: Describing factors that determine the successful passage of an excise tax legislation or reform of an existing policy such as stakeholders, political context, and opportunity and challenges.

Tax structure design: Describing tax design considerations including scope and rate types. But we note that very little information could be gathered on the design process itself; the case studies largely describe the resulting tax structures. Some cases (e.g., Tonga) do point out the need to include relevant stakeholders.

Tax evaluation and impact: Describing issues resulting from the implementation as well as the revenue generation and consumption outcomes and any subsequent tax design revisions

Except for the Mexico SSB tax case study, no country case study is "complete" in terms of covering every element of the analytical framework, because there are so few relevant descriptions in the published or gray literature for LMICs. However, across existing country case studies there are experiences that demonstrate best practices, practices that have been improved with revision, and successes.

Table 6: Country case studies by pro-health excise tax type

	Tonga	South Africa			
	Tonga	Bangladesh	Ukraine		
	Tonga	Mexico	Colombia	Saudi Arabia	United Kingdom

6. Alcohol Excise Tax Country Cases

Nearly all countries have long since levied a tax on alcohol for revenue purposes. Typically, increases in alcohol taxes are not major policy decisions – they are implemented to keep up with inflation in most cases, so these events tend to be small increases that do not require a major policy advocacy effort. However, more recently, these taxes have been the focus of public health efforts to reduce the burden of disease from excessive alcohol consumption and to discourage the uptake of alcohol consumption by underage consumers (typically under 18 or 21 years). Underage drinking has traditionally been discouraged by legislation prohibiting sales and consumption, but pricing is increasingly being used as a tool because beverage manufacturers in high-income countries and LMICs are expanding their offerings to include alcohol-infused fruit drinks that are marketed to younger consumers. The two cases presented, Tonga and South Africa, are taxation efforts that were primarily public health efforts; raising revenue was more a "political sweetener" to gain traction than a primary objective. The Tonga case describes alcohol and tobacco taxes and the introduction of an SSB tax because the taxes were addressed over the same time period and assessed jointly by the World Bank. The South Africa example illustrates tradeoffs that tax design must make between equity and non-excise government revenue considerations when taxes fall on priority export goods or local industries.

6.1. Tonga (Alcohol, Tobacco, and SSB)

The World Bank has reviewed Tonga's experience of applying alcohol, tobacco, and SSB taxes since 2013 (Osornprasop 2019). The results of that review form the basis of this case study. Tonga has one of the highest rates of overweight and obesity in the world – over 90 percent of the population – and younger age groups there have an increasing tendency for both obesity and smoking.

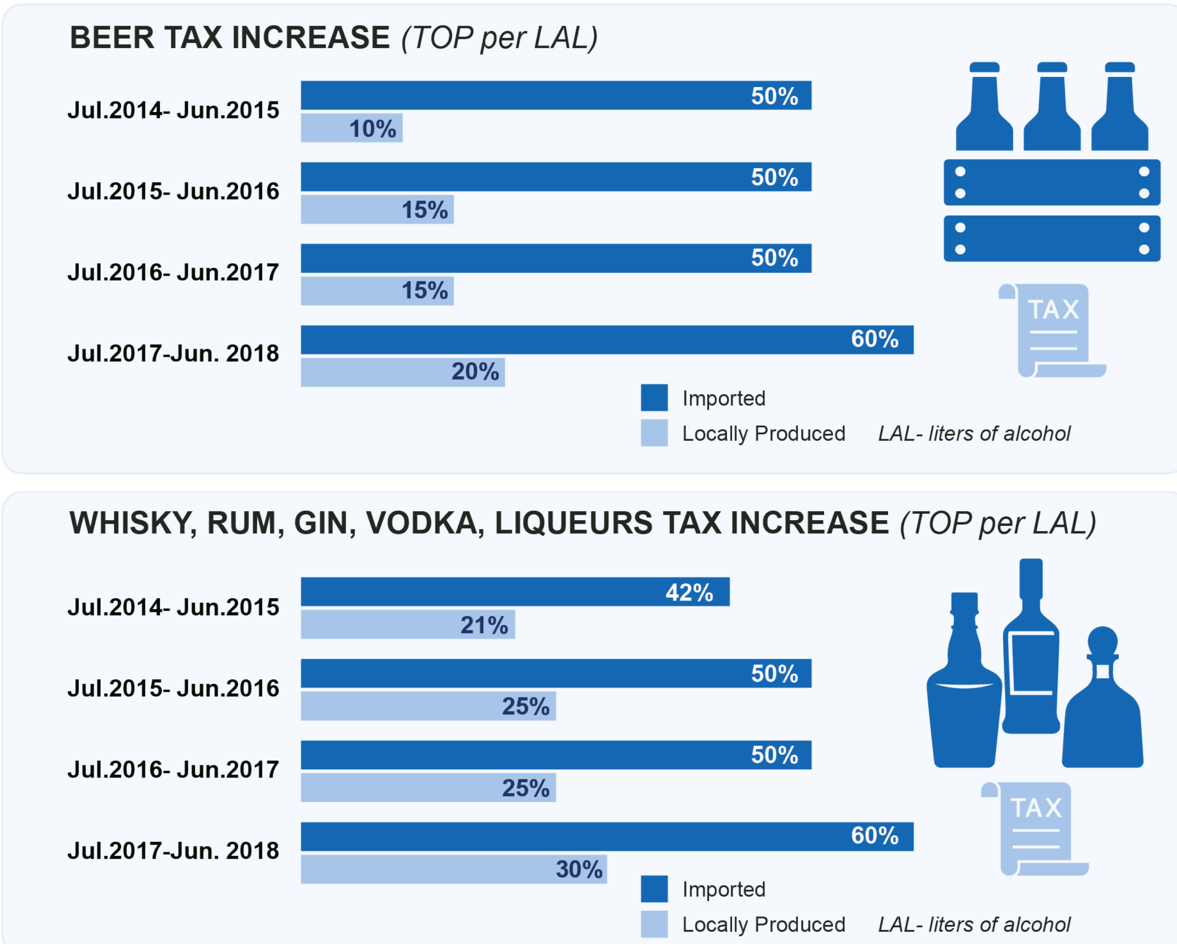
- An SSB tax was introduced in 2013, increased by 50 percent in 2015, and redesigned in 2017.
- Alcohol and tobacco were already taxed for revenue, but both taxes were increased between 2015 and 2017 with the goal of decreasing consumption.
    - Starting in 2016, excise taxes on imported and locally produced beers and spirits were increased annually. Imported beer taxes increased by 20 percent while local beer taxes doubled. Imported and locally produced spirit taxes increased by 50 percent.
    - Between 2015 and 2018, the tobacco tax was raised by 60 percent on imported cigarettes and 50 percent on locally produced cigarettes.

Despite the goal of decreasing consumption of goods associated with worsening health conditions, the tax legislation design, including rates and scope, was conducted by the Ministry of Customs and Revenue without input from the health or finance ministries.

6.1.1 Alcohol Tax Design

The Government of Tonga (GoT) charges an excise tax, a consumption tax, and import duties where applicable. Excise taxes and customs duties were introduced at the same time. The consumption and customs duty rates were set at 15 percent and did not change between 2014 and 2018. Excise taxes were increased for the two categories (imported and locally produced) and different rates used – beer and spirits, see figure 6. Excise tax rates for locally produced alcohol are lower than those for imported alcohol[8] but were also increased over the time period. Alcohol is taxed in terms of liters of alcohol (Lal) a mixture contains, meaning the tax is a specific tax based on the volume imported or manufactured.

Figure 6: Tonga's beer and spirit tax increases, 2014-2018



Data source: (Osornprasop, 2019)

Over the period, the retail price of an imported beer like Heineken increased from TOP T$3.00 to TOP T$3.50. The excise tax accounted for 70–75 percent of the retail price. Local beer was cheaper but also increased slightly in terms of retail price from TOP T$2.50 to TOP T$2.80. Excise taxes accounted for over 90 percent of the retail price in 2017 (and customs duty less than 10 percent).

6.1.2 Alcohol Tax Evaluation and Impact

The volume of imported beer fell slightly (4 percent) over the 2014–2018 period, but beer tax revenues increased 20 percent, to TOP T$6.6 million (US3.3 million[9]), see figure 7. Local beer

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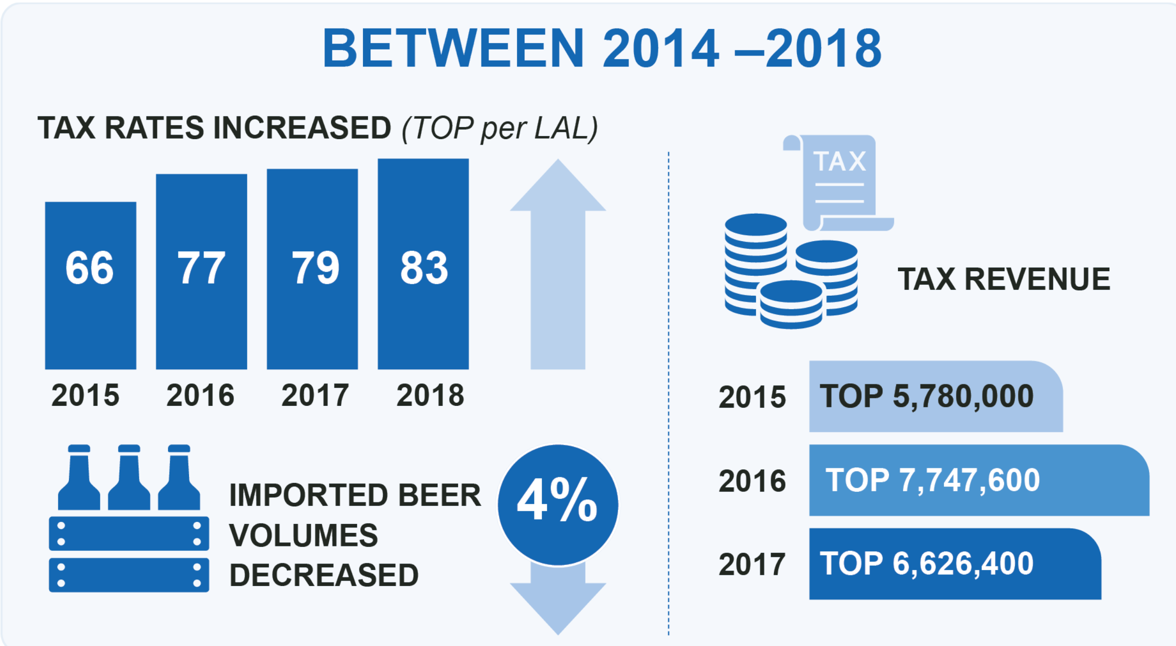
8 No reasons for this were provided in the review, but it is common to see this kind of differentiation although best practice recommends the same rate leaving domestic market protection to import duties.

9 Tonga Pa'ang (TOP 2.2 = US$ 1 in 2018)

manufacturing is a small proportion of beer consumption, which fell 10 percent and whose tax revenue increased to TOP T$83,000 (note that this amount is also small relative to imports because of the absence of the customs duty).

Figure 7: Tonga's imported beer volumes fell but excise tax revenue rise, 2014-2018



Data source: (Osornprasop, 2019)

There was a slight reduction in the number of people who drink beer frequently (more than 3 times a week), who account for less than 10 percent of all beer drinkers. There was an increase in the number of those who drink beer infrequently or rarely. There was a reduction in the frequency of spirit consumption of the most frequent drinkers, who account for less than 10 percent of all spirit drinkers. And there was a concomitant increase in drinkers who drink spirits once a month or rarely.

The volume of spirits imported and manufactured locally is lower than for beer, less than 60,000 liters per year compared with beer's import and local total of approximately 80,000 liters. The volume of spirits imports increased slightly (5 percent) over the time period, while the volume of locally manufactured spirits – though still low – doubled. Total tax revenue for spirits imports increased from TOP 2.5 million to TOP 4.2 million.

6.1.3 Tobacco Tax Design

Tonga imposes a specific tax on all cigarettes in addition to the consumption tax and customs duties on imported cigarettes, see figure 8.

Figure 8: Tonga's tobacco tax increase on imported cigarettes

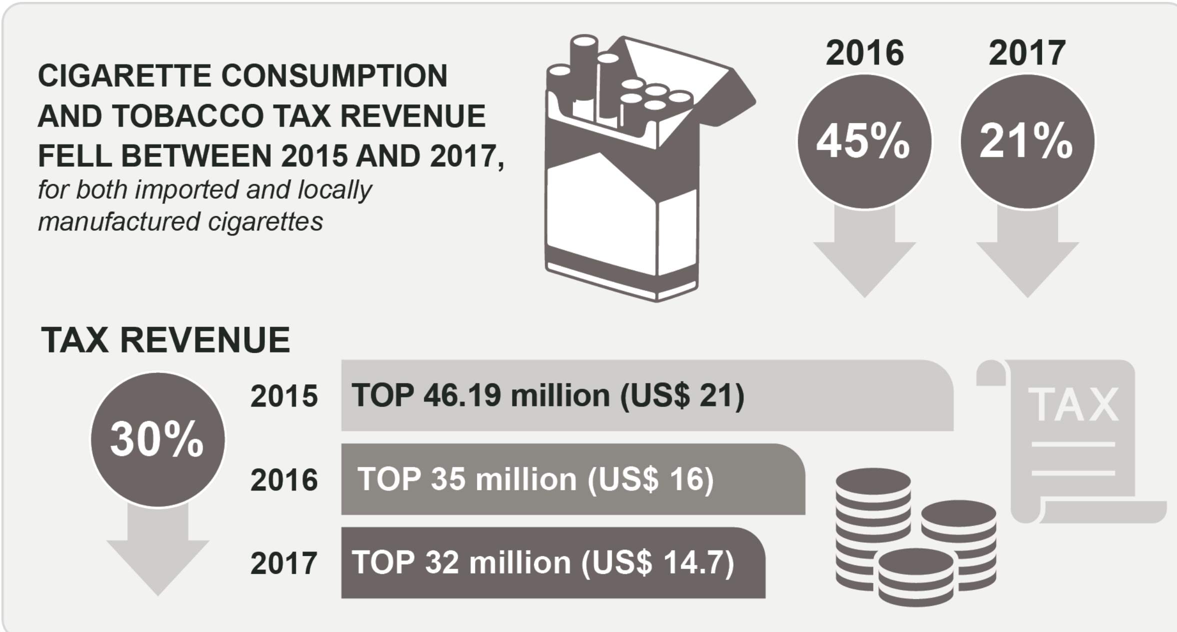
Data source: (Osornprasop, 2019)

The retail price for a pack of 20 of the most popular imported brands, Pall Mall, increased 50 percent from TOP 10 (US$4.6) in 2015 to TOP 15 (US$7.14) in 2017. The excise tax on imported cigarettes accounted for 83 percent of the retail price, while the consumption tax (14 percent) and customs duty (2 percent) accounted for the rest. Local tobacco is taxed at a lower rate – TOP 402/1000 cigarettes with the retail price of the most popular brand, Palataisi, rising from TOP 7.5 (US$ 3.4) to TOP 12 (US$ 5.4) in 2017. The excise tax accounts for about 87 percent of the retail price. Local loose-leaf tobacco, the main brand being Tapaka Tonga, is not subject to the excise tax.

Tobacco tax evaluation and impact

Between 2015 and 2017 the volume of imported cigarettes decreased by 68 percent, see Figure 9. However, the production of local cigarettes decreased by only 11 percent with an increase in revenue of 30 percent (~TOP 2 million). Between 2016 and 2018, cigarette consumption and revenue fell for both imported and locally manufactured.

Figure 9: Tonga's tobacco tax decreases sales and tax revenue



Data source: (Osornprasop, 2019)

Survey data showed that while 18 percent of smokers reduced their cigarette consumption, 20 percent of them switched from cigarettes to untaxed Tapaka Tonga. Finally, the survey found that the lowest income quintile saw the highest percentage of people quitting, while consumption fell by just under half among the wealthiest quintiles. Both quintiles were equally likely to switch to Tapaka Tonga. Marketed as "organic tobacco," household surveys suggest that many Tongans misunderstood (or were successfully misled by marketing) that Tapaka Tonga is less harmful than manufactured cigarettes. The failure to tax Tapaka Tonga contributed to the fall in revenue as it is highly profitable: it is sold wholesale for TOP 2.00–3.00 and retails for TOP 6.00–7.00.

6.1.4 SSB Tax Design and Redesign

Tonga introduced, increased, and redesigned its SSB tax between 2013 and 2017, see figure 10.

- 2013: A specific tax of TOP 0.5 per liter was introduced and the customs duty removed.
- 2016: The excise tax increased to TOP 1 per liter.
- 2017: The excise tax was redesigned from being per liter of SSB to grams of sugar per liter, effectively increasing the tax in terms of TOP per liter a further 30 percent to approximately TOP 1.36 per liter.

Figure 10: Tonga introduces, increases and redesigns SSB taxes, 2013-2017

	2013	Specific tax TOP 0.5 per liter + customs duty removed
	2016	Specific tax increased 50% to TOP 1 per liter
	2017	Specific tax modified to apply to grams of sugar per liter, effectively increasing tax 30% to TOP 1.35 per liter

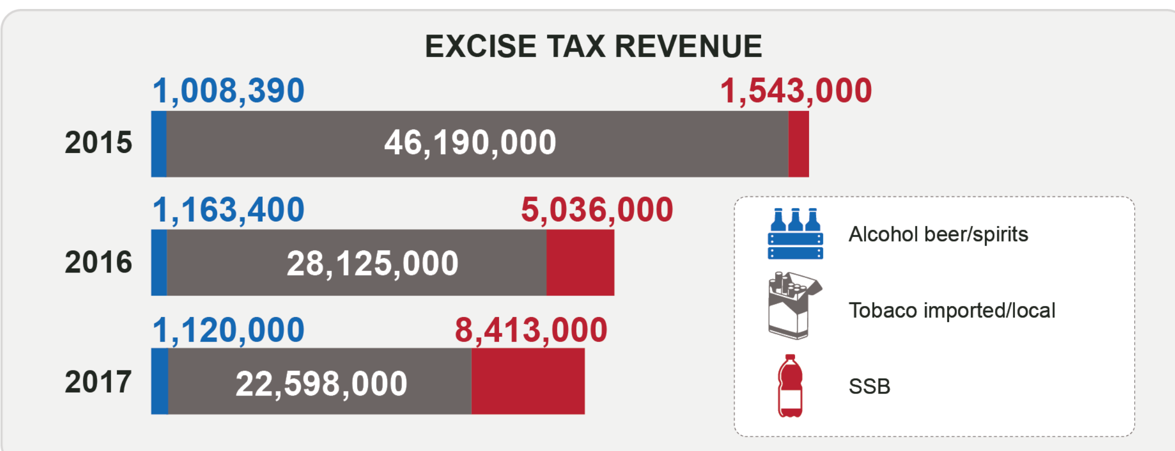
6.1.5 SSB Evaluation and Impact

Over this time period, the retail price of a can of Coca-Cola increased from TOP 2 per can to TOP 2.5 per can, an increase of roughly 25 percent. A household survey suggested that 38 percent of the population changed or reduced their SSB consumption. Tax revenue increased in substantial proportions from TOP 3.7 million to TO P5.0 million when the tax doubled and up to TOP 8.4 million after the redesign.

6.1.6 Excise Tax Revenue, Use, and Fiscal Space

Overall, excise taxes in Tonga have led to declines in consumption but possibly less than desired due to tax design issues, such as variable taxing of imports compared to exports and not taxing substitutes like local loose-leaf tobacco. The Ministry of Revenue and Customs designed the original tax policy. Some design issues may have been avoided if there had been the appropriate engagement of the ministries of Health, of Finance, and of Commerce, Consumers, Trade, Innovation and Labor, which is the price monitoring agency. However, the other ministries have since been engaged, for example, in the redesign of the SSB tax, and this has resulted in a substantial revenue increase, see figure 11.

Figure 11: Tonga's excise revenue composition and increase, 2015-2017

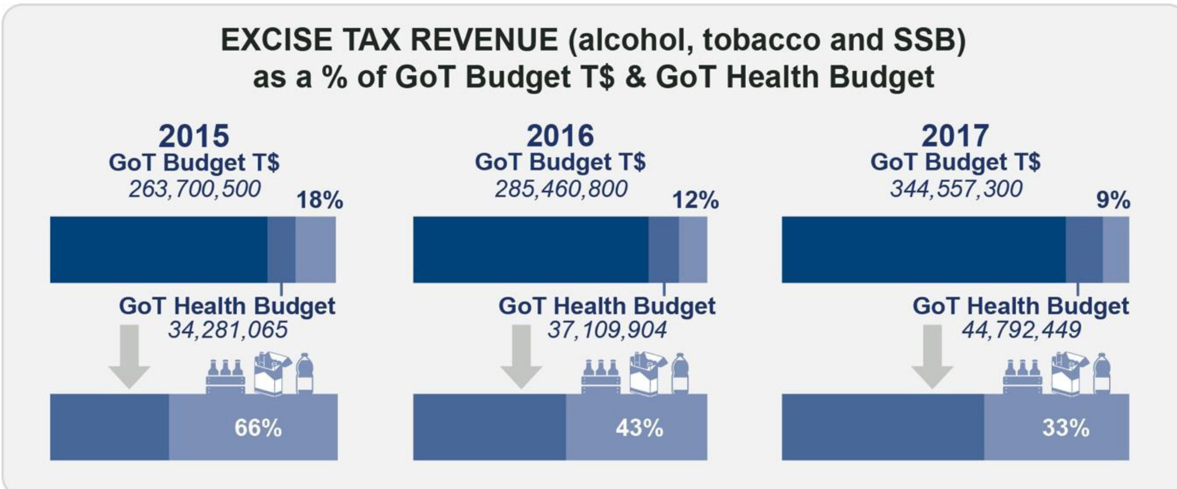


Data source: (Osornprasop, 2019)

The Ministry of Revenue and Customs reported that there was little evidence of illicit tobacco trading or smuggling due to the ministry's strengthened processes and the high penalties associated with smuggling especially.

Excise revenue goes into the government's general revenue, and then the Ministry of Finance and National Planning decides how it is spent. In 2015, excise tax revenue was equivalent to 18 percent of GoT's total budget and was equivalent to 66 percent of GoT's health budget, see figure 12. However, the pro-health tax increases that reduced consumption successfully also reduced tax revenues which were equivalent to only 9 percent of GoT's total budget in 2017 and 33 percent of the health budget.

Figure 12: Government of Tonga: Total budget, excise tax revenue, and health budget comparison



Data source: (Osornprasop, 2019)

The Ministry of Health's allocation remained at 13 percent between 2014 and 2017 (although the GoT substantially increased its overall budget envelope in 2017).

6.2. South Africa

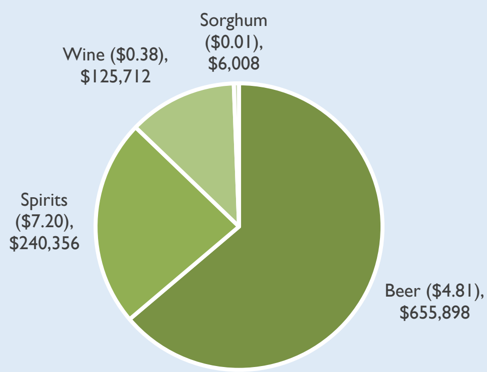
6.2.1 Alcohol Tax Design

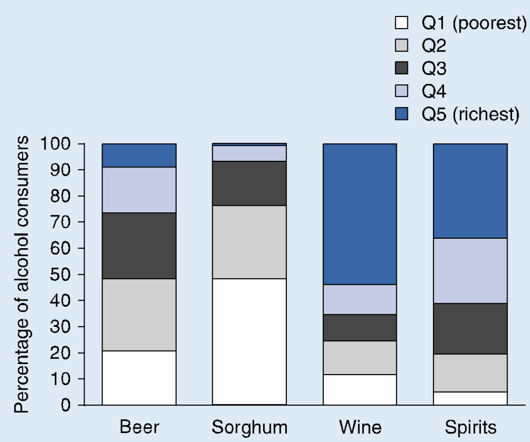
South Africa's alcohol excise tax design is presented to highlight important considerations when seeking to understand the context that the tax is being designed for and the design itself. As previously discussed, because poor households usually bear the highest burden of mortality and morbidity from many of the effects of excessive alcohol, tobacco, and SSB consumption, a tax that effectively lowers their consumption is not regressive because the longer-term health benefits are in fact "redistributing" morbidity and mortality. However, it may be the case that if revenue raising is the priority, then to successfully pass a higher taxation rate, the final tax is less than experience shows is required to lower consumption. South Africa's alcohol taxation policy over 2005 to 2010 illustrates the possible consequences of tax design (Ataguba, 2012).

South Africa uses a specific excise tax on ABV. The rates, shown in the pie chart legend on the left in Figure 13, are highest for spirits, followed by beer and then wine. The richest households are the largest consumers of spirits and wine by far, while the poorest quintile is the largest consumer of beer. But between the tax rate and the consumption distribution, we see that beer, largely consumed by the two poorest quintiles, contributes two-thirds of the alcohol tax revenue. Sorghum, or traditional beer, is produced and consumed only in very small quantities.

Figure 13: Inequitable burden of alcohol taxation in South Africa: The two poorest quintiles contribute nearly two-thirds of the alcohol tax revenue

Alcohol taxation revenue 2009/2010 by Alcohol type, (Excise tax rate in US$ per liter) Revenue in US$ thousands	Distribution of alcohol consumers in South Africa across quintiles of per-adult consumption expenditure





Alcohol taxes have kept pace with inflation as the treasury routinely updates rates. In 2020/21, rates were increased uniformly by a nominal 8 percent, which in real terms was about 3 percent for most classes. A new class of beverage, ciders, and alcoholic fruit beverages was added to the scope, and these are taxed at the same level as beer, which makes sense since they typically have similar mean alcoholic strength as measured in ABV (4–5 percent) (Griffith, O'Connell, and Smith 2019). The nominal tax rate on spirits has more than doubled since 2004, see Table 7. Beer and wine have experienced similar increases. Wine remains taxed at a substantially lower rate relative to other alcohol types considering that unfortified wines typically have a mean ABV of about 10 percent to 12 percent (Griffith, O'Connell, and Smith 2019).

Table 7: South Africa's alcohol tax rate increases

	Tax rate per liter (US$)			
	2004/5	2019/20	2020/21	% change between 2004/5 and 2020/21
Beer	4.81	7.52	8.16	+70
Spirits	7.20	15.11	16.31	+127
Wine	0.38	0.62	0.67	+76
Sorghum	0.01	0.55	0.55	+5400

The country's large and influential wine industry export market is likely to influence this situation economically and politically since foreign exchange revenues from this industry are substantial. It is also notable that there is little to no published evidence that excessive wine consumption makes a significant contribution to the mortality or morbidity costs of excessive alcohol consumption. Furthermore, the South African government allows the wine industry special considerations because it contributes to tourism, it provides a substantial amount of low-skilled, rural employment and in that past decade has contributed up to 2.2% of GDP annually (National Treasury RSA 2014). Therefore, the government has to balance equity considerations with

broader economic issues and revenues. It was not possible to locate data on revenue collected over this time period.

7. Tobacco Excise Tax Country Cases

As with alcohol taxes, tobacco taxes have a long history and thus the case studies included here are chosen to illustrate specific issues with tobacco tax design and review as countries implement efforts to increase taxes that reduce consumption and increase revenue at the same time. Bangladesh illustrates the challenges that tiered pricing can have on reducing consumption. China is a unique case since the government implementing the tax was also the largest manufacturer of cigarettes. Finally, Ukraine exemplifies a successful case of using a mixed tax system (different from tiered) to implement a tax reform to increase revenue, decrease consumption, and control for income growth and inflation.

7.1 Bangladesh

Bangladesh has a severe tobacco consumption issue when tobacco includes cigarettes, local rolled bidi/biri, and smokeless tobacco (paste of tobacco and molasses that is applied to the gums). Using this definition, half of all men and a third of all women consume tobacco, and nearly 7 percent of 13–15-year-olds use tobacco products (Campaign for Tobacco-free Kids. n.d.). Since 2009, the country has been increasing its tax rates with the goal of increasing revenue and decreasing consumption.

7.1.1 Tobacco Tax Design

The existing system consists of an ad valorem tax on four tiers of cigarette "quality":

- In 2009, the tiers and rates were low (32 percent), medium (52 percent), high (55 percent), and premium (57 percent).
- In 2012, rates were increased to low (36 percent), medium (55 percent), high (58 percent), and premium (60 percent).
- Bidi and smokeless traditional tobacco were not taxed until 2009 (10 percent) and their tax rate increased to 70 percent by 2015 (Nargis et al., 2019).

7.1.2 Tobacco Tax Evaluation and Impact

Using the Tobacco Control Bangladesh surveys, researchers estimated the probability of switching between tiers, that is, trading up or down a tier, and reducing consumption by less smoking or quitting in response to the tax change. They found:

1) Consumers traded up or down according to income changes due to economic growth (income gains) or individual hardship (income decrease) with few changing their level of cigarette consumption. Furthermore, although the tax rates seem reasonably high, being applied to very low values means that consumers' income growth makes and keeps tobacco affordable. Consumers that traded down to bidi meant a loss of revenue altogether for the government and no health gain (Huq et al. 2019).

2) Overall, few people lowered consumption quantity or quit because the tiered pricing provided ample opportunities to substitute between tiers if income growth did not outpace the impact of price changes. Furthermore, the tax increases were not enough to offset income growth (Nargis, Stoklosa, and Drope 2019). There was clear indication that as long as there was an opportunity to trade down, people were less likely to quit.

3) Policy scenario analyses suggest that a switch to a specific tax at a higher rate (70 percent) with a broader scope would increase revenue (US$200 million/cigarette, US$87 million/bidi) and encourage up to 7 million people to quit tobacco consumption (Nargis, Stoklosa, and Drope 2019).

In summary, Bangladesh has routinely increased the tax levels (premium 65 percent), but the real costs of tobacco remain low, that is, the excise tax accounts for about 50 percent of retail price, which is lower than the recommended 70 percent but still substantial. However, in a context of income growth and tiered pricing, the tobacco tax structure over 2009–2015 contributed little to revenue growth and has not realized its potential for consumption reduction.

A health cost analysis conducted for the Bangladesh Cancer Society estimated the costs and revenue from tobacco-related diseases and taxes. The analysis concluded that the direct costs of BDT 83 billion (US$1 billion[10]) and indirect costs BDT 221 billion (US$2.6 billion) associated with tobacco use substantially exceeded the BDT 197 billion (US$2.4 billion) in excise tax revenue collected by the National Board of Revenue in 2016, which represented 1.02 percent of GDP (Faruque et al. 2019).

> Data and analysis like these, comparing costs of tobacco use with revenue from tobacco taxes, could support the case for further increasing tobacco tax rates.

By 2019, the country had restructured its tax policy to include more tobacco types including bidi as well as the main brands of smokeless tobacco. Impact data were not yet available for this report.

7.2 Ukraine

Tobacco use is a major issue in Ukraine. In 2017, nearly a quarter of adults reported using tobacco, and there were 130,000 deaths from tobacco-related diseases. In addition, it has been estimated that up to 4 percent of the country's GDP is lost because of productivity-related tobacco use. Between 2007 and 2017, Ukraine increased the tax share of a retail price per pack from 33 percent to 66 percent which tripled the real price per pack. Consequently, tobacco sales fell by 50 percent and excise tax revenue increased fifteen-fold (Campaign for Tobacco Free Kids, n.d.).

7.2.1 Tobacco Tax Design 2007-2018

In 2007, Ukraine's tobacco tax structure was mixed, with an ad valorem tax and a specific tax. The ad valorem tax rate was 10 percent of the maximum retail price set by manufacturers. The specific tax rate was UAH 0.26 (US$0.03[11]) per pack. In 2008, the country introduced a minimum

[10] Bangladeshi Taka (BDT) 83.75 = US$ 1.00 in 2018

[11] Ukrainian Hryvinia (UAH) 8.7 = US$1 in 2007

total excise tax of UAH 0.8 (US$0.09) per pack and increased the specific tax to UAH 0.6 (US$ 0.06) and the ad valorem tax to 16 percent.

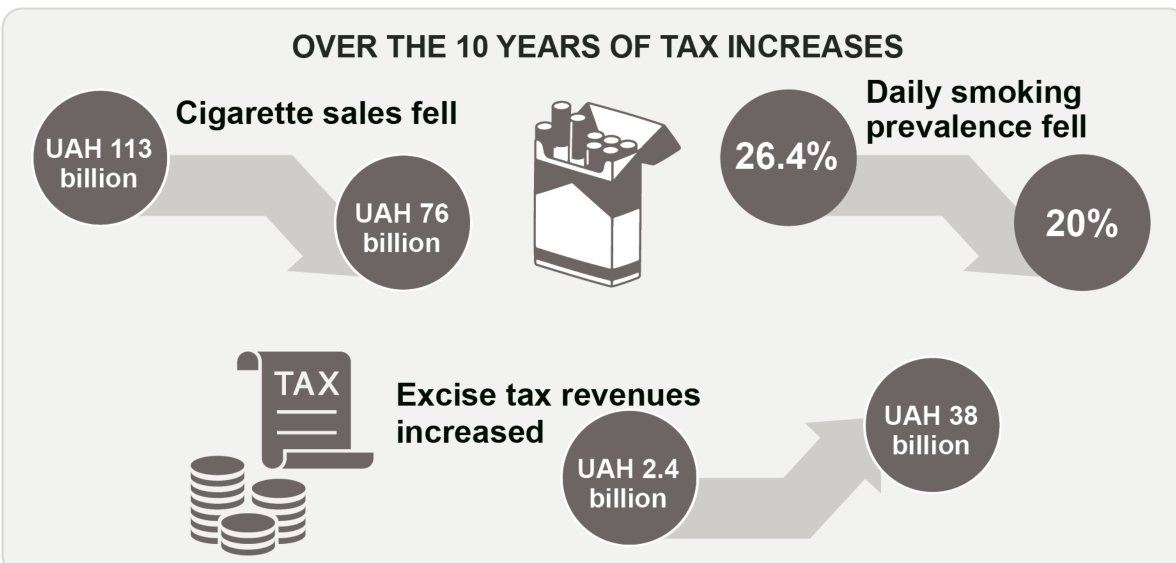
Over the next 10 years, the specific and minimum specific rates increased every year (except 2015) reaching UAH 8.91 (US$ 0.34) and UAH 11.2 (US$ 0.43) in 2017. The ad valorem tax rose to 25 percent and then was reduced to 12 percent over the same period as the specific rates were increased. This change in design effectively shifted the tax from being predominantly ad valorem to specific. The price of a pack of cigarettes over this period increased from UAH 2.8 (US$0.32) to UAH 17.8 (US$0.65).

> This approach of using a mixed tax structure to shift the rate from ad valorem to specific could be a useful approach for Vietnam's tobacco tax structure which is currently ad valorem.

7.2.2 Tobacco Tax Impact 2007-2017

Over the 10 years of tax increases, cigarette sales fell from UAH 113 billion to UAH 76 billion, while excise tax revenues increased from UAH 2.4 billion (US$275 million[12]) to UAH 38 billion (US$1.46 billion[13]). Daily smoking prevalence fell from 26.4 percent to 20 percent, see figure 14.

Figure 14: Ukraine tobacco tax decreases sales and smoking prevalence while increasing revenue



However, economic analysis demonstrates that this fall was not "smooth." Early increases over 2007 to 2009 were small and outpaced by inflation (which lowers potential revenue in real terms). Furthermore, rather than risk having consumers quit or reduce consumption levels, manufacturers chose to absorb the tax themselves by reducing their profits and leaving prices unchanged (which has no impact on government revenue but reduces the desired impact of lower consumption). However, the larger increases implemented between 2008 and 2010 caused manufacturers to change strategy, possibly due to rising incomes, and increase their profitability

12 Ukrainian Hryvinia (UAH) 8.7 = US$1 in 2007
13 Ukrainian Hryvinia (UAH) 26 = US$1 in 2018

by increasing prices in the face of falling consumption. This situation then increased revenue via the ad valorem aspect of the tax (Ross, Stoklosa, and Krasovsky 2012).

7.2.3 Tobacco Tax Policy Reform 2018

In 2014, the country signed the European Union-Ukraine trade agreement, which required a minimum rate of 90 Euros per 1,000 cigarettes by 2025 and required implementation by 2017. Policy entrepreneurs, in particular, civil society organizations (CSOs) working in collaboration with academics, wanted to ensure that the tax design would continue to address public health issues, and, unlike previous tax increases, not be diluted by industry interests.

A group of CSOs, who had previously worked on advocacy for increased tobacco taxes, facilitated the effort to implement a strategy for influencing the design of a consumption reducing policy:

1. Evidence and messaging: The CSOs worked with a well-respected local academic who could provide country-specific data and analysis but was also skilled at translating these analyses and evidence into simple messages that could be understood by decision makers, the public, and journalists.
2. High-level access to key stakeholders: The CSOs needed access to high-level government officials within the MOF believing that that ministry, rather than health, would be the key designer of the final policy. While the MOF was not disposed to listening to CSOs, it did consider the World Bank to be an important partner. So, the CSOs secured the support of the World Bank to gain access and to support local experts to develop models to demonstrate the economic impact of policy options.
3. Framing: The CSOs framed the tax policy as required for different audiences – in other words, for the parliamentarians and the public, it was framed in a health perspective, whereas for the MOF, it was framed with a revenue perspective.
4. Pre-empting opposition: The CSOs focused on gathering and presenting data to refute industry arguments. They also gathered data to ensure support a "divide and conquer" approach with the tobacco industry. Transnational tobacco companies were opposed to an increase in the ad valorem aspect of the tax increase, while local tobacco companies favored it for competition purposes (local tobacco costing less and therefore paying less tax per unit with an ad valorem tax).

> These types of strategies could be considered by Vietnam where a previous attempt to get SSB legislation on the political agenda was unsuccessful.

The resulting tax bill passed in December 2017 and included a seven-year plan to increase tobacco tax by 30 percent in 2018 and then 20 percent each year thereafter until 2024. In 2018, the specific tax rate increased 30 percent from UAH 8.9 to UAH 11.56 and the minimum specific tax increased 30 percent from UAH 11.92 to UAH 15.46. However, the final bill was not as strong as proponents had hoped for. Between the first and second readings of the bill in parliament (closed, non-transparent events), several key elements were diluted, specifically, the tax would be administered in local currency rather than euros and the inflation adjustments would be optional rather than mandatory. As a result of these adjustments, it will be challenging to meet the European Union's requirement by 2025.

8. SSB Excise Tax Country Cases

8.1 Mexico

8.1.1 SSB Taxation Policy

Following the 2012 National Health and Nutrition survey that showed 72 percent of Mexico's adult population was either obese or overweight, civil society began promoting SSB taxation. In 2013, President Nieto launched an obesity and diabetes prevention strategy, and, in the same year, the MOF proposed a comprehensive fiscal reform. Both policies included a 10 percent tax on SSBs and snacks. Although the Senate approved the tax in December 2012, it was rejected by the Congress in May 2013 (Carriedo et al. 2021). Nonetheless, the MOF insisted upon the tax of 1 peso per liter as part of the president's fiscal reform, which was passed in October 2013 (James, Lajous, and Reich 2020).

The measure was supported by politicians, civil society, Bloomberg Philanthropy (which provided a $10 million grant that paid for a political strategy and lobbying firm and the design and implementation of advocacy efforts inside the government and with the Mexican public), academics from the National Institute of Public Health, and the Aspen institute. TNCs and the national SSB producers strongly opposed the measure but were overruled.

Opponents of the tax also included distributors and associations that represented small businesses and trade groups, for example, the Unión Nacional de Cañeros, which represents the sugar cane industry. The arguments proposed against the tax were that it would harm small businesses and employers, it would be regressive on the poor, and it would not do anything to address obesity rates. The tax went into effect in 2014.

A report by the Pan American Health Organization concluded that the tax passed because of a confluence of political, economic, epidemiological, social, intersectoral, and global factors (PAHO and WHO 2015). An analysis by James et al identified two stages as being required to get the tax implemented and that each stage required different strategies by different stakeholders (James et al., 2020). Stage one was getting the tax adopted as part of the government's larger fiscal reform; stage two was getting the tax passed by the Mexican Congress. While a broad range of stakeholders collaborated effectively to put the SSB tax on the legislative agenda, the MOF worked largely in secrecy using information provided by the CSOs and academics to prepare the tax as part of fiscal reform. This may be why the eventual tax was set at 1 peso per liter of soda (a 10 percent price increase) rather than the 2 pesos that civil society and the Ministry of Health had proposed earlier. A further reason provided for the strategy of secrecy by the MOF was to give opponents of the tax as little time as possible to frame their arguments and use them in media campaigns against the tax between the time that the tax was announced and when it was passed by Congress.

Policy analysis (James et al., 2020) suggests that the SSB tax passed because a confluence of politics, problem, and policy streams led to the successful passage of the bill:

- Politics: The process started with a new president coming to power on the basis of promised fiscal reforms. Recognizing this, proponents of the tax engaged the MOF to push the tax rather than involving the Ministry of Health. Furthermore, the Minister of Health had already made public statements against the tax.

- **Problem: Mexico had two major issues to deal with: an economic crisis caused by a fall in the price of oil and widespread concern caused by the publication of numerous articles documenting the increase in obesity and diabetes and linking these to the increasing consumption of SSBs.**
- **Policy: A grant from Bloomberg Philanthropies facilitated strategic collaboration between non-governmental organization academics and lobbyists and enabled them to hire a professional political strategy firm that designed a strategy based on the individual strengths and networks of the collaborators. Furthermore, the political strategists identified a champion within the legislature for the SSB tax. Importantly, they identified a member of the traditionally industry-favoring conservative opposition party who had in fact unsuccessfully proposed the tax under the previous administration.**

8.1.2 SSB Tax Design

Mexico's tax is a specific tax of 1 peso (US$0.0008) per liter of SSB, where SSB is defined as any non-alcoholic beverage, whether powder concentrate or ready to drink, with added sugar. Medical beverage products (e.g., oral electrolyte solutions) were exempted. The tax was designed to adjust for inflation at any point where inflation exceeds 10 percent, which in general is thought to be approximately every two years in Mexico. Adjustments for inflation were included in the 2020 Tax Reform. Finally, the tax is paid by SSB producers. In 2013, the year before the tax was implemented, the market for SSBs was US$594 million. The beverage market is dominated by the two main producers of carbonated beverages, which account for 85 percent of all sales (Colchero MA, M Molina, and CM Guerrero-López 2017). Soft earmarking linking revenue to the installation of water fountains in schools was proposed when the bill was passed but it is unclear if this occurred. The excise tax remains in place and plans to update it to reflect inflation were included in the country's 2020 Tax Reform bill, which passed in December 2019 (PriceWaterhouseCoopers, n.d.).

8.1.3 SSB Tax Evaluation and Impact

After the tax policy passed, the government formed a multi-stakeholder Mexican Observatory on NCDs to monitor and evaluate the National Obesity and Diabetes Strategy. Representatives included the public sector, academia, CSOs, professional organizations, and the SSB industry, including SSB producers. The National Institute of Public Health and consumer groups that had promoted the tax were not invited. As of the end of 2014, no evaluation had occurred. The National Institute of Public Health was funded by Bloomberg Philanthropy and has evaluated and published several studies of the tax impact. The studies found the following:

- **The tax was passed from producers to consumers (i.e., not absorbed by producers to keep prices low), resulting in an 11 percent price increase (Colchero et al. 2015).**
- **SSB consumption decreased by 5.5 percent in 2014 and 9.7 percent in 2015 (as compared to 2013, pre-tax) (Colchero et al. 2017).**
- **Households at the lowest socioeconomic level had the largest decreases in purchases of taxed beverages (Colchero MA, M Molina, and CM Guerrero-López 2017).**

The Mexican government reported that the SSB tax generated US$1.2 billion in 2014 (Carriedo et al. 2021).

8.2 COLOMBIA

In 2016, just after SSB taxes had passed in Mexico and Chile, an SSB tax policy was proposed in Colombia as part of an obesity policy. The country had lower rates of SSB consumption but similar obesity and overweight levels in adults. As in Mexico and Chile, academia, CSOs, and the media participated in driving the SSB tax policy process.

8.2.1 SSB TAX LEGISLATION DESIGN

The measure proposed was, like Mexico's and Chile's, a 20 percent price increase and similar stakeholders were engaged. Political analysis by Carriedo et al identified two main differences between the three countries (Carriedo et al. 2021). First was that Colombia's effort was led by the Ministry of Health rather than the MOF. This leadership effort occurred even though the MOF was leading ongoing tax reform. In hindsight, this was a missed opportunity to connect the SSB policy to a prevailing political priority. Second, the analysis found that there was a disconnect between the policy and the political concerns at the time, which were not only fiscal but also the ongoing peace referendum with the Revolutionary Armed Forces of Colombia (known as FARC). Despite apparent public support, the measure was rejected by the Congress in late 2016. In conclusion, the failure to connect the policy adequately to a political priority, such as fiscal reform, meant that it was "lost in a crowded agenda" and failed to get traction. Coupled with strong TNC action that included legal action preventing media campaigning about the SSB tax and highly publicized drinking water initiatives in poor communities, when the bill finally reached the Congress, it was rejected.

8.3 SOUTH AFRICA

The South African Health Promotion Levy, the first SSB tax in Africa, was implemented on April 1, 2018.

8.3.1 SSB TAX POLICY

The tax was announced by the government in 2016. The national treasury released a white paper in June 2016 reviewing the evidence on NCDs, obesity, and their association with increased consumption of SSBs (Economics Tax Analysis Chief Directorate National Treasury 2016). The paper described the SSB market in Africa and provided locally derived estimates of price elasticity for soft drinks to justify the estimation that a 10–20 percent price increase would be needed to affect health outcomes. The paper also pointed out that soft drinks and mineral water had been taxed in South Africa until 2002 for revenue, but successful industry lobbying had led to the tax being phased out, resulting in an estimated revenue loss of R135 million (US$9.4 million[14]). Finally, the paper presented and compared three specific tax design options – a flat levy set per liter, a tiered levy based on absolute sugar content, and a threshold approach in which the tax increases for every gram of sugar above a 5 gram per 100ml of SSB.

An extensive consultative period followed the presentation of the legislation to the South Africa National Assembly in April 2017, prior to its being signed into law in December. Following the announcement, opponents and proponents of the tax used the media to make their cases prior to the parliamentary vote. Industry coordinated a strong response to the tax. A political

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[14] South African Rand ZAR 14.0 = US$ 1.00 in 2020)

economy assessment of the response (Karim, Kruger, and Hofman n.d.) captured several main themes used by industry:

- Stressing the importance of industry to the economy, especially job creation and broadening economic growth, and the negative effect that taxes will have on these.
- Suggesting that SSB taxes will harm the poor, including the scaling back of corporate social responsibility initiatives, and misusing research, including arguments that the poor's survival may be jeopardized by the tax due to their reliance on SSB for energy.
- Proposing self-regulation and voluntary actions, including reformulating to lower sugar content would be more effective and less damaging to the economy.
- Manipulating evidence including:
    - Cherry-picking evidence, including dismissing other countries' experiences as not relevant to South Africa
    - Commissioning research, in particular, evidence to prevent the inclusion of 100 percent fruit juices in the tax scope
    - Suggesting that more evidence and research were needed prior to implementation

These efforts were successful to a point – the effective tax burden originally proposed would have been approximately 20 percent of the retail price, but in the end, the effective impact of the chosen rate structure was 10–11 percent (Stacey et al. 2021).

8.3.2 SSB Tax Design

The Health Promotion Levy rate is specific to the sugar content of the beverage. It is ZAR 0.021 per gram of sugar per 100ml above a threshold of 4g of sugar per 100ml. Sugar is defined as glucose, sucrose, and fructose (mono- and disaccharides) added by the manufacturer. Beverages include soft drinks, fruit drinks, sports drinks, energy, and vitamin water drinks, sweetened iced tea, and lemonade. Provisions were made in a "default" category to apply the tax at a rate of ZAR 0.0229, to SSBs that do not include nutritional labeling such as low-priced domestic small-scale manufacturers. The existing duty-at-source system is used to administer the tax. The levy was implemented through the existing Customs and Excise Act by adding a schedule for it to the existing schedule. The policy includes language for inflation adjustments, although as of 2020, no adjustments had been made. Even though alcohol and tobacco taxes were raised substantially, by a nominal 8 percent in the 2021 budget, no changes were proposed for SSBs (National Treasury and Republic of South Africa n.d.).

8.3.3 SSB Tax Evaluation and Impact

Evaluations of the tax impact up to April 2021 find that prices of SSB increased. Household purchases fell by 29 percent and there was a reduction in grams of sugar consumed per adult per year of 51 percent. Lower socioeconomic urban households had greater reductions in consumption of 32 percent in purchase and 57 percent of sugar. The combined price increase and purchase/sales of SSBs generated revenues of ZAR 5.8 billion (US$377 million) over the first two years of implementation, equating to 0.2 percent of total government revenue in the same period (Hofman et al. 2021). In 2020, the Health Promotion Levy raised ZAR 2.4 billion (US$ 161 million) (National Treasury and Republic of South Africa n.d.).

South Africa is an example of a tax rate that increases continuously as sugar content increases rather than using tiers or categories of sugar content. Sri Lanka has a similar approach (Backholer, Blake, and Vandevijvere 2017). These countries are not high-income countries but are able to implement this design successfully and so Vietnam may want to consider this approach for its SSB tax structure design.

8.4 Saudi Arabia

In 2015, the Gulf Cooperation Council, a political and economic alliance of six Arab Gulf states, passed a law introducing a tax on carbonated drinks and energy drinks. In 2017, Saudi Arabia was the first Arab nation to implement the law; subsequently, the United Arab Emirates, Qatar, Bahrain, and Oman have followed suit.

8.4.1 SSB Tax Policy

The decision to implement an SSB tax was made by the ruling Supreme Council in response to IMF suggestions on how the Kingdom could diversify its revenue from oil commodities (Alsukait et al. 2020). There was no accompanying public advocacy and no involvement of other ministries. The General Authority on Zakat and Tax was tasked with implementation. The Council also implemented a general value-added tax (VAT) at the same time. The taxes were implemented 15 days after being announced.

This elicited an industry backlash from countries such as Netherlands, Belgium, and Switzerland, where TNCs are based, through the World Trade Organization. However, this reaction could have reflected leftover opposition to the Kingdom's earlier decision to apply a harshly worded warning label on energy drinks, which reads, "The product in question contains no health benefits and consuming more than two cans a day may negatively affect one's health. It should not be consumed by women who are pregnant or breastfeeding, those who are under 16 years of age, those who have heart disease, high blood pressure, diabetes, or are allergic to caffeine, and athletes during exercise." TNCs argued that there was no credible evidence to support the wording. Nonetheless, the tax was passed as proposed, and there do not appear to have been any consequences from TNCs or the World Trade Organization. Stakeholders reported no negative public reaction within the Kingdom, but the Ministry of Health acknowledged that it had not been involved in the legislation design and that it had missed an opportunity for public outreach and education on the impact of SSBs on health.

8.4.2 SSB Tax Design

The "SSB" tax was an ad valorem tax added to the manufacturer, seller, and retailer prices. In reality, the tax did not cover all sugary beverages as the definition specifically referred to "carbonates," which included drinks like sparkling water that do not contain any sugar and did not include SSBs that are not carbonated. Carbonates were taxed at 50 percent and energy drinks at 100 percent. In response to TNCs' criticism the Council said that "energy drinks are more dangerous – it even says so on the label."

8.4.3 SSB Tax Evaluation and Impact

Retailers reported that manufacturers and importers reacted by lowering their prices to absorb some or all the tax and then gave them new recommended retail prices. Retailers were also

responsible for implementing the new VAT on all the goods sold. In this way, prices increased with the two simultaneous taxes, even with manufacturers and importers absorbing some of the tax. However, the design of the tax clearly created conditions for consumer substitution between SSBs given the selective taxation and the high price. Generally, the recommendations are for a 20 percent increase to influence consumer behavior. Data on consumer impact and actual revenue could not be located for this report.

The State Food and Drug Authority has stated that it would have wanted the tax extended to all flavored drinks with added sugar but that it was not involved in the legislation design, possibly because sugar is not technically considered a "harmful" substance. However, the authority did subsequently propose a revision in May 2017 redefining carbonated drinks to not include sparkling water and to include any sugar-added concentrate, gel, or powder that can be turned into a carbonated beverage. In July 2019, the policy was updated to apply the tax to all SSBs at 50 percent.

At that time, the Kingdom also added an excise tax on e-cigarettes (liquid cartridges and equipment) to be taxed at 100 percent, the same rate as tobacco. The revision was worded to be "retro-active" and included all stockpiled goods even if they had been previously purchased and imported, because importers had been aware that the tax was being revised (Insights Tax and Legal Services and PwC, Middle East 2019). The Saudi Arabia General Authority on Zakat and Tax estimated the SSB tax and tobacco expansion revenue would be US$2.1–2.4 billion ("Saudi Says Tax on Tobacco, Sugary Drinks Can Generate up to SAR 10bn - Gulf Business" n.d.).

8.5 The United Kingdom

The case of the UK's soft drink industry levy (SDIL) between 2015 and 2018 illustrates a unique and copied approach primarily to address consumption rather than revenue, but which also resulted in substantial revenue being raised. The policy was designed to encourage manufacturers to reformulate their products so that they contain less sugar. After the UK announced the proposed tax, several other European countries introduced or reformed their own SSB taxes, see figure 15 (Backholer et al 2018).

Figure 15: Countries implementing tiered SSB pricing to induce reformulation

Finland:

a. Euro 0.11 per liter if <5% sugar
b. Euro 0.22 per liter if >5% sugar

UK:

a. GBP 0.18 for SSB 5-8g sugar per 100ml
b. GBP 0.24 for SSB 8+g sugar per 100ml

Estonia:

a. Tier 1 for SSB <5g sugar per 100ml
b. Tier 2 for SSB 5-8g sugar per 100ml
c. Tier 3 for SSB >8g sugar/100ml

Hungary:

tax on >8g sugar per 100ml

France:

a. 2012: non tiered
Euro 7.15 per 100 liters of SSB and ASB

b. 2018: switched to tiered
i. no tax if <5g per 100ml
ii. Euro 14.30 if 8-10g sugar per 100ml
iii. Euro 9.45 is >10g sugar per 100ml

8.5.1 SSB Tax Evaluation and Impact

The UK announced the SDIL in March 2016 but did not implement it until 2018. Nonetheless, SSB manufacturers responded in anticipation and reformulated their products to avoid the higher tax tiers. As a result:

- The total volume of soft drink sales increased by 7 percent between 2015 and 2018.
- The total volume of sugar sold fell by 29 percent between 2015 and 2018.

The response differed by firm – the Coca-Cola Company's sales increased while the sugar content of those sales decreased (17 percent). Red Bull and other energy drinks did not reformulate and sold a slightly higher volume of sugar over the period (Bandy et al. 2020). Sales fell in the high/mid sugar-content tiers and increased in the low/zero sugar-content tiers.

The reformulations occurred in response to the announcement of the sugar tax in March 2016 and prior to its implementation in 2018. Projected revenue at the time of the policy announcement was GBP 500 million (US$653 million) but this was adjusted down by GBP 150 million (US$196 million) by the time of implementation due to the aggressive reformulation by industry (Backholer, Blake, and Vandevijvere 2017). In 2020/21, GBP 301 million (US$393 million) in SDIL revenue was collected according to the UK government's revenue service ("Soft Drinks Industry Levy Statistics Commentary - HM Revenue and Customs", 2021).

9. What Can Vietnam Learn from International Experience?

This review of best practices and country case studies identifies several lessons that Vietnam can consider as it moves forward with its objective of reforming pro-health taxes.

9.1 Lessons for Vietnam's Existing Alcohol and Tobacco Taxes

Vietnam already implements simple, tiered ad valorem taxes on alcohol and tobacco. The two alcohol tiers are 65 percent (ABV 20 percent or higher) and 35 percent (less than ABV 20 percent) of the wholesale price while tobacco is taxed at 65 percent. These rates are comparable to or higher than those in the case countries used in the review (Tonga, South Africa, Ukraine, and Bangladesh).

9.1.1 Tax Legislation Design

Alcohol and tobacco TNCs seek to expand their markets in LMICs, especially those with rapid income growth like Vietnam. As such, efforts to increase taxes will be met with resistance, and so tax reformers must be prepared to:

- Counter TNC strategies to defeat or manipulate excise tax legislation, particularly their high-level political lobbying and use of the media
- Counter economic and trade/free-market arguments put forward by TNCs

It is essential to be clear on the main objective of the tax for Vietnam at this time – whether it is to raise revenue or decrease consumption, as per Vietnamese excise tobacco tax legislation documents. While the two objectives are not mutually exclusive, it is important to understand the political landscape and whether one objective will be more effective with stakeholders critical to passing legislation. Clarity on objectives will ensure the correct framing of the legislation so that it gets onto the political agenda and effective advocacy mobilization is done to support its passage.

Following from having a clear objective is the need to gather the local and international evidence relevant to supporting the tax reform objective and incorporate these data and lessons into legislation strategy and design. Local data will include economic, health, and political information. These data must be communicated through simple messaging that can withstand opposition manipulation. Finally, building broad public support for higher taxes from the grassroots up via advocacy through trusted local CSOs and leaders close to the community is preferable to relying on media campaigns alone.

9.1.2 Tax Structure Design

The review finds that specific or mixed tax rate systems are best practice. Vietnam could consider switching from ad valorem taxes to a mixed system. A mixed system would include a specific tax element that is harder for manufacturers to manipulate (to reduce the amount of tax paid). A specific tax is also more stable than an ad valorem tax because manufactured quantities change slowly whereas prices may change often in a year making revenue streams less predictable. Including an ad valorem tax element would ensure that the real value of tax revenue would be maintained with inflation.

Although Vietnam has tobacco tax rates at the level recommended as a best practice, it appears, given the high rate of smoking, there is substantial room to increase the rates and thereby increase revenue. Again, it is critical to be clear on the main objective. If changing behavior – reducing consumption – is a goal in addition to raising revenue, a "shock" approach to increasing rates is desirable, for example, a sudden 20+ percent increase. Gradual single-digit percentage point increases over time tend to be absorbed by consumers and are often outpaced by income growth. Consequently, consumers do not even notice the price increase. Single-digit increases are also easier for manufacturers to absorb (although this does not necessarily affect revenue). However, it is noted that the consumer responses are harder to predict accurately when taxes lead to significant price increases. Consequently, revenue is also harder to predict and may fall.

Vietnam may also want to consider adjusting the scope of its tobacco taxes to account for new technologies like vaping (which may require additional legislation).

9.1.3 Tax Evaluation and Impact

Given that research on the economic impact of tobacco taxes has been conducted in Vietnam, it is clear that the technical capacity exists within academic institutions to evaluate the impact of potential tax policy changes. Routine evaluation of taxes is essential to monitor revenue and consumption impact. Evaluation data can (i) provide evidence to counteract manufacturer arguments, (ii) be used to garner public support, if necessary, (iii) help to determine when tax increases are required, and (iv) allow tax design to be adjusted to meet additional objectives such as discouraging underage consumption or lowering regressivity of the disease burden. These evaluation activities will require consistent funding as well as collaboration between the government institutions for revenue, finance, health, and academia.

9.2 Lessons for Implementing Vietnam's Proposed SSB Tax

Previous efforts to raise support for an SSB tax in Vietnam were not successful, and it is important to analyze the reasons for that outcome before embarking on another effort.

9.2.1 Tax Legislation Design

Although few countries have implemented SSB taxes, TNCs have already begun strengthening their strategies to prevent or subvert SSB tax introduction, with some success. Unlike alcohol and tobacco taxes, SSB taxation does not have a history. Therefore, the support of the public and legislative decision-makers cannot be assumed, and advocacy will be required to build support.

International experience suggests it is essential to understand the political landscape and frame the SSB tax legislation and its objectives to connect with the economic and political priorities of the day. These priorities may be fiscal priorities rather than health. Even where SSB taxes have been successful for health outcomes, policy analysis of the legislative process shows that fiscal arguments are prioritized to pass legislation successfully.

9.2.2 Tax Structure Design

Although fiscal arguments have been raised to pass legislation for SSB taxes, their design has been targeted specifically at reducing consumption. Specific taxes that target sugar content (not

liquid volumes) across all SSBs are strongly recommended. As with alcohol and tobacco taxes, this proposed SSB design will challenge Vietnam because the revenue system until now has administered ad valorem excise taxes.

Understanding the range of products proposed for taxation will be essential to understand the probability and consequences of substitution, for example, when an ad valorem tax is used, leading to "uneven" price increases that make lower-cost, equally sweetened beverages more attractive than higher-priced SSBs. This substitution dilutes the hoped-for consumption effect and potentially reduces revenue, hence the emphasis on specific tax rates. Another approach is to design SSB taxes to incentivize the reformulation of drinks to contain less sugar and raise substantial new revenue. Any revenue raised by an SSB tax is new revenue, so even if revenue raising is a primary objective, this design approach may be desirable because it ensures reduced consumption without relying on behavior change.

9.2.3 TAX EVALUATION AND IMPACT

Building in evaluation and refinement processes are essential to ensure the effectiveness and equity of newly implemented taxes. Since global and LMIC experience implementing and evaluating SSB taxes is limited, SSB tax evaluation support (financial and technical) is essential, given the new nature of this research for Vietnam. This support may be available from philanthropies working on SSB advocacy, for example, Bloomberg Philanthropies, and through partnerships with international institutions with experience.

In conclusion, the results of this review will be combined with the results from a review of Vietnam's experience with alcohol and tobacco taxes to support the MOF's efforts to review and update pro-health excise tax laws.

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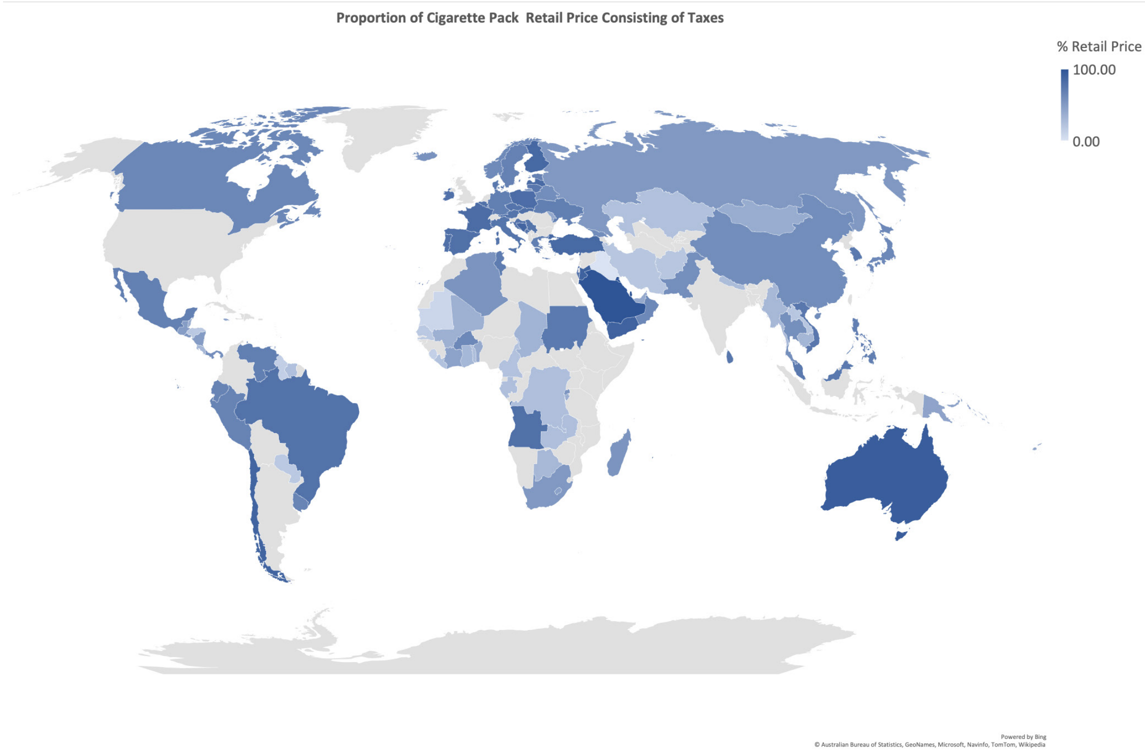
ANNEXES

ANNEX A: PROPORTION OF TOBACCO RETAIL PRICE ATTRIBUTABLE TO TAX, BY COUNTRY

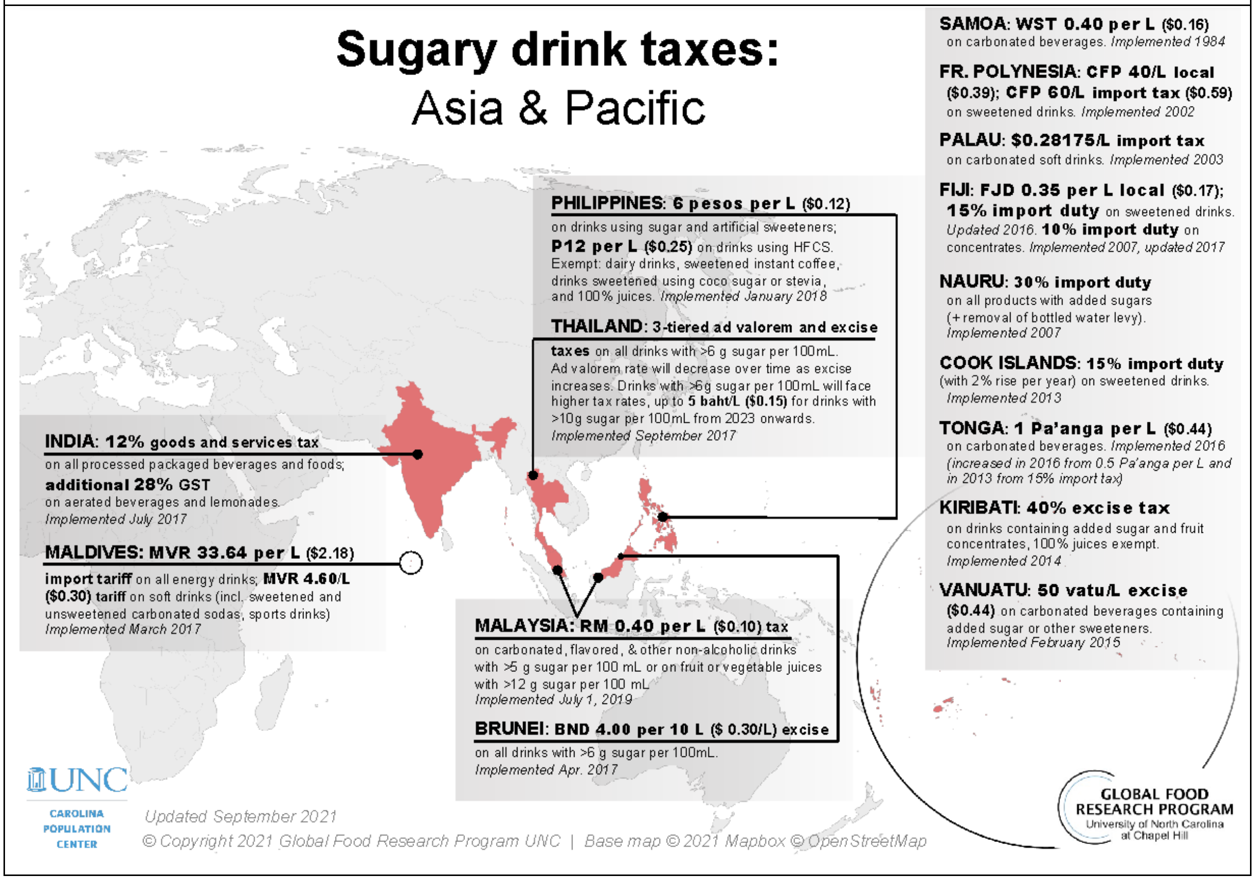


Report Source: [Article 6 – WHO FCTC Implementation Database (untobaccocontrol.org)]

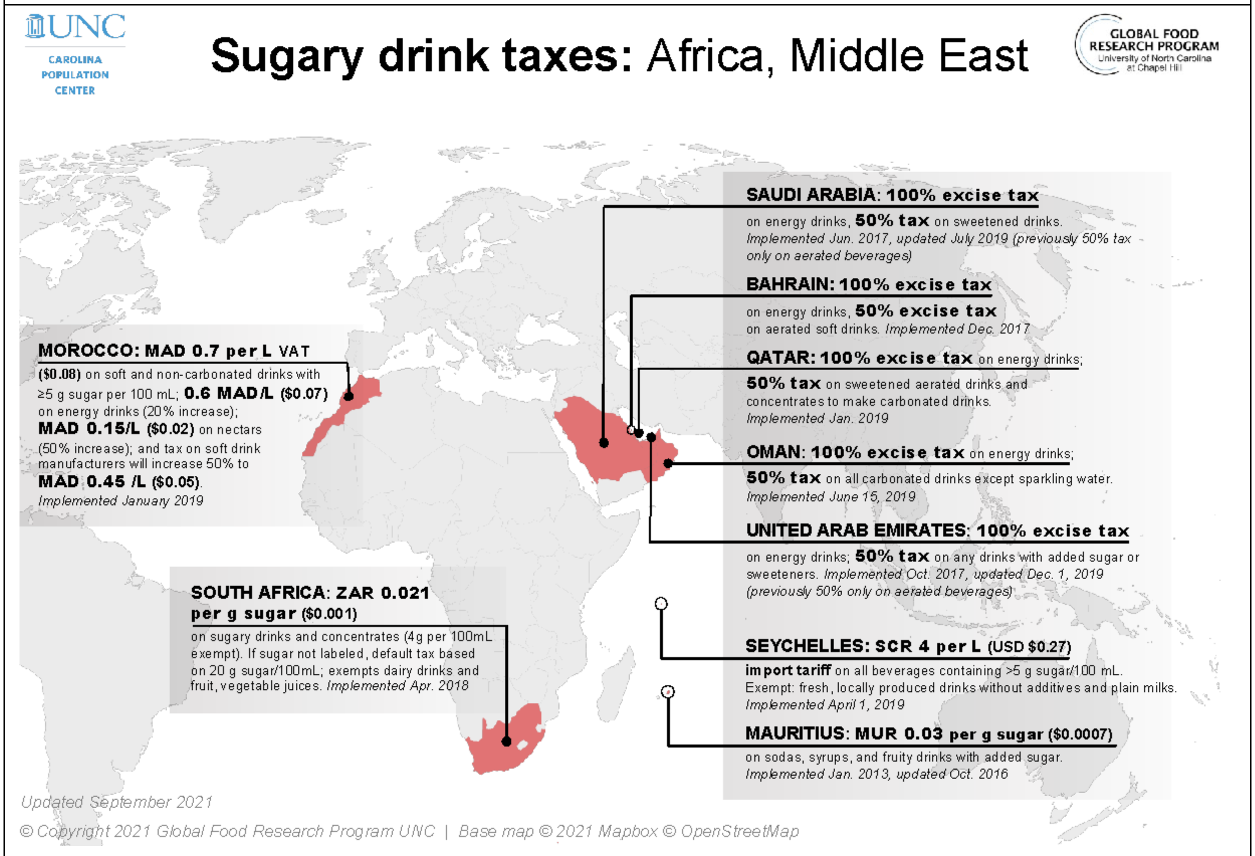
Data Source: [B81 – Proportion of the retail price consisting of taxes – WHO FCTC Implementation Database (untobaccocontrol.org)]

ANNEX B: REGIONAL RATES OF SSB TAXATION

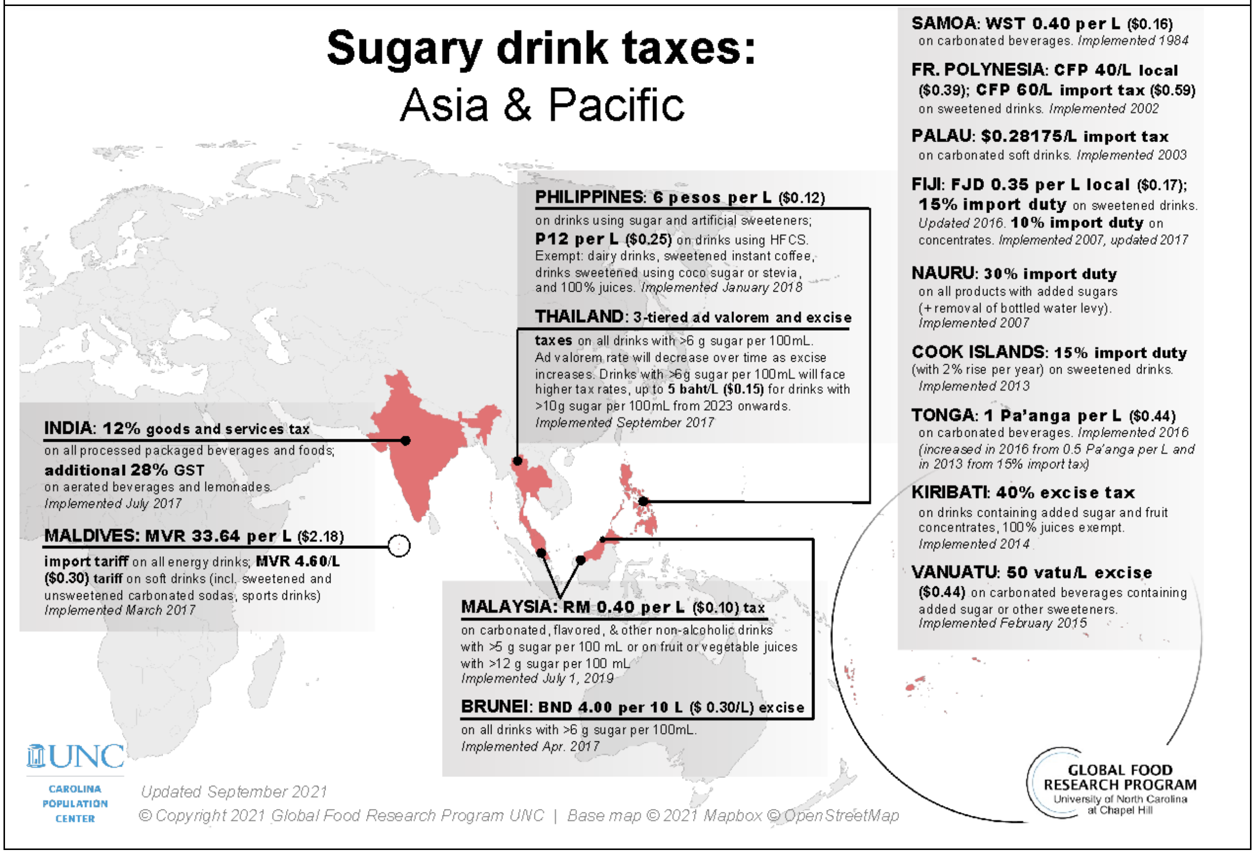
Asia and Pacific



Africa, Middle East



Mexico, Caribbean, Central and South America



Source: UNC Population Center, Global Food Research Center (Popkin and Ng 2021)

Annex C: Technical Manuals and Resources for Excise Tax Legislation/Structure Design and Implementation

1) **ASEAN Excise Tax Reform: A Resource Manual (2014)**
2) **Resource tool on alcohol taxation and pricing policies (2017)**
3) **Fiscal Policy: How to Design and Enforce Tobacco Excises? (2016)**
4) **WHO Technical Manual on Tobacco Tax Policy and Administration (2021)**
5) **Practice Countering Common Arguments Against Taxes on Sugary Drinks (2020)**