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.
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.

<table>
<thead>
<tr>
<th>Product</th>
<th>Additional tax revenue (excise plus VAT)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cigarettes</td>
<td>432 billion kip</td>
</tr>
<tr>
<td>Alcohol</td>
<td>1,788 billion kip</td>
</tr>
<tr>
<td>Soft drinks</td>
<td>312 billion kip</td>
</tr>
</tbody>
</table>

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.

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

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.