Health Taxes

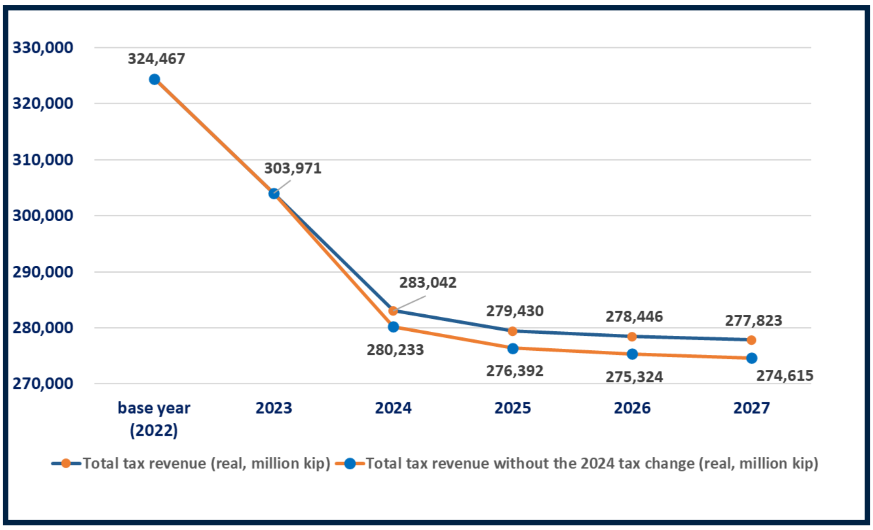
Recommended Reforms Lao PDR

The tax reforms introduced on Jan 1, 2024 focus on rate increases only and will neither provide noticeable public health benefits nor generate significant revenue — the new revenue will amount to less than 0.02% of GDP. In contrast, adopting this note's recommendations would net almost 1% of GDP in the first year alone.

Current Health Tax Situation

- In Laos, **tobacco**, **alcohol** and **sugar-sweetened beverages** lead to significant **disease, death and economic loss**. Use of tobacco is higher in Laos than in most Southeast Asian countries.
- More than 6,700 Lao people die every year due to tobacco-related illness, accounting for nearly 15% of all deaths in the country. Tobacco use alone costs the economy about 2.3% of GDP through 240 billion kip in **healthcare expenditure** and 3.3 trillion kip in **productivity losses**.
- **Health taxes** are excise taxes on products that **harm individuals and society** such as tobacco, alcohol, and sugary drinks.
- Health taxes **are currently weak** in Laos. They are generally applied to the producer price early in the supply chain so their **effective value is low**. The taxes **do not generate large revenue**, **do not deter consumption** or reduce the harm these products have on society.
- The tobacco industry leverages privileges under an **Investment License Agreement**, which sets **low tax rates** on cigarettes and tobacco.

Excise tax reforms approved in 2023 and effective from January 1, 2024 will have almost no impact on the amount of smoking, and little impact on tax revenue in real terms — see the graph below. The same applies to alcohol and non-alcoholic beverages.



Cigarette tax revenue after 2023 reforms (adjusted for inflation)

World Bank Recommendations

Health excise tax reform is in line with the National Socioeconomic Development Plan Financing Strategy and the government's National Agenda

- End all tax privileges that the industry receives under the Investment License Agreement.
- For all three product areas, tax structures should be reformed:
  - ⇒ Increase rates to move towards international best practice
  - ⇒ Simplify tax structures
  - ⇒ Greater use of specific taxes
  - ⇒ Link specific tax rates to inflation and income growth to preserve real values.

	Cigarettes	Alcohol	Sugar Sweetened Beverages
Structure	Keep the existing mixed system	Change to uniform volumetric specific tax by alcohol type *Remove tiers based on alcohol content to simplify tax administration*	Change to uniform volumetric specific tax *Remove tiers between soft drinks and energy drinks*
Rate	**Ad valorem:** 72% (*as of Jan 1 2024*) **Specific:** 800 kip per pack (600 kip excise tax + 200 kip to Tobacco Control Fund); rising by 800 kip annually **Tax stamp fee:** 500 kip per pack *Adjust all specific components annually for inflation and income growth*	Beer: 9,000 kip per liter Wine: 30,300 kip per liter Spirits: 72,000 kip per liter *Adjust annually for inflation and income growth*	3,000 kip per liter Exclude unsweetened water *Adjust annually for inflation and income growth*
Base	Volume for specific tax, producer price for ad valorem tax	Volume of beer, wine, and spirits	Volume of non-alcoholic beverage

The proposed tax policy is conservative:

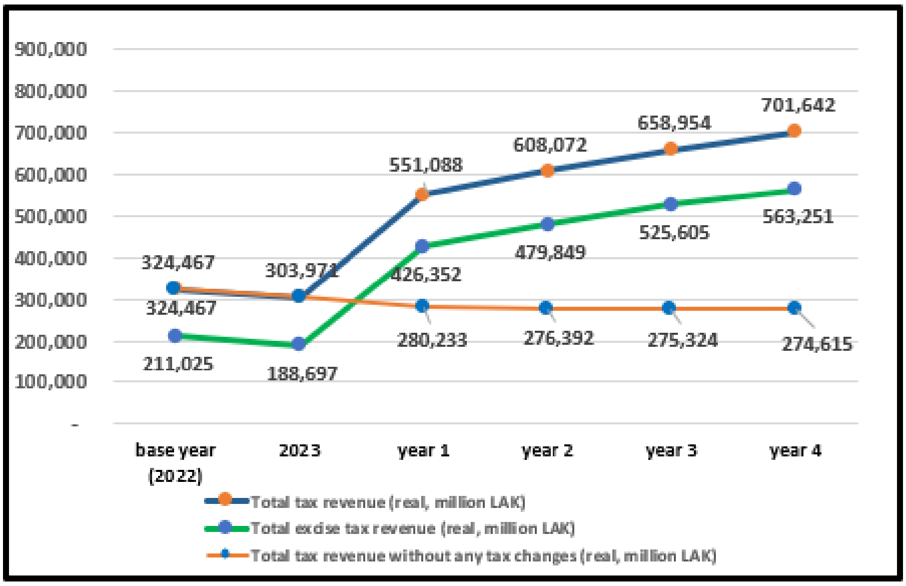
- In lower-middle-income countries the median excise tax per pack of cigarettes was 8,000 kip in 2020.
- The proposed excise tax on beer is the same as in Vietnam.
- Use of technology in monitoring, enforcement, and licencing to strengthen tax administration should be considered.

Combined with ending the Tobacco Investment License Agreement, these proposed changes would bring over 2.5 trillion kip, or nearly 1% of GDP, in revenue in the first year alone.

Product	Additional tax revenue (excise plus VAT)
Cigarettes	432 billion kip
Alcohol	1,788 billion kip
Soft drinks	312 billion kip

Tax reform would also improve public health due to people smoking less and buying fewer alcoholic and sugary drinks. This will reduce health care spending and improve labor productivity — with poor people benefiting the most.

Cigarette tax revenue if WB reforms adopted (adjusted for inflation)



For more information see:
http://wrld.bg/RY9t50QMe6O