



EuroCham Wine & Spirits Sector Committee position paper on Internal Taxation-Special Consumption Tax (SCT)

The EuroCham Wine & Spirits Sector Committee (W&S SC) believes that the Vietnamese Government should implement a specific tax at a harmonized rate per degree of alcohol for all alcohol products independent of origin. Such a system would reduce smuggling, encourage consumers to consume lower alcohol content or premium products and provide increasing tax revenue for the Vietnamese Government.

However, the EuroCham W&S SC also understands that the Vietnamese Government is currently in the process of reviewing the Special Consumption Tax Law. The Ministry of Finance (has prepared a draft of the revised SCT Law which has already been submitted to the Government and will be submitted to the National Assembly later this year for approval.

The draft proposes:

- an ad valorem rate of 55% for all beer products;
- an ad valorem rate of 20% for liquor below 20° abv;
- and an ad valorem rate of 60% for distilled spirits 20° abv or higher.

If the Government decides to maintain the ad valorem system, we would like to recommend 30% as the rate that we believe would benefit the society and the industry. This will also help minimize any adverse impact on the domestic liquor industry, ensure equality in the rates between imported and domestic spirits, reduce the non-tax paid activities, and help grow revenue in the longer term as more legitimate goods enter the market and the liquor market develops.

The proposed ad valorem rate of 30% for distilled spirits has been proven by an econometric modelling, with methodology based on:

- o Tax expenditures analysis or the examination of tax concessions / differential rates in the tax system is one way of identifying the appropriate rate;
- o In Vietnam, domestic spirits dominate the total spirits market with an alcohol content of 20° or higher and are taxed at a rate of 30% ad valorem;
- o This 30% rate would therefore be referred to as the “benchmark rate” for spirits 20° abv or higher as it is the most prevalent rate or the taxation treatment that ‘normally applies’ to this category of goods;
- o Keeping this benchmark rate would help minimising the impact on domestic industry.

The EuroCham W&S SC believes that the 30% ad valorem rate will also bring the following benefits:

- o **Stabilized revenues**
Although revenue loss will occur in the short term, revenues are expected to stabilize for liquors above 20% abv at a 30% ad valorem rate as our proposal will have minimal disruption on domestic

liquor producers. Moreover, greater market access for imported liquor and the reduction in non-tax paid activity of liquor above 20% abv will likely enhance the revenue base for government.

○ **A minimal detrimental impact on domestic industry**

The selection of the 30% rate will have minimal adverse impact on the domestic spirits industry. The model forecasts no increase in average retail price for spirits above 20° abv but below 40° abv (which captures most local spirits) from the baseline scenario in 2009 and only a 3% drop in volumes for the same category.

○ **Controlled consumption**

The proposed tax structure will help to control the level of consumption of alcohol products with an overall reduction of 2% (in litres of pure alcohol) from the baseline scenario in 2009.

○ **A reduced level of non-tax paid activity**

We expect a significant reduction (14%) in the level of non-tax paid activity from the baseline scenario in 2009. Incentives to engage in non-tax paid activity are substantially reduced from the revised rate on distilled spirits.

*Produced by the EuroCham W&S SC
for the European Chamber of Commerce in Vietnam
June 10, 2008*